



Dave Yost • Auditor of State



**WILLOUGHBY-EASTLAKE CITY SCHOOL DISTRICT  
LAKE COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

Willoughby-Eastlake City School District  
Lake County  
37047 Ridge Road  
Willoughby, Ohio 44094

To the Board of Education:

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Willoughby-Eastlake City School District, Lake County, Ohio, (the District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

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

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

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

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Willoughby-Eastlake City School District, Lake County, Ohio, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the 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 this presentation to include *Management's discussion and analysis*, and schedules of net pension liabilities and pension contributions listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

*Supplementary and Other Information*

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

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2017, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

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

February 14, 2017

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**Willoughby-Eastlake City School District**  
**Lake County, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2016*  
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The discussion and analysis of the Willoughby-Eastlake City School District's (the "School District") financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2016. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

***Financial Highlights***

Key financial highlights for 2016 are as follows:

- Net position increased \$6,402,487, which represents a 5 percent increase from 2015.
- Capital assets increased \$5,826,577 during fiscal year 2016.
- During the fiscal year, outstanding debt increased from \$44,400,000 to \$165,065,000 due to additional borrowing by the School District partially offset by principal payments made.

***Using this Annual Report***

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

The *Statement of Net Position and Statement of Activities* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the Willoughby-Eastlake City School District, the general fund and building fund are by far the most significant funds.

***Reporting the School District as a Whole***

***Statement of Net Position and the Statement of Activities***

While the basic financial statements contain the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2016?" The *Statement of Net Position* and the *Statement of Activities* answer this question. These statements include all (non-fiduciary) assets and deferred outflows of resources and liabilities and deferred inflows of resources using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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These two statements report the School District's net position and changes in net position. This change in net position is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School District's property tax base, current property tax laws in Ohio which restrict revenue growth, facility conditions, required educational programs, and other factors.

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

***Reporting the School District's Most Significant Funds***

***Fund Financial Statements***

The fund financial statements begin on page 19. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions; however, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the general fund and building fund.

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

***Proprietary Fund*** Internal service funds are an accounting device used to accumulate and allocate costs internally among the School District's various functions. The School District uses an internal service fund to account for its health insurance benefits and warehouse service programs. Because this service predominately benefits governmental functions, it has been included within the governmental activities in the government-wide financial statements. The proprietary fund financial statements begin on page 24.

***Reporting the School District's Fiduciary Responsibilities***

The School District is the trustee, or fiduciary, for some of its scholarship and foundation programs. This activity is presented as a private purpose trust fund. The School District also acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in agency funds. The School District's fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position on pages 27 and 28. These activities are excluded from the School District's other financial statements because the assets cannot be utilized by the School District to finance its operations.

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**The School District as a Whole**

Recall that the Statement of Net Position provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net position for 2016 compared to 2015:

**Table 1**  
**Net Position**

	<u>Governmental Activities</u>	
	<u>2016</u>	<u>2015</u>
<b>Assets</b>		
Current and Other Assets	\$ 219,861,601	\$ 94,615,408
Capital Assets	48,826,611	43,000,034
<i>Total Assets</i>	<u>268,688,212</u>	<u>137,615,442</u>
<b>Deferred Outflows of Resources</b>		
Pension	<u>14,093,095</u>	<u>8,154,979</u>
<b>Liabilities</b>		
Other Liabilities	12,877,157	12,150,322
Long-Term Liabilities:		
Due Within One Year	4,061,978	2,941,835
Due in More Than One Year		
Net Pension Liability	132,746,979	115,430,196
Other Amounts	179,272,876	55,218,284
<i>Total Liabilities</i>	<u>328,958,990</u>	<u>185,740,637</u>
<b>Deferred Inflows of Resources</b>		
Property Taxes and Other	56,090,077	56,206,196
Pension	<u>8,366,205</u>	<u>20,860,040</u>
<i>Total Deferred Inflows of Resources</i>	<u>64,456,282</u>	<u>77,066,236</u>
<b>Net Position</b>		
Net Investment in Capital Assets	5,577,683	12,899,322
Restricted	15,918,387	5,717,470
Unrestricted	<u>(132,130,035)</u>	<u>(135,653,244)</u>
<i>Total Net Position</i>	<u>\$ (110,633,965)</u>	<u>\$ (117,036,452)</u>

During 2015, the School District adopted GASB Statement 68, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27*, which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the School District's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

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

Under the new standards required by GASB 68, the net pension liability equals the School District's proportionate share of each plan's collective:

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

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the School District is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

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

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

As a result of implementing GASB 68, the School District is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting.

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At year end, capital assets represented 18 percent of total assets. Capital assets include land, buildings and improvements, furniture and equipment, vehicles and construction in progress. Net investment in capital assets was \$5,577,683 at June 30, 2016. These capital assets are used to provide services to students and are not available for future spending. Although the School District's net investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the School District's net position, \$15,918,387, represents resources that are subject to external restrictions on how they may be used. The balance of government-wide unrestricted net position was a deficit of \$132,130,035, which was primarily caused by GASB 68.

Current and other assets increased by \$125,246,193 in fiscal year 2016. Total cash increased \$125,182,959, mainly due to proceeds of two debt issuances that were not fully spent by the end of fiscal year 2016. Capital assets increased by \$5,826,577 due to additions and improvements within the School District.

The School District issued \$121,360,000 in new debt in fiscal year 2016, accounting for the increase in long term liabilities due within one year and amounts due in more than one year.

The \$17,316,783 increase in net pension liability, \$12,493,835 decrease in deferred inflows of resources from pension and \$5,938,116 increase in deferred outflows of resources for pension were primarily caused by changes related to net pension liability during 2016.

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Table 2 shows the changes in net position for fiscal years 2016 and 2015.

**Table 2**  
**Changes in Net Position**

	Governmental Activities	
	2016	2015
<b>Revenues</b>		
<i>Program Revenues:</i>		
Charges for Services and Sales	\$ 3,632,580	\$ 3,270,306
Operating Grants, Contributions and Interest	9,987,983	10,762,991
<i>Total Program Revenues</i>	<u>13,620,563</u>	<u>14,033,297</u>
<i>General Revenues:</i>		
Property Taxes	68,456,974	67,924,754
Grants and Entitlements Not Restricted	25,564,015	25,977,113
Other	1,751,253	819,487
<i>Total General Revenues</i>	<u>95,772,242</u>	<u>94,721,354</u>
<i>Total Revenues</i>	<u>109,392,805</u>	<u>108,754,651</u>
<b>Program Expenses</b>		
<i>Instruction:</i>		
Regular	37,865,853	38,183,096
Special	11,217,828	10,951,520
Vocational	1,570,607	1,209,106
Adult/Continuing	1,065,676	835,518
Student Intervention Services	3,099,347	143,489
Other	188,775	309,302
<i>Support Services:</i>		
Pupils	6,660,850	5,277,450
Instructional Staff	2,609,465	7,031,554
Board of Education	18,294	16
Administration	7,557,646	6,104,579
Fiscal	2,936,324	2,367,415
Business	1,443,314	933,637
Operation and Maintenance of Plant	7,390,738	7,419,607
Pupil Transportation	9,102,490	7,911,172
Central	1,640,567	2,046,125
<i>Operation of Non-Instructional Services:</i>		
Food Service Operations	2,617,667	2,405,084
Community Services	655,266	841,966
Other	0	3,364
Extracurricular Activities	1,739,969	1,668,343
<i>Debt Service:</i>		
Interest and Fiscal Charges	2,648,619	1,983,639
Issuance Costs	961,023	33,920
<i>Total Expenses</i>	<u>102,990,318</u>	<u>97,659,902</u>
<i>Increase (Decrease) in Net Position</i>	6,402,487	11,094,749
<i>Net Position at Beginning of Year</i>	<u>(117,036,452)</u>	<u>(128,131,201)</u>
<i>Net Position at End of Year</i>	<u>\$ (110,633,965)</u>	<u>\$ (117,036,452)</u>

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The \$931,766 increase in other general revenues was primarily caused by an increase in investment earnings during fiscal year 2016.

There was a \$2,955,858 increase in student intervention expenses as more intervention services were provided throughout the School District. An increase in services purchased from the ESC caused increases in support services pupils and support services administration expenses. There was also an increase in support services administration salary expense. The decrease in support services instructional staff was caused by a reduction in services purchased from the ESC. The \$1,191,318 increase in pupil transportation expense was caused by increased Petermann bus route billing and special education transportation.

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

**Table 3**  
**Governmental Activities**

	Total Cost of Service		Net Cost of Service	
	2016	2015	2016	2015
<b>Instruction:</b>				
Regular	\$ 37,865,853	38,183,096	\$ 36,518,777	\$ 36,399,841
Special	11,217,828	10,951,520	6,075,759	6,028,962
Vocational	1,570,607	1,209,106	1,234,316	920,818
Adult/Continuing	1,065,676	835,518	(197)	(82,856)
Student Intervention Services	3,099,347	143,489	3,099,347	143,489
Other	188,775	309,302	88,969	240,717
<b>Support Services:</b>				
Pupils	6,660,850	5,277,450	6,657,871	5,277,450
Instructional Staff	2,609,465	7,031,554	2,457,750	6,157,699
Board of Education	18,294	16	18,294	16
Administration	7,557,646	6,104,579	7,147,655	5,634,613
Fiscal	2,936,324	2,367,415	2,936,324	2,367,415
Business	1,443,314	933,637	1,443,314	933,637
Operation and Maintenance of Plant	7,390,738	7,419,607	7,390,738	7,419,607
Pupil Transportation	9,102,490	7,911,172	8,036,016	7,147,661
Central	1,640,567	2,046,125	1,618,967	2,026,325
<b>Operation of Non-Instructional Services:</b>				
Food Service Operations	2,617,667	2,405,084	301,871	256,842
Community Services	655,266	841,966	2,289	267,373
Other	0	3,364	0	3,364
Extracurricular Activities	1,739,969	1,668,343	1,370,361	1,312,233
<b>Debt Service:</b>				
Interest and Fiscal Charges	2,648,619	1,983,639	2,010,311	1,137,479
Issuance Costs	961,023	33,920	961,023	33,920
<b>Total Expenses</b>	<b>\$ 102,990,318</b>	<b>\$ 97,659,902</b>	<b>\$ 89,369,755</b>	<b>\$ 83,626,605</b>

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The dependence upon general revenues for governmental activities is apparent. Almost 87 percent of governmental activities are supported through taxes and other general revenues; such revenues are 88 percent of total governmental revenues. The community, as a whole, is by far the primary support for the School District students.

***Governmental Funds***

Information about the School District's major funds starts on page 19. These funds are accounted for using the modified accrual basis of accounting.

The general fund's net change in fund balance for fiscal year 2016 was a decrease of \$96,335.

