# FAIRPORT HARBOR EXEMPTED VILLAGE SCHOOL DISTRICT
**LAKE COUNTY, OHIO**

**AUDIT REPORT**

**FOR THE FISCAL YEAR ENDED**
**JUNE 30, 2015**


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

# Dave Yost · Auditor of State

Board of Education
Fairport Harbor Exempted Village School District
329 Vine Street
Fairport Harbor, Ohio 44077

We have reviewed the Independent Auditor's Report of the Fairport Harbor Exempted Village School District, Lake County, prepared by James G. Zupka, CPA, Inc., for the audit period July 1, 2014 through June 30, 2015. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Dave Yost
Auditor of State

May 10, 2017

This page intentionally left blank.

# FAIRPORT HARBOR EXEMPTED VILLAGE SCHOOL DISTRICT
# LAKE COUNTY, OHIO
# AUDIT REPORT
# FOR THE FISCAL YEAR ENDED JUNE 30, 2015

TABLE OF CONTENTS

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

*Certified Public Accountants*
*5240 East 98th Street*
*Garfield Hts., Ohio 44125*

Member American Institute of Certified Public Accountants (216) 475 – 6136 Ohio Society of Certified Public Accountants


## INDEPENDENT AUDITOR'S REPORT

Board of Education
Fairport Harbor Exempted Village School District
Fairport Harbor, Ohio

The Honorable Dave Yost
Auditor of State
State of Ohio

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Fairport Harbor Exempted Village School District, Lake County, Ohio, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash accounting basis described in Note 2; this includes determining that the cash accounting basis is an acceptable basis for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

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

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

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

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Fairport Harbor Exempted Village School District, Ohio, as of June 30, 2015, and the respective changes in cash financial position, and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the basis of accounting described in Note 2.

***Accounting Basis***

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

***Other Matters***

*Other Information*

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2017, on our consideration of the Fairport Harbor Exempted Village School District, Ohio's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fairport Harbor Exempted Village School District, Ohio's internal control over financial reporting and compliance.

James G. Zupka, CPA, President

Digitally signed by James G. Zupka, CPA, President
DN: cn=James G. Zupka, CPA, President, o=James G. Zupka, CPA, Inc., ou=Accounting, email=jgzcpa@sbcglobal.net, c=US
Date: 2017.01.31 16:09:57 -05'00'

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

January 27, 2017

*This page intentionally left blank.*

## Management Discussion and Analysis

## For the Fiscal Year Ended June 30, 2015

The discussion and analysis of the Fairport Harbor Exempted Village School District's (the District) financial performance provides an overall review of the District's financial activities for the year ended June 30, 2015, within the limitation of the District’s cash basis accounting. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

### Financial Highlights

Key financial highlights for 2015 are:

- Net position of governmental activities decreased by $160,018.

- General receipts accounted for $4,635,598 of all receipts or 75.3 percent of all receipts. Program specific receipts in the form of charges for services and operating grants and contributions accounted for $1,522,140 or 24.7 percent of total receipts of $6,157,738.

- The District had $6,317,756 in disbursements related to governmental activities; $1,522,140 of these disbursements was offset by program specific charges for services and operating grants and contributions.

- The General Fund had $5,937,144 (includes other financing sources) in receipts and $5,651,522 (includes other financing uses) in disbursements. The General Fund’s balance increased to $1,114,833 from $829,211.

### Using this Annual Financial Report

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

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

## Management Discussion and Analysis

## For the Fiscal Year Ended June 30, 2015

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

*Statement of Net Position and Statement of Activities*

While this document contains information about the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2015?" The Statement of Net Position and Statement of Activities answer this question, within the limitation of the District's cash basis accounting. These statements use the cash basis method of accounting.

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

In the Statement of Net Position and Statement of Activities, the District only reports governmental activities. Governmental activities are the activities where most of the District's programs and services are reported including, but not limited to, instruction, supporting services, operation and maintenance of plant, pupil transportation, and extracurricular activities.

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

*Fund Financial Statements*

The analysis of the District's major funds begins on page 9 of the financial statements. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental fund is the General Fund.

*Governmental Funds* Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using the cash basis method of accounting. The governmental fund statements provide a detailed *view* of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent to finance educational programs.