The building fund's net change in fund balance for fiscal year 2016 was an increase of \$115,332,742. This was due to the receipt of debt proceeds for the new school buildings projects that were not spent by the end of the fiscal year.

***General Fund Budgeting Highlights***

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

During the course of fiscal year 2016, the School District amended its general fund budget. The School District uses site-based budgeting and budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the general fund, actual budget basis revenue of \$94,272,478 was \$195 less than the final budget basis revenue of \$94,272,673. For the general fund, original budget basis revenue of \$90,360,503 was \$3,912,170 lower than the final budget basis revenue. The majority of this difference was due to an underestimation of property tax revenue and Medicaid reimbursements.

Final expenditure appropriations of \$99,097,748 were \$3,015,311 higher than the actual expenditures of \$96,082,437, primarily due to lower than expected special instruction expenditures.

Original expenditure appropriations were \$7,242,268 lower than final expenditure appropriations with most expenditures originally estimated lower.

There were no significant variances to discuss within other financing sources and uses.



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**Capital Assets and Debt Administration**

**Capital Assets**

At the end of fiscal year 2016, the School District had \$48,826,611 invested in capital assets, net of depreciation. Table 4 shows fiscal year 2016 balances compared with 2015.

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

	Governmental Activities	
	2016	2015
Land	\$ 934,224	\$ 934,224
Construction in Progress	5,217,105	822,832
Buildings and Improvements	41,371,154	39,995,607
Furniture and Fixtures	611,063	490,619
Vehicles	693,065	756,752
<i>Totals</i>	<u>\$ 48,826,611</u>	<u>\$ 43,000,034</u>

The \$5,826,577 increase in capital assets was attributable to additional purchases exceeding current year depreciation and disposals, primarily related to the Northern Career Institute and School of Innovation projects. See Note 8 for more information about the capital assets of the School District.

**Debt**

At June 30, 2016, the School District had \$165,065,000 in debt outstanding. See Notes 14 and 15 for additional details. Table 5 summarizes notes, bonds, and certificates of participation outstanding. In fiscal year 2016 the School District issued \$121,360,000 in new debt to develop the Northern Career Institute campus and for building the new North and South high schools and new elementary school.

**Table 5**  
**Outstanding Debt at Year End**

	Governmental Activities	
	2016	2015
QSCB Tax Anticipation Notes	\$ 8,625,000	\$ 8,625,000
QSCB Certificates of Participation	4,320,000	4,320,000
LTGO Conservation Improvement Bonds	8,255,000	8,820,000
School Improvement Bonds	115,750,000	0
Tax Exempt Certificates of Participation	9,785,000	9,785,000
Certificates of Participation	18,330,000	12,850,000
<i>Total</i>	<u>\$ 165,065,000</u>	<u>\$ 44,400,000</u>

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***Current Issues***

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

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

As currently written, the state funding formula requires that community (charter) schools receive their funding through monthly deductions from school district funding allocations. For fiscal year 2016, the State deducted \$1,145,333 from the School District's funding and redirected it to the various local community (charter) schools.

Just as there have been revenue pressures, the School District has also had to contend with rising costs. One of the more significant cost increases the School District has had to contend with, outside of unfunded state mandates, has been health care. The School District, like all other employers, has been impacted by the continuing national trend of rapidly escalating employee benefit costs due to the Affordable Care Act. In fiscal year 2016, for example, the School District will be responsible for making a \$54,897 payment to the IRS.

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

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

The School District has committed itself to a fiscal discipline based on long-term plans as well as commitment to full disclosure of financial information and utilization of the highest standards of financial reporting. The School District's commitment to improve fiscal management has led to many budgeting, reporting and internal control enhancements and improvements. The School District received the Auditor of State award for exemplary financial reporting in accordance with GAAP.

**Willoughby-Eastlake City School District**  
**Lake County, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2016*  
*(Unaudited)*

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***Contacting the School District's Financial Management***

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Bill Parkinson, Treasurer, Willoughby-Eastlake City School District, 37047 Ridge Road, Willoughby, OH 44094, or by email at [bill.parkinson@weschools.org](mailto:bill.parkinson@weschools.org).

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**Willoughby-Eastlake City School District**  
**Lake County, Ohio**  
*Statement of Net Position*  
June 30, 2016

	Governmental Activities
<b>Assets</b>	
Equity in Pooled Cash and Investments	\$ 27,016,983
Cash and Investments Held with Trustee	4,274,034
Cash and Investments in Segregated Accounts	120,657,098
Receivables:	
Accrued Interest	403,537
Accounts	227,024
Intergovernmental	1,481,002
Property Taxes	65,801,923
Nondepreciable Capital Assets	6,151,329
Depreciable Capital Assets (Net)	42,675,282
<i>Total Assets</i>	268,688,212
<b>Deferred Outflows of Resources</b>	
Pension	14,093,095
<b>Liabilities</b>	
Accounts Payable	237,144
Accrued Wages and Benefits	8,017,958
Contracts Payable	848,242
Intergovernmental Payable	1,896,718
Retainage Payable	167,847
Accrued Interest Payable	1,236,999
Claims Payable	472,249
Long Term Liabilities:	
Due Within One Year	4,061,978
Due In More Than One Year:	
Net Pension Liability (See Note 11)	132,746,979
Other Amonts Due in More Than One Year	179,272,876
<i>Total Liabilities</i>	328,958,990
<b>Deferred Inflows of Resources</b>	
Property Taxes Levied for the Next Year	56,090,077
Pension	8,366,205
<i>Total Deferred Inflows of Resources</i>	64,456,282
<b>Net Position</b>	
Net Investment in Capital Assets	5,577,683
Restricted For:	
Capital Outlay	3,280,471
Debt Service	11,125,542
Other Purposes	1,512,374
Unrestricted	(132,130,035)
<i>Total Net Position</i>	\$ (110,633,965)

See accompanying notes to the basic financial statements.

**Willoughby-Eastlake City School District**  
**Lake County, Ohio**  
*Statement of Activities*  
For the Fiscal Year Ended June 30, 2016

	Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services and Sales	Operating Grants, Contributions and Interest	Governmental Activities
<b>Governmental Activities</b>				
Instruction:				
Regular	\$ 37,865,853	\$ 1,346,852	\$ 224	\$ (36,518,777)
Special	11,217,828	219,193	4,922,876	(6,075,759)
Vocational	1,570,607	2,320	333,971	(1,234,316)
Adult/Continuing	1,065,676	690,664	375,209	197
Student Intervention Services	3,099,347	0	0	(3,099,347)
Other	188,775	19,283	80,523	(88,969)
Support Services:				
Pupils	6,660,850	0	2,979	(6,657,871)
Instructional Staff	2,609,465	0	151,715	(2,457,750)
Board of Education	18,294	0	0	(18,294)
Administration	7,557,646	93,440	316,551	(7,147,655)
Fiscal	2,936,324	0	0	(2,936,324)
Business	1,443,314	0	0	(1,443,314)
Operation and Maintenance of Plant	7,390,738	0	0	(7,390,738)
Pupil Transportation	9,102,490	0	1,066,474	(8,036,016)
Central	1,640,567	0	21,600	(1,618,967)
Operation of Non-Instructional Services:				
Food Service Operations	2,617,667	879,860	1,435,936	(301,871)
Community Services	655,266	24,113	628,864	(2,289)
Extracurricular Activities	1,739,969	356,855	12,753	(1,370,361)
Debt Service:				
Interest and Fiscal Charges	2,648,619	0	638,308	(2,010,311)
Issuance Costs	961,023	0	0	(961,023)
<b>Total</b>	<b>\$ 102,990,318</b>	<b>\$ 3,632,580</b>	<b>\$ 9,987,983</b>	<b>(89,369,755)</b>
 <b>General Revenues</b>				
Property Taxes Levied for:				
General Purposes				62,657,788
Debt Service				4,062,222
Capital Outlay				1,736,964
Grants and Entitlements Not Restricted to Specific Programs				25,564,015
Gain on Sale of Capital Assets				200,976
Investment Earnings				925,327
Miscellaneous				624,950
<b>Total General Revenues</b>				<b>95,772,242</b>
 <i>Change in Net Position</i>				 6,402,487
 <i>Net Position Beginning of Year</i>				 (117,036,452)
<i>Net Position End of Year</i>				<u><u>\$ (110,633,965)</u></u>

See accompanying notes to the basic financial statements.

**Willoughby-Eastlake City School District**  
**Lake County, Ohio**  
*Balance Sheet*  
*Governmental Funds*  
*June 30, 2016*

	General	Building	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Equity in Pooled Cash and Investments	\$ 15,942,916	\$ 883,313	\$ 6,048,364	\$ 22,874,593
Cash and Investments Held with Trustee	0	727,666	3,546,368	4,274,034
Cash and Investments in Segregated Accounts	0	115,928,811	4,728,287	120,657,098
Receivables:				
Accrued Interest	102,416	301,121	0	403,537
Accounts	227,024	0	0	227,024
Interfund	894,570	0	0	894,570
Intergovernmental	260,192	0	1,220,810	1,481,002
Property Taxes	56,328,171	0	9,473,752	65,801,923
<i>Total Assets</i>	<u>\$ 73,755,289</u>	<u>\$ 117,840,911</u>	<u>\$ 25,017,581</u>	<u>\$ 216,613,781</u>
<b>Liabilities</b>				
Accounts Payable	\$ 27,540	\$ 0	\$ 209,604	\$ 237,144
Accrued Wages and Benefits	7,436,717	0	581,241	8,017,958
Contracts Payable	0	848,242	0	848,242
Intergovernmental Payable	1,769,789	0	126,929	1,896,718
Retainage Payable	0	167,847	0	167,847
Interfund Payable	0	0	859,070	859,070
<i>Total Liabilities</i>	<u>9,234,046</u>	<u>1,016,089</u>	<u>1,776,844</u>	<u>12,026,979</u>
<b>Deferred Inflows of Resources</b>				
Property Taxes Levied for the Next Year	47,703,474	0	8,386,603	56,090,077
Unavailable Revenue	3,265,478	0	691,428	3,956,906
<i>Total Deferred Inflows of Resources</i>	<u>50,968,952</u>	<u>0</u>	<u>9,078,031</u>	<u>60,046,983</u>
<b>Fund Balances</b>				
Nonspendable	5,928	0	0	5,928
Restricted	0	116,824,822	14,463,585	131,288,407
Committed	283,648	0	0	283,648
Assigned	4,862,483	0	0	4,862,483
Unassigned	8,400,232	0	(300,879)	8,099,353
<i>Total Fund Balances</i>	<u>13,552,291</u>	<u>116,824,822</u>	<u>14,162,706</u>	<u>144,539,819</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$ 73,755,289</u>	<u>\$ 117,840,911</u>	<u>\$ 25,017,581</u>	<u>\$ 216,613,781</u>

See accompanying notes to the basic financial statements.

**Willoughby-Eastlake City School District**  
**Lake County, Ohio**  
*Reconciliation of Total Governmental Fund Balances to*  
*Net Position of Governmental Activities*  
*June 30, 2016*

<b>Total Governmental Fund Balances</b>		\$ 144,539,819
 <i>Amounts reported for governmental activities in the statement of net position are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		48,826,611
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Intergovernmental	\$ 507,815	
Excess Costs	143,670	
Charges and Other Fees	326,575	
Property Taxes	2,978,846	3,956,906
 An internal service fund is used by management to charge the costs of insurance and other services to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.		 3,634,641
 In the statement of activities, interest is accrued on outstanding bonds, whereas in the governmental funds, an interest expenditure is not reported.		 (1,236,999)
 The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds:		
Deferred Outflows - Pension	14,093,095	
Deferred Inflows - Pension	(8,366,205)	
Net Pension Liability	(132,746,979)	(127,020,089)
 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	(124,005,000)	
Tax Anticipation Notes	(8,625,000)	
Bond Premium	(5,502,767)	
Certificates of Participation	(32,435,000)	
Early Retirement Incentive	(2,319,092)	
Healthcare Termination Benefits	(1,940,407)	
Compensated Absences	(8,507,588)	(183,334,854)
 <i>Net Position of Governmental Activities</i>		 <u><u>\$ (110,633,965)</u></u>

See accompanying notes to the basic financial statements.



**Willoughby-Eastlake City School District**  
**Lake County, Ohio**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2016*

	General	Building	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Property and Other Local Taxes	\$ 62,610,418	\$ 0	\$ 5,864,610	\$ 68,475,028
Intergovernmental	28,696,755	0	6,945,253	35,642,008
Investment Income	333,181	480,305	111,840	925,326
Tuition and Fees	967,269	0	784,104	1,751,373
Extracurricular Activities	282,733	0	179,573	462,306
Rentals	400,976	0	0	400,976
Charges for Services	130,429	0	852,717	983,146
Contributions and Donations	133,434	0	12,753	146,187
Miscellaneous	606,814	0	23,151	629,965
<i>Total Revenues</i>	<u>94,162,009</u>	<u>480,305</u>	<u>14,774,001</u>	<u>109,416,315</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	39,176,796	0	15,066	39,191,862
Special	9,306,142	0	2,126,171	11,432,313
Vocational	1,521,238	0	64,055	1,585,293
Adult Education	325	0	1,096,798	1,097,123
Student Intervention Services	3,102,236	0	40,404	3,142,640
Other	14,104	0	49,928	64,032
Support Services:				
Pupils	6,780,585	0	3,172	6,783,757
Instructional Staff	2,626,065	0	273,424	2,899,489
Board of Education	18,442	0	0	18,442
Administration	7,105,086	0	576,145	7,681,231
Fiscal	2,823,500	23,670	99,242	2,946,412
Business	1,089,361	211,589	132,343	1,433,293
Operation and Maintenance of Plant	6,951,291	41,060	130	6,992,481
Pupil Transportation	8,505,991	0	535,653	9,041,644
Central	1,671,340	0	32,406	1,703,746
Extracurricular Activities	1,591,510	0	147,172	1,738,682
Operation of Non-Instructional Services:				
Food Service Operations	0	0	2,629,964	2,629,964
Community Services	47,680	0	613,349	661,029
Capital Outlay	1,576,468	5,738,524	18,814	7,333,806
Debt Service:				
Principal Retirement	175,000	0	520,000	695,000
Interest and Fiscal Charges	325,104	309,171	1,411,482	2,045,757
Issuance Costs	0	173,703	787,320	961,023
<i>Total Expenditures</i>	<u>94,408,264</u>	<u>6,497,717</u>	<u>11,173,038</u>	<u>112,079,019</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(246,255)</u>	<u>(6,017,412)</u>	<u>3,600,963</u>	<u>(2,662,704)</u>
<b>Other Financing Sources (Uses)</b>				
Proceeds from Sale of Capital Assets	20,976	0	180,000	200,976
Proceeds of General Obligation Bonds	0	115,750,000	0	115,750,000
Proceeds of Certificates of Participation	0	5,610,000	0	5,610,000
Discount on Bonds and Notes Issued	0	(9,846)	0	(9,846)
Premium on Bonds and Notes Issued	0	0	5,502,767	5,502,767
Transfers In	128,944	0	1,931,481	2,060,425
Transfers Out	0	0	(2,060,425)	(2,060,425)
<i>Total Other Financing Sources (Uses)</i>	<u>149,920</u>	<u>121,350,154</u>	<u>5,553,823</u>	<u>127,053,897</u>
<i>Net Change in Fund Balance</i>	(96,335)	115,332,742	9,154,786	124,391,193
<i>Fund Balances Beginning of Year</i>	<u>13,648,626</u>	<u>1,492,080</u>	<u>5,007,920</u>	<u>20,148,626</u>
<i>Fund Balances End of Year</i>	<u>\$ 13,552,291</u>	<u>\$ 116,824,822</u>	<u>\$ 14,162,706</u>	<u>\$ 144,539,819</u>

See accompanying notes to the basic financial statements.

**Willoughby-Eastlake City School District**  
**Lake County, Ohio**

*Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Fiscal Year Ended June 30, 2016*

<b>Net Change in Fund Balances - Total Governmental Funds</b>		\$ 124,391,193
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.		
Capital Asset Additions	\$ 7,447,433	
Current Year Depreciation	<u>(1,620,856)</u>	5,826,577
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Property Taxes	48,690	
Excess Costs	23,921	
Charges and Other Fees	(149,400)	
Intergovernmental	<u>(147,697)</u>	(224,486)
Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		
		695,000
Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows.		
		7,334,199
Except for amount reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities		
		(6,219,030)
Debt proceeds issued in the governmental funds that increase long-term liabilities in the statement of net position are not reported as revenues.		
School Improvement Bonds Series 2016	(115,750,000)	
Certificates of Participation Series 2015	(5,610,000)	
Premium on Bonds	<u>(5,502,767)</u>	(126,862,767)
In the statement of activities, interest is accrued on outstanding long-term debt and premium and gain/loss on refunding are amortized over the term of the debt, whereas in governmental funds, an interest expenditure is reported when debt is issued.		
Accrued Interest Payable		(593,016)
The internal service fund used by management to charge the costs of insurance and other services to individual funds is not reported in the district-wide statement of activities. Governmental expenditures and related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.		
		1,061,786
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Compensated Absences	(233,965)	
Healthcare Termination Benefits	273,589	
Early Retirement Incentive	<u>953,407</u>	993,031
<i>Change in Net Position of Governmental Activities</i>		<u>\$ 6,402,487</u>

See accompanying notes to the basic financial statements.

**Willoughby-Eastlake City School District**  
**Lake County, Ohio**  
*Statement of Revenues, Expenditures, and Changes in Fund Balance -*  
*Budget (Non-GAAP Basis) and Actual*  
*General Fund*  
*For the Fiscal Year Ended June 30, 2016*

	Budgeted Amounts			Variance with Final Budget Over (Under)
	Original	Final	Actual	
<b>Revenues</b>				
Property and Other Local Taxes	\$ 60,215,700	\$ 63,379,000	\$ 63,378,991	\$ (9)
Intergovernmental	27,740,760	28,639,863	28,639,855	(8)
Investment Income	200,590	273,530	273,521	(9)
Tuition and Fees	795,630	917,200	917,120	(80)
Extracurricular Activities	148,600	177,321	177,282	(39)
Rentals	450,000	401,330	401,320	(10)
Charges for Services	100,040	106,330	106,316	(14)
Contributions and Donations	320,000	26,000	26,000	0
Miscellaneous	389,183	352,099	352,073	(26)
<i>Total Revenues</i>	<u>90,360,503</u>	<u>94,272,673</u>	<u>94,272,478</u>	<u>(195)</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	40,780,922	40,099,220	39,702,804	396,416
Special	7,107,738	7,980,590	9,569,889	(1,589,299)
Vocational	1,090,587	1,476,915	1,421,486	55,429
Student Intervention Services	171,940	1,056,330	554,249	502,081
Other	312,138	4,236,414	2,180,655	2,055,759
Support Services:				
Pupils	5,572,306	6,860,479	6,653,073	207,406
Instructional Staff	6,764,858	3,065,381	3,050,005	15,376
Board of Education	28,145	22,720	21,402	1,318
Administration	5,958,228	8,072,525	6,973,626	1,098,899
Fiscal	2,316,564	2,844,687	2,869,097	(24,410)
Business	1,188,689	1,380,111	1,100,193	279,918
Operation and Maintenance of Plant	7,508,551	7,468,664	7,667,740	(199,076)
Pupil Transportation	8,240,544	8,875,389	8,663,251	212,138
Central	1,789,121	1,679,410	1,741,504	(62,094)
Extracurricular Activities	1,759,149	1,617,286	1,594,088	23,198
Operation of Non-Instructional Services:				
Community Services	510	699	673	26
Other	0	0	24,672	(24,672)
Capital Outlay	575,000	1,847,140	1,793,926	53,214
Debt Service:				
Principal Retirement	175,000	175,000	175,000	0
Interest and Fiscal Charges	515,490	338,788	325,104	13,684
<i>Total Expenditures</i>	<u>91,855,480</u>	<u>99,097,748</u>	<u>96,082,437</u>	<u>3,015,311</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(1,494,977)</u>	<u>(4,825,075)</u>	<u>(1,809,959)</u>	<u>3,015,116</u>
<b>Other Financing Sources (Uses)</b>				
Proceeds from Sale of Capital Assets	23,110	20,976	20,976	0
Refund of Prior Year Expenditures	100	576,388	576,388	0
Refund of Prior Year Receipts	(100)	0	0	0
Advances In	2,006,000	1,199,340	1,199,340	0
Transfers In	357,707	128,944	128,944	0
Advances Out	(2,000,000)	(1,535,360)	(1,535,360)	0
<i>Total Other Financing Sources (Uses)</i>	<u>386,817</u>	<u>390,288</u>	<u>390,288</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	(1,108,160)	(4,434,787)	(1,419,671)	3,015,116
<i>Fund Balance Beginning of Year</i>	12,544,189	12,544,189	12,544,189	0
Prior Year Encumbrances Appropriated	2,292,448	2,292,448	2,292,448	0
<i>Fund Balance End of Year</i>	<u>\$ 13,728,477</u>	<u>\$ 10,401,850</u>	<u>\$ 13,416,966</u>	<u>\$ 3,015,116</u>

See accompanying notes to the basic financial statements.