**Management Discussion and Analysis**

**For the Fiscal Year Ended June 30, 2015**

### The District as a Whole

Recall that the Statement of Net Position provides the perspective of the District as a whole. Table 1 provides a summary of the District's net position for 2015 compared to 2014:

**Table 1 - Net Position**

| | Governmental Activities | |
|---|---|---|
| | **2015** | **2014** |
| **ASSETS** | | |
| Equity in Pooled Cash and Cash Equivalents | $ 546,100 | $ 706,118 |
| **Total Assets** | 546,100 | 706,118 |
| | | |
| **NET POSITION** | | |
| Restricted for: | | |
| Special Revenue | 57,925 | 0 |
| Capital Projects | 4,600 | 30,569 |
| Set Asides | 66,266 | 53,587 |
| Unrestricted | 417,309 | 621,962 |
| | | |
| **Total Net Position** | $ 546,100 | $ 706,118 |

Total assets decreased by $160,018, which is solely related to decreased cash and cash equivalents. Net position of the District decreased by $160,018.

## Management Discussion and Analysis

## For the Fiscal Year Ended June 30, 2015

Table 2 shows the changes in net position for fiscal year 2015 and also presents a comparative analysis to fiscal year 2014 for governmental activities.

**Table 2 - Change in Net Position**

| | Governmental Activities | |
|---|---|---|
| | 2015 | 2014 |
| **Receipts** | | |
| Program Receipts | | |
| Charges for Services | $ 1,334,660 | $ 1,141,568 |
| Operating Grants and Contributions | 187,480 | 793,979 |
| Total Program Receipts | 1,522,140 | 1,935,547 |
| General Receipts | | |
| Property and Other Local Taxes levied for: | | |
| General Purposes | 2,751,451 | 2,579,582 |
| Grants & Entitlements not restricted to specific programs | 1,800,826 | 1,654,197 |
| Investment Income | 0 | 43 |
| All Other Revenues | 83,321 | 114,286 |
| Total General Receipts | 4,635,598 | 4,348,108 |
| **Total Receipts** | 6,157,738 | 6,283,655 |
| **Disbursements** | | |
| Instruction: | | |
| Regular | 2,684,428 | 2,523,394 |
| Special | 668,271 | 747,397 |
| Other | 357,076 | 280,987 |
| Supporting Services: | | |
| Pupils | 318,391 | 483,410 |
| Instructional Staff | 125,933 | 183,056 |
| Board of Education | 25,435 | 25,430 |
| Administration | 548,149 | 509,644 |
| Fiscal Services | 210,897 | 128,929 |
| Business | 23,665 | 3,096 |
| Operation and Maintenance of Plant | 1,016,679 | 704,656 |
| Pupil Transportation | 16,056 | 22,491 |
| Central | 67,460 | 36,605 |
| Operation of Non-Instructional Services | 22,601 | 20,053 |
| Extracurricular Activities | 232,715 | 261,325 |
| Debt Service: | | |
| Principal Retirement | 0 | 80,000 |
| Interest and Fiscal Charges | 0 | 2,791 |
| **Total Disbursements** | 6,317,756 | 6,013,264 |
| Change in Net Position | (160,018) | 270,391 |
| Net Position at July 1 | 706,118 | 435,727 |
| **Net Position at June 30** | $ 546,100 | $ 706,118 |

## Management Discussion and Analysis

## For the Fiscal Year Ended June 30, 2015

### *Governmental Activities*

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

Thus, school districts dependent upon property taxes are hampered by a lack of receipts growth and must regularly return to the voters to maintain a constant level of service. Property taxes made up 44.7 percent of receipts for governmental activities for the District in fiscal year 2015.

Instruction comprises 58.7 percent of governmental program disbursements, and increased by $157,997 as a result of higher regular and other instructional costs. Supporting Services - Operation and Maintenance of Plant increased $312,023 due to increased costs in utilities, insurance and general contract maintenance. Supporting Services - Pupils decreased $165,019 as a result of disbursements relating to the Race to the Top Grant.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax receipts and unrestricted State entitlements. A comparative analysis of 2015 to 2014 is presented.