**Willoughby-Eastlake City School District**  
**Lake County, Ohio**  
*Statement of Fund Net Position*  
*Proprietary Fund*  
*June 30, 2016*

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	<u>Governmental Activities - Internal Service Funds</u>
<b>Assets</b>	
<i>Current Assets</i>	
Equity in Pooled Cash and Investments	\$ 4,142,390
<b>Liabilities</b>	
<i>Current Liabilities</i>	
Interfund Payable	35,500
Claims Payable	472,249
<i>Total Current Liabilities</i>	<u>507,749</u>
<b>Net Position</b>	
Unrestricted	<u>\$ 3,634,641</u>

See accompanying notes to the basic financial statements.

**Willoughby-Eastlake City School District**  
**Lake County, Ohio**  
*Statement of Revenues, Expenses, and Changes in Fund Net Position*  
*Proprietary Fund*  
*For the Fiscal Year Ended June 30, 2016*

	Governmental Activities - Internal Service Funds
<hr/>	
<b>Operating Revenues</b>	
Charges for Services	\$ 10,151,428
Other	19,535
<i>Total Operating Revenues</i>	<u>10,170,963</u>
 <b>Operating Expenses</b>	
Fringe Benefits	21,507
Purchased Services	905,279
Materials and Supplies	445,845
Claims	7,610,997
Other	125,549
<i>Total Operating Expenses</i>	<u>9,109,177</u>
 <i>Operating Income</i>	<u>1,061,786</u>
 <i>Net Position Beginning of Year</i>	<u>2,572,855</u>
 <i>Net Position End of Year</i>	<u>\$ 3,634,641</u>

See accompanying notes to the basic financial statements.

**Willoughby-Eastlake City School District**  
**Lake County, Ohio**  
*Statement of Cash Flows*  
*Proprietary Fund*  
For the Fiscal Year Ended June 30, 2016

	<u>Governmental Activities - Internal Service Funds</u>
<b>Cash Flows From Operating Activities</b>	
Cash Received from Customers	\$ 10,151,428
Other Cash Receipts	19,535
Cash Paid for Goods and Services	(1,351,124)
Cash Paid for Employee Benefits	(21,507)
Cash Paid for Claims	(7,738,876)
Other Cash Payments	(125,549)
<i>Net Cash Provided By Operating Activities</i>	<u>933,907</u>
<b>Cash Flows From Non-Capital Financing Activities</b>	
Advances from Other Funds	68,500
Advances to Other Funds	(60,550)
<i>Net Cash Provided By Non-Capital Financing Activities</i>	<u>7,950</u>
<i>Net Increase in Cash and Investments</i>	941,857
<i>Cash and Investments, Beginning of Year</i>	<u>3,200,533</u>
<i>Cash and Investments, End of Year</i>	<u><u>\$ 4,142,390</u></u>
<b>Reconciliation of Operating Income to Net Cash Provided By Operating Activities</b>	
Operating Income	\$ 1,061,786
Adjustments:	
Increase (Decrease) in Liabilities:	
Claims Payable	(127,879)
<i>Net Cash Provided By Operating Activities</i>	<u><u>\$ 933,907</u></u>

See accompanying notes to the basic financial statements.

**Willoughby-Eastlake City School District**  
**Lake County, Ohio**  
*Statement of Fiduciary Net Position*  
*Fiduciary Funds*  
*June 30, 2016*

	Private Purpose Trust	Agency
<b>Assets</b>		
Equity in Pooled Cash and Investments	\$ 140,371	\$ 208,158
<b>Liabilities</b>		
Accounts Payable	3,900	\$ 2,627
Undistributed Monies	0	3,635
Due to Students	0	201,896
<i>Total Liabilities</i>	3,900	\$ 208,158
<b>Net Position</b>		
Held in Trust for Scholarships	\$ 136,471	

See accompanying notes to the basic financial statements.

**Willoughby-Eastlake City School District**  
**Lake County, Ohio**  
*Statement of Changes in Fiduciary Net Position*  
*Private Purpose Trust Fund*  
*For the Fiscal Year Ended June 30, 2016*

	Private Purpose Trust
<b>Additions</b>	
Gifts and Contributions	\$ 140
Miscellaneous	3,000
Investment Earnings	291
<i>Total Additions</i>	3,431
 <b>Deductions</b>	
Payments in Accordance with Trust Agreements	5,254
<i>Change in Net Position</i>	(1,823)
<i>Net Position Beginning of Year</i>	138,294
<i>Net Position End of Year</i>	\$ 136,471

See accompanying notes to the basic financial statements.



**Willoughby-Eastlake City School District**  
**Lake County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2016*

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**Note 1 - Description of the School District and Reporting Entity**

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

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

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

***Reporting Entity***

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

*Non-Public Schools* – Within the School District boundaries, there are various non-public schools. Current State legislation provides funding to these parochial schools. These monies are received and disbursed by the School District on behalf of the parochial school by the Treasurer of the School District, as directed by the parochial school. These transactions are reported as a governmental activity on the financial statements of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; (3) the School District is legally obligated or has otherwise assumed the responsibility to finance deficits of, or provide financial support to, the organization; or (4) the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. The School District does not have any component units.

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

**Willoughby-Eastlake City School District**  
**Lake County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2016*

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

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

***Basis of Presentation***

The School District's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

***Government-wide Financial Statements*** The statement of net position and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is also eliminated to avoid "doubling up" revenues and expenses.

The statement of net position presents the financial condition of the governmental activities of the School District at fiscal year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program, and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District with certain limitations. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the School District.

***Fund Financial Statements*** During the year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by type.

***Fund Accounting***

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

**Willoughby-Eastlake City School District**

**Lake County, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2016*

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**Governmental Funds** Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and deferred outflows of resources and liabilities and deferred inflows of resources is reported as fund balance. The following are the School District's major governmental funds:

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

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

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

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

**Internal Service Funds** The internal service funds account for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost reimbursement basis. The School District utilizes internal service funds to account for the operation of the School District's self-insurance program, for employee medical, surgical, prescription drug and dental benefits and warehouse service programs.

**Fiduciary Funds** Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The School District's only trust fund is a private purpose trust fund, which accounts for several scholarship programs for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency funds account for student activities and high school reunions.

**Measurement Focus**

**Government-wide Financial Statements** The government-wide financial statements are prepared using the economic resources measurement focus. All assets and deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of the School District are included on the Statement of Net Position. The Statement of Activities presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position.

**Willoughby-Eastlake City School District**  
**Lake County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2016*

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***Fund Financial Statements*** All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and deferred outflows of resources and current liabilities and deferred inflows of resources generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared.

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

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

***Basis of Accounting***

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

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

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 6). Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

**Willoughby-Eastlake City School District**  
**Lake County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2016*

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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 represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School District, deferred outflows of resources are reported on the government-wide statement of net position for pension. The deferred outflows of resources related to pension are explained in Note 11.

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 School District, deferred inflows of resources include property taxes, pension, and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2016, but which were levied to finance fiscal year 2017 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the School District, unavailable revenue may include delinquent property taxes, intergovernmental grants, and miscellaneous revenues. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension are reported on the government-wide statement of net position. (See Note 11).

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

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

***Budgetary Process***

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

**Willoughby-Eastlake City School District**  
**Lake County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2016*

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

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

***Cash and Investments***

To improve cash management, all cash received by the School District is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through School District records. Interest in the pool is presented as “equity in pooled cash and investments.”

During fiscal year 2016, investments were limited to federal securities, corporate bonds, commercial paper, money market funds and STAR Ohio.

During fiscal year 2016, the School District invested in STAR Ohio. STAR Ohio (the State Treasury Asset Reserve of Ohio), is an investment pool managed by the State Treasurer’s Office which allows governments within the Stat to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, “Certain External Investment Pools and Pool Participants.” The School District measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized basis that provides an NAV per share that approximates fair value.

For the fiscal year 2016, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

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

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings (including fair market value adjustments for investments). Interest receipts credited to the General Fund during fiscal year 2016 was \$333,181, which includes \$112,018 assigned from other School District funds.

**Willoughby-Eastlake City School District**  
**Lake County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2016*

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Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as “equity in pooled cash and investments.” Investments with an original maturity of more than three months that are not made from the pool are reported as investments.

***Capital Assets***

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

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. The School District was able to estimate the historical cost for the initial reporting of assets by back trending (i.e., estimating the current replacement cost of the asset to be capitalized and using appropriate price-level index to deflate the cost to acquisition year or estimated acquisition year). Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of \$5,000. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset’s life are not.

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

Description	Estimated Lives
Buildings and Improvements	20-99 Years
Furniture and Equipment	10-15 years
Vehicles	15 Years

***Interfund Balances***

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental activities column of the statement of net position.

***Compensated Absences***

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

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

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

**Willoughby-Eastlake City School District**  
**Lake County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2016*

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

***Pensions***

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

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

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments, compensated absences and net pension liability that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year. Bonds are recognized as a liability on the fund financial statements when due.

***Net Position***

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. At June 30, 2016, none of the School District’s net position was restricted by enabling legislation. Net position restricted for other purposes include instructional activities and grants.

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

***Fund Balance***

In accordance with Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the School District classifies its fund balance based on the purpose for which the resources were received and the level of constraint placed on the resources. The classifications are as follows:



**Willoughby-Eastlake City School District**  
**Lake County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2016*

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

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

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

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

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

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

***Operating Revenues and Expenses***

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

**Willoughby-Eastlake City School District**  
**Lake County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2016*

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***Interfund Activity***

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

***Extraordinary and Special Items***

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2016.

***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.

***Implementation of New Accounting Policies***

For the fiscal year ended June 30, 2016, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and *Amendments to Certain Provisions of GASB Statements 67 and 68*, GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* and GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*.

GASB Statement No. 72 clarifies the definition of fair value for financial reporting purposes, establishes general principles for measuring fair value, provides additional fair value application guidance, and enhances disclosures about fair value measurements. These changes were incorporated in the School District's fiscal year 2016 note disclosures; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 73 establishes requirements for defined benefit pensions that are not within the scope of GASB Statement No. 68 as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also clarifies the application of certain provisions of GASB Statements 67 and 68. The implementation of GASB Statement No. 73 did not have an effect on the financial statements of the School District.

GASB Statement No. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The implementation of GASB Statement No. 76 did not have an effect on the financial statements of the School District.

**Willoughby-Eastlake City School District**  
**Lake County, Ohio**

*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2016*

GASB Statement No. 79 addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The changes were incorporated in the School District's fiscal year 2016 note disclosures; however, there was no effect on beginning net position/fund balance.

**Note 3 – Fund Balance**

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

	<u>General</u>	<u>Building</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Nonspendable for:				
Unclaimed Monies	\$ 5,928	\$ 0	\$ 0	\$ 5,928
Restricted for:				
Debt Service	0	0	12,362,540	12,362,540
Capital Outlay	0	116,824,822	958,655	117,783,477
State Funded Programs	0	0	380,712	380,712
Federally Funded Programs	0	0	550,871	550,871
Extracurricular Activities	0	0	152,256	152,256
Other Purposes	0	0	58,551	58,551
Total Restricted	<u>0</u>	<u>116,824,822</u>	<u>14,463,585</u>	<u>131,288,407</u>
Committed for:				
Termination Benefits	<u>283,648</u>	<u>0</u>	<u>0</u>	<u>283,648</u>
Assigned for:				
Encumbrances:				
Instruction	554,093	0	0	554,093
Support Services	1,130,708	0	0	1,130,708
Extracurricular	11,620	0	0	11,620
Operations of Non-Instructional Services	4,264	0	0	4,264
Capital Outlay	217,458	0	0	217,458
Subsequent Year Appropriations	<u>2,944,340</u>	<u>0</u>	<u>0</u>	<u>2,944,340</u>
Total Assigned	<u>4,862,483</u>	<u>0</u>	<u>0</u>	<u>4,862,483</u>
Unassigned	<u>8,400,232</u>	<u>0</u>	<u>(300,879)</u>	<u>8,099,353</u>
<i>Total Fund Balance</i>	<u>\$ 13,552,291</u>	<u>\$ 116,824,822</u>	<u>\$ 14,162,706</u>	<u>\$ 144,539,819</u>

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The following funds had a deficit fund balance as of June 30, 2016:

<b>Other Governmental Funds:</b>	
Title I	\$ 84,375
Preschool at Risk	4,298
Title VI-B	139,451
Food Service	68,781
Vocational Education	3,974

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

**Note 4 - Budgetary Basis of Accounting**

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

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

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

	<u>General</u>
GAAP Basis	\$ (96,335)
Net Adjustment for Revenue Accruals	3,467,343
Net Adjustment for Expenditure Accruals	(3,154,410)
Adjustment for Encumbrances	253,460
Funds Budgeted Elsewhere **	<u>(1,889,729)</u>
 Budget Basis	 <u><u>\$ (1,419,671)</u></u>

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

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**Note 5 - Deposits and Investments**

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

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio and STAR Plus);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed 40 percent of the interim moneys available for investment at any one time; and,

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8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity.

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

According to State law, public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by FDIC, or may pledge a pool of government securities valued at least 105 percent of the total value of uninsured public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within 5 years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the School District's name. During fiscal year 2016, the School District and public depositories complied with the provisions of these statutes.

***Deposits with Financial Institutions***

Custodial credit risk is the risk that, in the event of a bank failure, the School District will not be able to recover deposits or collateral securities that are in possession of an outside party. The School District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least 105 percent of the deposits being secured.

At fiscal year-end, the carrying amount of the School District's deposits was \$11,811,930, which includes \$4,784 of cash and donated gift cards on hand. Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, as of June 30, 2016, \$12,065,323 of the School District's bank balance of \$12,315,323 was uninsured and uncollateralized, while \$250,000 was covered by FDIC. Although the securities were held by the pledging institution's trust department and all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the School District to a successful claim by the FDIC.

***Funds Held by Trustee***

Huntington National Bank acts as a trustee for the School District. Huntington National Bank held on account as of June 30, 2016, \$3,546,368. This money is held in trustee accounts in a sinking fund for the repayment of bonds on March 1, 2021. Collateral is held on direct deposit with the Federal Reserve.

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Huntington National Bank also holds, as a trustee, \$727,666 in a “Certificate Fund.” During 2015 and 2016, the School District entered into agreements to issue Certificates of Participation (See Note 15). As part of these agreements, there will be deposited, in the Certificate Fund, amounts transferred from the Project Fund pursuant to the terms of the Lease and the Assignment. These funds will be used solely and exclusively for the payment of Certificate Payments as they become due, except as otherwise provided in the Trust Agreement.

**Investments**

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

**Interest Rate Risk** As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the School District’s investment policy requires that operating funds be invested primarily in short-term investments maturing within one year from the date of purchase and that the School District’s investment portfolio be structured so that the securities mature to meet cash requirements for ongoing operations and/or long-term debt payments. The stated intent of the policy is to avoid the need to sell securities prior to maturity.

As of June 30, 2016, the School District had the following investments and maturities:

Investment Type	Rating	Measurement Value	Investment Maturities (in years)			Percent of Total
			< 1	3-Jan	> 3	
Federal Farm Credit Bank	Aaa	\$ 33,466,100	\$ 0	\$ 32,466,060	\$ 1,000,040	24.57%
Federal National Mortgage Association	Aaa	27,947,490	3,830,690	22,090,790	2,026,010	20.52%
Federal Home Loan Bank	Aaa	10,905,010	6,310,652	3,293,983	1,300,375	8.00%
Federal Home Loan Mortgage	Aaa	3,802,850	0	3,802,850	0	2.79%
Private Export Funding Corporation	Aaa	9,356,500	602,652	2,179,500	6,574,348	6.87%
Tennessee Valley Authority	Aaa	6,788,829	0	5,550,029	1,238,800	4.98%
Commercial Paper	P-1	12,132,062	12,132,062	0	0	8.91%
International Bank for Recon & Develop	Aaa	16,575,875	0	16,575,875	0	12.17%
Federal Agricultural Mortgage Corporation	Aaa	3,393,044	0	2,062,940	1,330,104	2.49%
North American Development Bank	Aa1	1,310,016	0	0	1,310,016	0.96%
Federated Money Market	Aaa	10,429,256	10,429,256	0	0	7.66%
STAR Ohio	AAAm	103,648	103,648	0	0	0.08%
<b>Total Investments</b>		<b>\$ 136,210,680</b>	<b>\$ 33,408,960</b>	<b>\$ 88,022,027</b>	<b>\$ 14,779,693</b>	<b>100.00%</b>

The School District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs. The above table identifies the School District’s recurring fair value measurements as of June 30, 2016. As discussed further in Note 2, STAR Ohio is reported at its share price. All other investments of the School District are valued using quoted market prices (Level 1 inputs).

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

**Credit Risk** The federal securities and Federated money market were all rated Aaa and AA+ by Moody's Investor Services and Standard & Poor's (S&P) Global Ratings, respectively. The international bank for reconstruction and development was also rated AAA by S&P Global Ratings. Investments underlying the commercial paper were rated P-1 and A-1 by Moody's Investor Services and S&P Global Ratings, respectively. STAR Ohio is an investment pool operated by the Ohio State Treasurer. It is unclassified since it is not evidenced by securities that exist in physical or book entry form. Ohio law requires STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The weighted average of maturity of the portfolio held by STAR Ohio as of June 30, 2016, is 49 days and carries a rating of AAAM by S&P Global Ratings. The School District has no investment policy dealing with investment credit risk beyond the requirements in State statutes.

**Note 6 - Property Taxes**

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

Property taxes include amounts levied against all real and public utility property located in the School District. Real property tax revenue received in calendar year 2016 represents collections of calendar year 2015 taxes. Real property taxes received in calendar year 2016 were levied after April 1, 2015, on the assessed value listed as of January 1, 2015, the lien date. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar year 2016 represents collections of calendar year 2015 taxes. Public utility real and tangible personal property taxes received in calendar year 2016 became a lien December 31, 2014, were levied after April 1, 2015 and are collected in 2016 with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

The School District receives property taxes from Lake County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2016, are available to finance fiscal year 2016 operations. The amount available as an advance at June 30, 2016 in the general, bond retirement and permanent improvement funds was \$5,726,280, \$850,465, and \$156,255, respectively. The amount available for advance at June 30, 2015, in the general, bond retirement and permanent improvement funds was \$6,685,991, \$0, and \$185,518, respectively. The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.



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Accrued property taxes receivable includes real property, public utility property and delinquent tangible personal property taxes which are measurable as of June 30, 2016 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.

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

The assessed values upon which the fiscal year 2016 taxes were collected are:

	2015 Second- Half Collections		2016 First- Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$ 1,450,195,540	97%	\$ 1,449,887,620	95%
Public Utility Personal Property	50,033,760	3%	81,484,070	5%
Total Assessed Values	\$ 1,500,229,300	100%	\$ 1,531,371,690	100%
Tax rate per \$1,000 of assessed valuation	\$ 61.17		\$ 64.27	

**Note 7 - Receivables**

Receivables at June 30, 2016, consisted of property taxes, accrued interest, interfund, accounts (customer services and student fees) and intergovernmental. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current fiscal year guarantee of Federal funds. All receivables, except property taxes, are expected to be collected within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

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**Note 8 - Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2016 was as follows:

	Balance 6/30/2015	Additions	Deletions	Balance 6/30/2016
<b>Governmental Activities</b>				
<i>Capital Assets Not Being Depreciated</i>				
Land	\$ 934,224	\$ 0	\$ 0	\$ 934,224
Construction in Progress	822,832	5,861,274	(1,467,001)	5,217,105
<i>Total Capital Assets Not Being Depreciated</i>	1,757,056	5,861,274	(1,467,001)	6,151,329
<i>Capital Assets Being Depreciated</i>				
Buildings and Improvements	58,442,519	2,691,494	0	61,134,013
Furniture and Equipment	1,785,259	199,746	(7,900)	1,977,105
Vehicles	5,438,647	161,920	(329,850)	5,270,717
<i>Total Capital Assets Being Depreciated</i>	65,666,425	3,053,160	(337,750)	68,381,835
<i>Less: Accumulated Depreciation</i>				
Buildings and Improvements	(18,446,912)	(1,315,947)	0	(19,762,859)
Furniture and Equipment	(1,294,640)	(79,302)	7,900	(1,366,042)
Vehicles	(4,681,895)	(225,607)	329,850	(4,577,652)
<i>Total Accumulated Depreciation</i>	(24,423,447)	(1,620,856) *	337,750	(25,706,553)
<i>Total Capital Assets Being Depreciated, Net</i>	41,242,978	1,432,304	0	42,675,282
<i>Governmental Activities Capital Assets, Net</i>	\$ 43,000,034	\$ 7,293,578	\$ (1,467,001)	\$ 48,826,611

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

Instruction:	
Regular	\$ 789,728
Adult Continuing	1,162
Support Services:	
Pupils	29,172
Administration	5,969
Operation and Maintenance of Plant	382,037
Pupil Transportation	316,681
Operation of Non-Instructional Services:	
Food Service Operations	16,045
Extracurricular Activities	80,062
<i>Total Depreciation Expense</i>	\$ 1,620,856

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**Note 9 – Interfund Transactions**

***Interfund Transfers***

Interfund transfers for the year ended June 30, 2016, consisted of the following:

	Transfers Out	Transfers In
General Fund	\$ 0	\$ 128,944
Nonmajor Governmental Funds:		
Permanent Improvement	1,931,481	0
Vocational Education	128,944	0
Debt Service	0	1,931,481
Total	\$ 2,060,425	\$ 2,060,425

During the fiscal year, the permanent improvement fund transferred \$1,931,481 to the debt service fund for the payment of capital related debt. The vocational education fund transferred \$128,944 to general fund to return a residual balance. Interfund transfers between governmental funds are eliminated in the statement of activities.