**Table 3 - Comparison of Total Cost and Net Cost of Services**

| | Total Cost of Services | | Net Cost of Services | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Instruction: | | | | |
| Regular | $ 2,684,428 | $ 2,523,394 | $ (1,571,845) | $ (1,597,594) |
| Special | 668,271 | 747,397 | (332,770) | (227,024) |
| Other | 357,076 | 280,987 | (357,076) | (280,987) |
| Supporting Services: | | | | |
| Pupils | 318,391 | 483,410 | (273,847) | (200,118) |
| Instructional Staff | 125,933 | 183,056 | (115,515) | (28,651) |
| Board of Education | 25,435 | 25,430 | (25,435) | (25,430) |
| Administration | 548,149 | 509,644 | (548,149) | (509,644) |
| Fiscal Services | 210,897 | 128,929 | (210,897) | (128,929) |
| Business | 23,665 | 3,096 | (23,665) | (3,096) |
| Operation and Maintenance of Plant | 1,016,679 | 704,656 | (1,016,679) | (704,656) |
| Pupil Transportation | 16,056 | 22,491 | (16,056) | 10,963 |
| Central | 67,460 | 36,605 | (67,460) | (36,605) |
| Operation of Non-Instructional Services | 22,601 | 20,053 | (22,601) | (20,053) |
| Extracurricular Activities | 232,715 | 261,325 | (213,621) | (243,102) |
| Debt Service: | | | | 0 |
| Principal Retirement | 0 | 80,000 | 0 | (80,000) |
| Interest and Fiscal Charges | 0 | 2,791 | 0 | (2,791) |
| Total Governmental Activities | $ 6,317,756 | $ 6,013,264 | $ (4,795,616) | $ (4,077,717) |

## Management Discussion and Analysis

## For the Fiscal Year Ended June 30, 2015

### The District's Funds

The District's governmental funds are accounted for using the cash basis of accounting. All governmental funds had total receipts of $6,207,738 (includes other financing sources) and disbursements of $6,367,756 (includes other financing uses). The net change in fund balance for the year was most significant in the General Fund, an increase of $285,622. This increase was a result of increase in tuition collected during the year.

### *General Fund Budgeting Highlights*

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

For the General Fund, the original budget basis receipts of $6,452,069 (including other financing sources) was decreased in the final budget basis receipts to $6,275,558. During fiscal year 2015, the District's final budget basis receipts for property tax receipts was $2,925,558.

The original appropriations of $5,196,849 (including other financing uses) was increased in the final budget basis appropriations to $6,261,849.

### Economic Factors

The District is dependent on its local taxpayers. Based on the current financial information, the budget cuts enacted for fiscal year 2015, and the ability to maintain current program and staffing levels, the District will be able to maintain financial stability.

Based on these factors, the Board of Education and administration of the District must maintain careful financial planning and prudent fiscal management in order to preserve the financial stability of the District, as well as careful planning to ensure that significant outlays may be made in the future to address the District's facility's needs.

### Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional information, contact Lew Galante, Treasurer at Fairport Harbor Exempted Village School District, 329 Vine Street, Fairport Harbor, Ohio 44077 or email at lew.galante@fairportharborschools.org

**Statement of Net Position – Cash Basis**

**June 30, 2015**

| | Governmental Activities |
|---|---|
| **ASSETS** | |
| Equity in Pooled Cash and Cash Equivalents | $ 546,100 |
| **Total Assets** | 546,100 |
| | |
| **NET POSITION** | |
| Restricted for: | |
| Special Revenue | 57,925 |
| Capital Projects | 4,600 |
| Set Asides | 66,266 |
| Unrestricted | 417,309 |
| | |
| **Total Net Position** | $ 546,100 |

See accompanying notes to the basic financial statements.

## Statement of Activities - Cash Basis

## For the Fiscal Year Ended June 30, 2015

| | Cash Disbursements | Program Cash Receipts: Charges for Services | Program Cash Receipts: Operating Grants and Contributions | Net (Disbursements) Receipts and Changes in Net Governmental Activities |
|---|---|---|---|---|
| **Governmental Activities** | | | | |
| Instruction: | | | | |
| Regular | $ 2,684,428 | $ 1,112,583 | $ 0 | $ (1,571,845) |
| Special | 668,271 | 203,383 | 132,118 | (332,770) |
| Other | 357,076 | 0 | 0 | (357,076) |
| Supporting Services: | | | | |
| Pupils | 318,391 | 0 | 44,544 | (273,847) |
| Instructional Staff | 125,933 | 0 | 10,418 | (115,515) |
| Board of Education | 25,435 | 0 | 0 | (25,435) |
| Administration | 548,149 | 0 | 0 | (548,149) |
| Fiscal Services | 210,897 | 0 | 0 | (210,897) |
| Business | 23,665 | 0 | 0 | (23,665) |
| Operation and Maintenance of Plant | 1,016,679 | 0 | 0 | (1,016,679) |
| Pupil Transportation | 16,056 | 0 | 0 | (16,056) |
| Central | 67,460 | 0 | 0 | (67,460) |
| Operation of Non-Instructional Services | 22,601 | 0 | 0 | (22,601) |
| Extracurricular Activities | 232,715 | 18,694 | 400 | (213,621) |
| Total | $ 6,317,756 | $ 1,334,660 | $ 187,480 | (4,795,616) |