***Interfund Balances***

Interfund balances at June 30, 2016 consisted of an \$859,070 payable from the permanent improvement fund to the general fund. The general fund also has an outstanding advance from the internal service fund in the amount of \$35,500. The primary purpose of the interfund balance is to cover costs in the fund where revenues were not received by June 30. This interfund balance will be repaid once the anticipated revenues are received. These advances are expected to be repaid within one year. Interfund loans between governmental activities are eliminated on the statement of net position.

**Note 10 - Risk Management**

***Property and Liability***

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2016, the School District was part of a group purchasing consortium of public school districts in Northeast Ohio. The consortium placed coverage through the Catlin Indemnity Company. The company carried the property insurance (which includes inland marine, earthquake, and crime), the fleet insurance and covered the boilers and machinery.

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

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

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***Workers' Compensation***

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

***Employee Medical Benefits***

The School District provides medical, surgical, prescription drug and dental benefits to its employees on a self-insured basis. A third party, Medical Mutual, reviews all claims which are then paid by the School District. A premium is paid by the fund that pays the salary for the employee and is based on historical cost information. The School District maintains stop-loss coverage for its insurance program. Aggregate stop-loss is maintained at \$7,264,362 for the one year period ending June 30, 2016.

The claims liability of \$472,249 reported in the internal service fund at June 30, 2016 is estimated by the third-party administrator and is based on the requirements of Governmental Accounting Standards Board Statement No. 30, which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses.

Changes in the fund's claims liability amount for the last two fiscal years are listed as follows:

	Balance	Current	Claims	Balance
	<u>Beginning of Year</u>	<u>Year Claims</u>	<u>Payments</u>	<u>End of Year</u>
2015	\$ 666,846	\$ 6,884,128	\$ 6,950,846	\$ 600,128
2016	\$ 600,128	\$ 7,610,997	\$ 7,738,876	\$ 472,249

**Note 11 – Defined Benefit Pension Plans**

***Net Pension Liability***

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

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

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

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

The proportionate share of each plan’s unfunded benefits is presented as a long-term net pension liability on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in intergovernmental payable on both the accrual and modified accrual bases of accounting.

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

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

Age and service requirements for retirement are as follows:

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

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

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

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

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Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, the allocation to pension, death benefits, and Medicare B was 14 percent. SERS did not allocate any employer contributions to the Health Care Fund for fiscal year 2016.

The School District's contractually required contribution to SERS was \$1,461,599 for fiscal year 2016. Of this amount, \$79,954 is reported as an intergovernmental payable.

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

Plan Description – School District licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS website at [www.strsoh.org](http://www.strsoh.org).

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

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

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

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

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2016, plan members were required to contribute 13 percent of their annual covered salary. The School District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

The School District's contractually required contribution to STRS was \$5,872,600 for fiscal year 2016. Of this amount, \$1,042,037 is reported as an intergovernmental payable.

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

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School District's proportion of the net pension liability was based on the School District's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>STRS</u>	<u>SERS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$ 107,771,821	\$ 24,975,158	\$ 132,746,979
Proportion of the Net Pension Liability	0.38995379%	0.43769250%	
Pension Expense	\$ 5,022,421	\$ 1,196,609	\$ 6,219,030

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At June 30, 2016, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>STRS</u>	<u>SERS</u>	<u>Total</u>
<b>Deferred Outflows of Resources</b>			
Differences between expected and actual experience	\$ 4,904,193	\$ 399,938	\$ 5,304,131
Changes in proportionate share	1,151,470	303,295	1,454,765
School District contributions subsequent to the measurement date	5,872,600	1,461,599	7,334,199
<b>Total Deferred Outflows of Resources</b>	<b><u>\$ 11,928,263</u></b>	<b><u>\$ 2,164,832</u></b>	<b><u>\$ 14,093,095</u></b>
<b>Deferred Inflows of Resources</b>			
Net difference between projected and actual earnings on pension plan investments	\$ 7,580,919	\$ 785,286	\$ 8,366,205
<b>Total Deferred Inflows of Resources</b>	<b><u>\$ 7,580,919</u></b>	<b><u>\$ 785,286</u></b>	<b><u>\$ 8,366,205</u></b>

\$7,334,199 reported as deferred outflows of resources related to pension resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Fiscal Year Ending June 30:	<u>STRS</u>	<u>SERS</u>	<u>Total</u>
2017	\$ (1,407,547)	\$ (190,284)	\$ (1,597,831)
2018	(1,407,547)	(190,284)	(1,597,831)
2019	(1,407,551)	(192,159)	(1,599,710)
2020	2,697,387	490,675	3,188,062
	<b><u>\$ (1,525,256)</u></b>	<b><u>\$ (82,053)</u></b>	<b><u>\$ (1,607,309)</u></b>

***Actuarial Assumptions - SERS***

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

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



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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2015, are presented below:

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

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

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

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

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

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

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$ 34,631,570	\$ 24,975,158	\$ 16,843,664

***Changes between Measurement Date and Report Date***

In April 2016, the SERS Board adopted certain assumption changes which impacted their annual actuarial valuation prepared as of June 30, 2016. The most significant change is a reduction in the discount rate from 7.75 percent to 7.5 percent. Although the exact amount of these changes is not known, the impact to the Schools District's net pension liability is expected to be significant.

***Actuarial Assumptions - STRS***

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Projected Salary Increase	2.75 percent at 70 to 12.25 percent at age 20
Investment Rate of Return	7.75 percent, net of investment expenses
Cost-of-Living Adjustments (COLA)	2.00 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year, for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date

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

Actuarial assumptions used in the June 30, 2015, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

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

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

**Discount Rate** The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2015. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2015. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2015.

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

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
School District's proportionate share of the net pension liability	\$ 149,703,189	\$ 107,771,821	\$ 72,312,596

**Note 12 - Postemployment Benefits**

***School Employees Retirement System***

**Health Care Plan Description** - The School District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

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Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, SERS did not allocate any employer contributions to the Health Care Fund. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2016, this amount was \$23,000. 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.

The School District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2016, 2015, and 2014 were \$465,544, \$293,566 and \$150,031, respectively. For fiscal year 2016, 95 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2015 and 2014.

***State Teachers Retirement System***

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2016, STRS did not allocate any employer contributions to post-employment health care. The School District's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$0, and \$74,876, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

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**Note 13 - Employee Benefits**

***Compensated Absences***

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

***Early Retirement Incentive and Health Care Termination Benefit Payable***

***Classified Employees***

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

***Certified Employees***

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

***Life Insurance***

The School District provides life insurance in the amount of \$20,000 and \$50,000 to food service employees who work 10 to 20 hours and to other employees (excluding substitutes) who regularly work a minimum of 20 hours per week, respectively. Employees are also given the option to purchase additional term life insurance through a payroll deduction.

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**Note 14 - Long-Term Obligations**

Changes in long-term obligations of the School District during fiscal year 2016 were as follows:

<i>Governmental Activities</i>	Balance 06/30/2015	Additions	Deductions	Balance 06/30/2016	Due Within One Year
<i>Long Term Debt:</i>					
QSCB Tax Anticipation Notes	\$ 8,625,000	\$ 0	\$ 0	\$ 8,625,000	\$ 0
2012 Conservation Improvement Bonds	7,565,000	0	(520,000)	7,045,000	525,000
2014 Conservation Improvement Bonds	1,255,000	0	(45,000)	1,210,000	50,000
2016 School Improvement Bonds	0	115,750,000	0	115,750,000	500,000
Premium	0	5,502,767	0	5,502,767	0
<i>Total Long Term Debt</i>	<u>17,445,000</u>	<u>121,252,767</u>	<u>(565,000)</u>	<u>138,132,767</u>	<u>1,075,000</u>
<i>Capital Leases:</i>					
QSCB Certificates of Participation, Series 2011	4,320,000	0	0	4,320,000	0
Tax Exempt Certificates of Participation, Series 2011	9,785,000	0	0	9,785,000	0
Certificates of Participation, Series 2013	6,360,000	0	(130,000)	6,230,000	135,000
Certificates of Participation, Series 2014	6,490,000	0	0	6,490,000	0
Certificates of Participation, Series 2015	0	5,610,000	0	5,610,000	0
<i>Total Capital Leases</i>	<u>26,955,000</u>	<u>5,610,000</u>	<u>(130,000)</u>	<u>32,435,000</u>	<u>135,000</u>
<i>Net Pension Liability:</i>					
STRS	93,625,680	14,146,141	0	107,771,821	0
SERS	21,804,516	3,170,642	0	24,975,158	0
<i>Total Net Pension Liability</i>	<u>115,430,196</u>	<u>17,316,783</u>	<u>0</u>	<u>132,746,979</u>	<u>0</u>
<i>Other Long Term Liabilities:</i>					
Early Retirement Incentive	3,272,499	324,877	(1,278,284)	2,319,092	1,119,081
Healthcare Termination Benefits	2,213,996	90,000	(363,589)	1,940,407	272,623
Compensated Absences	8,273,624	738,189	(504,225)	8,507,588	1,460,274
<i>Total Other Long Term Liabilities</i>	<u>13,760,119</u>	<u>1,153,066</u>	<u>(2,146,098)</u>	<u>12,767,087</u>	<u>2,851,978</u>
<i>Total Governmental Activities Long-Term Obligations</i>	<u>\$ 173,590,315</u>	<u>\$ 145,332,616</u>	<u>\$ (2,841,098)</u>	<u>\$ 316,081,833</u>	<u>\$ 4,061,978</u>

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On March 22, 2011, the School District issued \$8,625,000 of Qualified School Construction Bonds (QSCB) tax anticipation notes with an interest rate of 5.294 percent. The proceeds will be used for various construction and improvement projects throughout the School District. The notes mature on March 1, 2021. The School District is required to make annual sinking fund payments of \$862,500 for nine consecutive years starting March 1, 2012. No payment was made during fiscal year 2016; however, the School District plans to make two payments in fiscal year 2017.

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

On July 17, 2015 the School District issued \$1,300,000 in Limited Tax General Obligation Energy Conservation Improvement Bonds. The bonds were issued for a fifteen year period with final maturity at December 1, 2029. The bonds have a varying interest of 3.00 percent. The proceeds were used to make district-wide energy conservation improvements.

On March 9, 2016, the School District issued \$115,750,000 of general obligation school improvement bonds, which included serial and term in the amount of \$25,790,000 and \$89,960,000, respectively. The bonds were issued for the purpose of constructing, renovating, rehabilitating, and adding to furnishing, equipping and otherwise improving buildings and facilities for the School District's purposes. The bonds were issued for a thirty-five year period with final maturity at December 31, 2050.

These bonds were issued with a premium of \$5,502,767, which is reported as an increase to bonds payable. The amounts are being amortized to interest expense over the life of the bonds using the straight-line method.

The \$115,750,000 bond issue consists of serial and term bonds. The serial bonds were issued with a varying interest rate of 2.00-5.00 percent. The term bonds that mature in fiscal year 2034, with an interest rate of 3.25 percent are subject to mandatory sinking fund redemption. The mandatory sinking fund redemption is to occur on December 1, 2032 at 100 percent of the principal amount thereof plus accrued interest to the date of redemption according to the following schedule:

<u>Fiscal Year</u>	<u>Principal Amount to be Redeemed</u>
2033	\$2,765,000
2034	2,920,000

The term bonds that mature in fiscal year 2035, with an interest rate of 3.375 percent are subject to mandatory sinking fund redemption. The mandatory sinking fund redemption is to occur on December 1, 2036 at 100 percent of the principal amount thereof plus accrued interest to the date of redemption according to the following schedule:

<u>Fiscal Year</u>	<u>Principal Amount to be Redeemed</u>
2035	\$3,080,000
2036	3,250,000
2037	3,425,000

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The term bonds that mature in fiscal year 2038, with an interest rate of 3.75 percent are subject to mandatory sinking fund redemption. The mandatory sinking fund redemption is to occur on December 1, 2037 at 100 percent of the principal amount thereof plus accrued interest to the date of redemption according to the following schedule:

<u>Fiscal Year</u>	<u>Principal Amount to be Redeemed</u>
2038	\$3,605,000
2039	3,810,000
2040	4,020,000
2041	4,240,000
2042	4,465,000

The term bonds that mature in fiscal year 2043, with an interest rate of 5.00 percent are subject to mandatory sinking fund redemption. The mandatory sinking fund redemption is to occur on December 1, 2042 at 100 percent of the principal amount thereof plus accrued interest to the date of redemption according to the following schedule:

<u>Fiscal Year</u>	<u>Principal Amount to be Redeemed</u>
2043	\$4,705,000
2044	5,010,000
2045	5,330,000
2046	5,670,000
2047	6,025,000

The term bonds that mature in fiscal year 2048, with an interest rate of 4.00 percent are subject to mandatory sinking fund redemption. The mandatory sinking fund redemption is to occur on December 1, 2047 at 100 percent of the principal amount thereof plus accrued interest to the date of redemption according to the following schedule:

<u>Fiscal Year</u>	<u>Principal Amount to be Redeemed</u>
2048	\$6,400,000
2049	6,730,000
2050	7,075,000
2051	7,435,000

The term bonds maturing after December 1, 2026 are subject to optional redemption, in whole or in part, on any date in order of maturity as determined by the School District and by lot within a maturity, at the option of the Board of Education on or after December 1, 2025.

Debt payments will be paid from the general and debt service funds. The early retirement incentive, healthcare termination benefits and compensated absences will be paid from the general fund. The School District pays obligations related to employee compensation from the fund benefitting from their service.



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Principal and interest requirements to retire the debt outstanding at June 30, 2016 are as follows:

Fiscal Year	Limited Tax General Obligation		QSCB Tax		School		Total	
	Energy Conservation		Anticipation Notes		Improvement Bonds			
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 575,000	\$ 204,625	\$ 0	\$ 456,608	\$ 500,000	\$ 5,642,432	\$ 1,075,000	\$ 6,303,665
2018	610,000	195,456	0	456,607	1,000,000	4,579,719	1,610,000	5,231,782
2019	615,000	183,794	0	456,608	1,075,000	4,558,969	1,690,000	5,199,371
2020	635,000	170,519	0	456,607	1,155,000	4,536,669	1,790,000	5,163,795
2021	645,000	156,919	8,625,000	456,607	1,235,000	4,512,769	10,505,000	5,126,295
2022-2026	3,445,000	550,272	0	0	7,540,000	21,993,745	10,985,000	22,544,017
2027-2031	1,730,000	74,169	0	0	10,660,000	20,251,157	12,390,000	20,325,326
2032-2036	0	0	0	0	14,640,000	17,836,057	14,640,000	17,836,057
2037-2041	0	0	0	0	19,100,000	14,911,079	19,100,000	14,911,079
2042-2046	0	0	0	0	25,180,000	10,305,594	25,180,000	10,305,594
2047-2051	0	0	0	0	33,665,000	3,536,425	33,665,000	3,536,425
	<u>\$ 8,255,000</u>	<u>\$ 1,535,754</u>	<u>\$ 8,625,000</u>	<u>\$ 2,283,037</u>	<u>\$ 115,750,000</u>	<u>\$ 112,664,615</u>	<u>\$ 132,630,000</u>	<u>\$ 116,483,406</u>

**Note 15 – Capitalized Leases**

***2011 Certificates of Participation***

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

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

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

**Willoughby-Eastlake City School District**

**Lake County, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2016*

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

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

\$14,105,000 of capital assets acquired by the lease have been capitalized as buildings and improvements.

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

***2013 and 2014 Certificates of Participation***

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

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

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

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

**Willoughby-Eastlake City School District**  
**Lake County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2016*

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***2015 Certificates of Participation***

During fiscal year 2016, the School District entered into a lease-purchase agreement in the amount of \$5,610,000 for the acquisition of a commercial building and related building site for a new technical career school. The School District is leasing the project site from the Ohio School Building Leasing Corporation. The Project consists of the construction enlarging and other improvements, furnishing and equipping and lease and eventual acquisition of a commercial building and related building site. The Leased Property is the Euclid Avenue Property.

The School District is leasing the project site from Ohio School Building Leasing Corporation (“Lessor”). The Ohio School Building Leasing Corporation assigned The Huntington National Bank as Trustee (“Trustee”), transferring rights, title and interest in the projects to the Trustee. The School District is acting as an agent for the Lessor, and is constructing the facilities from the proceeds provided by the Lessor. The School District will make annual lease payments to Huntington National Bank. Interest rates for the 2015 Certificates of Participation range between 2.25 percent and 5.125 percent.

The term of the lease consists of a series of one-year terms, each ending on June 30, except the final lease term, which ends on the final lease payment date. The ground lease term ends five years after the final lease term. Clear title to and right of possession of the leased property will transfer to the School District upon the expiration of the ground lease term. The School District’s obligation to pay lease payments does not constitute a debt of the School District within the meaning of any constitutional or statutory limitation. Certificate payments will be made solely from amounts derived under the lease, including lease payments.

The Series 2015 Certificates maturing on or after March 1, 2021 are subject to prior redemption on any date, by and at the sole option of the Board, in whole or in part as selected by the Board (in whole multiples of \$5,000), on or after March 1, 2020, at a redemption price equal to 100 percent of the principal amount redeemed, plus interest accrued to the redemption date. Any Term Series 2015 Certificates are subject to mandatory sinking fund redemption. The Certificates are also subject to special redemption. The proceeds received from the sale of the Series 2015 Certificates will be used (a) to provide for the acquisition, construction, enlarging and other improvement, furnishing and equipping and lease and eventual acquisition of a school building and building site for a new technical career school, and (b) to pay costs relating to the sale of the Series 2015 Certificates.

The current Lease Term commenced as of July 1, 2015 and expires on June 30, 2016. Each renewal of the Lease will be for a renewal Lease Term (Renewal Term) beginning July 1 and ending June 30 of the subsequent year, except that the final Renewal Term will end on March 1, 2040.

Payments will be made on the lease from the debt service fund.

**Willoughby-Eastlake City School District**  
**Lake County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2016*

The following is a schedule of the future long term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2016:

Year ending June 30,		
2017	\$	1,645,617
2018		1,641,568
2019		1,878,699
2020		2,123,324
2021		2,121,586
2022-2026		14,628,506
2027-2031		10,475,922
2032-2036		11,287,827
2037-2041		10,284,913
2042-2043		834,963
		<u>56,922,925</u>
Less amount representing interest		<u>24,487,925</u>
Present value of minimum lease payments	\$	<u><u>32,435,000</u></u>

**Note 16 - Set-Asides**

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years.

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

	<u>Capital</u> <u>Improvements</u>
Set-Aside Restricted Balance June 30, 2015	\$ 0
Current Year Set-Aside Requirement	1,386,670
Current Year Offsets	<u>(2,825,324)</u>
Total	<u>\$ (1,438,654)</u>
Set-Aside Balance Carried Forward to Fiscal Year 2017	<u>\$ 0</u>
Set-Aside Restricted Balance June 30, 2016	<u><u>\$ 0</u></u>

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

**Willoughby-Eastlake City School District**  
**Lake County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2016*

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**Note 17 – Jointly Governed Organizations**

***META Solutions***

The School District is a participant in META (Metropolitan Educational Technology Association) Solutions. META Solutions is an association of public school districts throughout Ohio. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of META Solutions consists of the superintendent from 11 member districts. During fiscal year 2016, the School District paid \$82,222 to META Solutions for various services. Financial information can be obtained from the Metropolitan Educational Technology Association, 100 Executive Drive, Marion, Ohio 43302.

***The Ohio Schools Council***

The Ohio Schools Council (Council) is a jointly governed organization among 200 school districts, educational service centers and joint vocational schools. The jointly governed organization was formed to purchase quality products and services at the lowest possible cost to the member districts. Each district supports the Council by paying an annual participation fee. The Council's board consists of seven superintendents of the participating districts whose term rotates every year. The degree of control exercised by any school district is limited to its representation on the board. In fiscal year 2016, the School District paid \$33,064 to the Council. Financial information can be obtained by contacting William Zelei, Executive Director of the Ohio Schools Council at 6393 Oak Tree Blvd., Suite 377, Independence, Ohio 44131.

The School District participates in the natural gas purchase program. This program allows the School District to purchase natural gas at reduced rates. Compass Energy has been selected as the new supplier and program manager for the period from October 1, 2010 through March 31, 2016. There are currently 151 participants in the program. The participants make monthly payments based on estimated usage. Each September, these estimated payments are compared to their actual usage for the year (July to June). Districts that paid more in estimated billings than their actual billings are issued credits on future billings in September until the credits are exhausted and districts that did pay enough on estimated billings are invoiced for the difference on the September monthly estimated billing.

**Note 18 – Related Organization**

The Willoughby-Eastlake Public Library (the Library) is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Willoughby-Eastlake City School District Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel and does not depend on the School District for operational subsidies. Although the School District does serve as the taxing authority and may issue tax related debt on behalf of the Library, its role is limited to ministerial function. The determination to request approval of a tax, the rate and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the Willoughby-Eastlake Public Library, Ms. Victoria Simmons, Fiscal Officer, at 35150 Lakeshore Blvd., Eastlake, Ohio 44095.

**Willoughby-Eastlake City School District**  
**Lake County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2016*

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**Note 19 – Significant Commitments**

***Contractual Commitments***

At June 30, 2016, the School District had the following contractual commitments:

	Amount of Contract	Expenditures as of 6/30/2016	Amount Remaining
Roof Replacements	\$ 1,150,000	\$ 325,428	\$ 824,572
Northern Career Institute - Seitz Builders	3,206,000	2,098,084	1,107,916
	<b>\$ 4,356,000</b>	<b>\$ 2,423,512</b>	<b>\$ 1,932,488</b>

***Encumbrance Commitments***

Outstanding encumbrances for governmental funds include \$1,918,143 for the general fund, \$634,617 for the building fund and \$86,028 for nonmajor governmental funds.

**Note 20 - Contingencies**

***Grants***

The School District received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2016, if applicable, cannot be determined at this time.

***Litigation***

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

***School District Funding***

School district Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the school districts, which can extend past the fiscal year end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2015 or June 30, 2016 Foundation funding for the School District; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or liability of the School District.

**Willoughby-Eastlake School District**  
**Lake County, Ohio**  
*Required Supplementary Information*  
*Schedule of the School District's Proportionate Share of the Net Pension Liability*  
*Last Three Fiscal Years (1)*

	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b><i>State Teachers Retirement System (STRS)</i></b>			
School District's Proportion of the Net Pension Liability	0.38995379%	0.38491924%	0.38491924%
School District's Proportionate Share of the Net Pension Liability	\$ 107,771,821	\$ 93,625,680	\$ 111,526,298
School District's Covered-Employee Payroll	\$ 41,219,850	\$ 38,997,438	\$ 37,928,138
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	261.46%	240.08%	294.05%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.10%	74.70%	69.30%
<b><i>School Employees Retirement System (SERS)</i></b>			
School District's Proportion of the Net Pension Liability	0.43769250%	0.43083900%	0.43083900%
School District's Proportionate Share of the Net Pension Liability	\$ 24,975,158	\$ 21,804,516	\$ 25,620,613
School District's Covered-Employee Payroll	\$ 9,842,716	\$ 9,852,128	\$ 11,251,987
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	253.74%	221.32%	227.70%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.16%	71.70%	65.52%

(1) Information prior to 2013 is not available.

Note: The amounts presented for each fiscal year were determined as of the measurement date.

**Willoughby-Eastlake School District**  
**Lake County, Ohio**  
*Required Supplementary Information*  
*Schedule of School District Contributions*  
*Last Ten Fiscal Years*

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b><i>State Teachers Retirement System (STRS)</i></b>				
Contractually Required Contribution	\$ 5,872,600	\$ 5,770,779	\$ 5,069,667	\$ 4,930,658
Contributions in Relation to the Contractually Required Contribution	<u>(5,872,600)</u>	<u>(5,770,779)</u>	<u>(5,069,667)</u>	<u>(4,930,658)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
School District's Covered-Employee Payroll	\$ 41,947,143	\$ 41,219,850	\$ 38,997,438	\$ 37,928,138
Contributions as a Percentage of Covered-Employee Payroll	14.00%	14.00%	13.00%	13.00%
 <b><i>School Employees Retirement System (SERS)</i></b>				
Contractually Required Contribution	\$ 1,461,599	\$ 1,297,270	\$ 1,365,505	\$ 1,557,275
Contributions in Relation to the Contractually Required Contribution	<u>(1,461,599)</u>	<u>(1,297,270)</u>	<u>(1,365,505)</u>	<u>(1,557,275)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
School District's Covered-Employee Payroll	\$ 10,439,993	\$ 9,842,716	\$ 9,852,128	\$ 11,251,987
Contributions as a Percentage of Covered-Employee Payroll	14.00%	13.18%	13.86%	13.84%



<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 5,714,742	\$ 5,582,155	\$ 5,783,819	\$ 5,471,210	\$ 5,581,680	\$ 5,003,531
<u>(5,714,742)</u>	<u>(5,582,155)</u>	<u>(5,783,819)</u>	<u>(5,471,210)</u>	<u>(5,581,680)</u>	<u>(5,003,531)</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$ 43,959,554	\$ 42,939,654	\$ 44,490,915	\$ 42,086,231	\$ 42,936,000	\$ 38,488,700
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%
\$ 2,039,231	\$ 1,731,881	\$ 1,968,459	\$ 1,418,233	\$ 1,942,314	\$ 1,250,518
<u>(2,039,231)</u>	<u>(1,731,881)</u>	<u>(1,968,459)</u>	<u>(1,418,233)</u>	<u>(1,942,314)</u>	<u>(1,250,518)</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$ 15,161,569	\$ 13,777,892	\$ 14,538,102	\$ 14,412,937	\$ 19,779,165	\$ 11,708,970
13.45%	12.57%	13.54%	9.84%	9.82%	10.68%

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**WILLOUGHBY-EASTLAKE CITY SCHOOL DISTRICT  
LAKE COUNTY**

**FEDERAL AWARDS EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2016**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Expenditures
<b>U.S. DEPARTMENT OF AGRICULTURE</b>		
<i>Passed Through Ohio Department of Education:</i>		
<u>Child Nutrition Cluster:</u>		
School Breakfast Program	10.553	\$234,524
National School Lunch Program	10.555	1,100,434
National School Lunch Program - Non cash Assistance	10.555	110,603
Total - National School Lunch Program		1,211,037
<b>Total - U.S. Department of Agriculture / Child Nutrition Cluster</b>		<b>1,445,561</b>
<b>U.S. DEPARTMENT OF EDUCATION</b>		
<i>Direct Programs:</i>		
<u>Student Financial Aid Cluster:</u>		
Federal Pell Grant Program	84.063	447,504
Federal Direct Student Loans	84.268	840,651
Total - Student Financial Aid Cluster		1,288,155
<i>Passed Through the Mentor Exempted Village School District:</i>		
Career and Technical Education - Basic Grants to States	84.048	989
		21,309
Total - Career and Technical Education - Basic Grants to States		22,298
<i>Passed Through the Lake County General Health District:</i>		
Carol M. White Physical Education Program	84.215F	3,736
<i>Passed Through Ohio Department of Education:</i>		
Title I Grants to Local Educational Agencies	84.010	214,822
		1,061,579
Total - Title I Grants to Local Educational Agencies		1,276,401
<u>Special Education Cluster:</u>		
Special Education--Grants to States	84.027	215,277
		1,573,145
Total - Special Education--Grants to States		1,788,422
Special Education--Preschool Grants	84.173	5,459
		38,923
Total - Special Education--Preschool Grants		44,382
Total - Special Education Cluster		1,832,804
Improving Teacher Quality - State Grants	84.367	11,801
		122,324
Total - Improving Teacher Quality - State Grants		134,125
English Language Acquisition Grant (Title III)	84.365	9,429
		20,071
Total - English Language Acquisition Grant (Title III)		29,500
School Safety National Activities	84.184	48,339
		20,669
Total - School Safety National Activities		69,008
<b>Total - U.S. Department of Education</b>		<b>4,656,027</b>
<b>U.S. DEPARTMENT OF LABOR</b>		
<i>Passed Through the Lake County Department of Job and Family Services</i>		
<i>Employment and Training Services</i>		
Workforce Investment Act (WIA) Youth Activities	17.259	12,702
<b>Total - U.S. Department of Labor</b>		<b>12,702</b>
<b>Total - Federal Financial Assistance</b>		<b>\$6,114,290</b>

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

**WILLOUGHBY-EASTLAKE CITY SCHOOL DISTRICT  
LAKE COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE  
2 CFR 200.510(b)(6)  
FOR THE YEAR ENDED JUNE 30, 2016**

**NOTE A – BASIS OF PRESENTATION**

The accompanying Federal Awards Expenditures Schedule (the Schedule) includes the federal award activity of the Willoughby-Eastlake City School District, Lake County, Ohio, (the District) under programs of the federal government for the year ended June 30, 2016. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the District.

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

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. The District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**NOTE C - CHILD NUTRITION CLUSTER**

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

**NOTE D – FOOD DONATION PROGRAM**

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

**NOTE E - TRANSFERS BETWEEN PROGRAM YEARS**

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

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amt. Transferred</u>
Title I Grants to Local Educational Agencies - FY 2015 to FY 2016	84.010	\$973
School Safety National Activities - FY 2016 to FY 2017	84.184	62,229



# Dave Yost • Auditor of State

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

Willoughby-Eastlake City School District  
Lake County  
37047 Ridge Road  
Willoughby, Ohio 44094

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Willoughby-Eastlake City School District, Lake County, Ohio, (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 14, 2017.

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

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

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

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

***Compliance and Other Matters***

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

***Purpose of this Report***

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

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

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

February 14, 2017



# Dave Yost • Auditor of State

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

Willoughby-Eastlake City School District  
Lake County  
37047 Ridge Road  
Willoughby-Eastlake, Ohio 44094

To the Board of Education:

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

We have audited the Willoughby-Eastlake City School District's (the District) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect each of the Willoughby-Eastlake City School District's major federal programs for the year ended June 30, 2016. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the District's major federal programs.

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

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

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

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

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

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

In our opinion, the Willoughby-Eastlake City School District, Lake County, Ohio, complied, in all material respects with the compliance requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2016.

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

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

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

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

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



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

February 14, 2017



**WILLOUGHBY-EASTLAKE CITY SCHOOL DISTRICT  
LAKE COUNTY**

**SCHEDULE OF FINDINGS  
2 CFR § 200.515  
JUNE 30, 2016**

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

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unmodified
<b>(d)(1)(ii)</b>	<b>Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(ii)</b>	<b>Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iii)</b>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any material weaknesses in internal control reported for major federal programs?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any significant deficiencies in internal control reported for major federal programs?</b>	No
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Unmodified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under 2 CFR § 200.516(a)?</b>	No
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	<ul style="list-style-type: none"> <li>➤ Title I Grants to Local Educational Agencies, CFDA 84.010;</li> <li>➤ Improving Teacher Quality – State Grants, CFDA 84.367.</li> </ul>
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$750,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee under 2 CFR §200.520?</b>	Yes

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

None

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

None

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# Dave Yost • Auditor of State

**WILLOUGHBY – EASTLAKE CITY SCHOOL DISTRICT**

**LAKE COUNTY**

## **CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MARCH 7, 2017**