| | |
|---|---|
| **General Receipts** | |
| Property and Other Local Taxes levied for: | |
| General Purposes | 2,751,451 |
| Grants & Entitlements not restricted to specific programs | 1,800,826 |
| All Other Revenues | 83,321 |
| **Total General Receipts** | 4,635,598 |
| Change in Net Position | (160,018) |
| Net Position - Beginning of Year | 706,118 |
| **Net Position - End of Year** | $ 546,100 |

See accompanying notes to the basic financial statements.

**Statement of Assets and Fund Balances - Cash Basis**
**Governmental Funds**
**June 30, 2015**

| | General Fund | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|
| **ASSETS** | | | |
| Equity in Pooled Cash and Cash Equivalents | $ 1,114,833 | $ (569,648) | $ 545,185 |
| **Total Assets** | $ 1,114,833 | $ (569,648) | $ 545,185 |
| | | | |
| **Fund Balances** | | | |
| *Restricted for* | | | |
| Data Communication | $ 0 | $ 14,988 | $ 14,988 |
| Special Education | 0 | 1,541 | 1,541 |
| Disadvantaged Children | 0 | 6,028 | 6,028 |
| Drug Abuse Education | 0 | 1,800 | 1,800 |
| Teacher Development | 0 | 38 | 38 |
| Capital Improvements | 0 | 4,600 | 4,600 |
| Other Grants | 0 | 33,530 | 33,530 |
| Set Aside Balances | 66,266 | 0 | 66,266 |
| *Assigned to* | | | |
| Public School Support | 1,170 | 0 | 1,170 |
| Instructional Activities | 83,345 | 0 | 83,345 |
| Supporting Services | 168,395 | 0 | 168,395 |
| Extracurricular Activities | 23,126 | 0 | 23,126 |
| *Unassigned (Deficit)* | 772,531 | (632,173) | 140,358 |
| **Total Fund Balances** | $ 1,114,833 | $ (569,648) | 545,185 |
| | | | |
| Adjustment to reflect the consolidation of internal service fund activities | | | 915 |
| | | | $ 546,100 |

See accompanying notes to the basic financial statements.

# Statement of Cash Receipts, Disbursements and Changes in Fund Balances - Cash Basis
## Governmental Funds
## For the Fiscal Year Ended June 30, 2015

| | General Fund | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|
| **Receipts** | | | |
| Taxes | $ 2,751,451 | $ 0 | $ 2,751,451 |
| Intergovernmental | 1,800,826 | 187,080 | 1,987,906 |
| Tuition and Fees | 1,309,406 | 0 | 1,309,406 |
| Extracurricular Activity Fees | 1,137 | 24,117 | 25,254 |
| Contributions and Donations | 0 | 400 | 400 |
| Miscellaneous | 74,324 | 8,997 | 83,321 |
| **Total Receipts** | 5,937,144 | 220,594 | 6,157,738 |
| **Disbursements** | | | |
| Current: | | | |
| Instruction: | | | |
| Regular | 2,678,363 | 6,065 | 2,684,428 |
| Special | 492,518 | 175,753 | 668,271 |
| Other | 357,076 | 0 | 357,076 |
| Supporting Services: | | | |
| Pupils | 238,191 | 80,200 | 318,391 |
| Instructional Staff | 105,613 | 20,320 | 125,933 |
| Board of Education | 25,435 | 0 | 25,435 |
| Administration | 548,149 | 0 | 548,149 |
| Fiscal Services | 210,897 | 0 | 210,897 |
| Business | 23,665 | 0 | 23,665 |
| Operation and Maintenance of Plant Services | 643,610 | 373,069 | 1,016,679 |
| Pupil Transportation | 16,056 | 0 | 16,056 |
| Central | 67,460 | 0 | 67,460 |
| Operation of Non-Instructional Services | 22,601 | 0 | 22,601 |
| Extracurricular Activities | 171,888 | 60,827 | 232,715 |
| **Total Disbursements** | 5,601,522 | 716,234 | 6,317,756 |
| Excess of Receipts Over(Under) Disbursments | 335,622 | (495,640) | (160,018) |
| **Other Financing Sources (Uses)** | | | |
| Transfer In | 0 | 50,000 | 50,000 |
| (Transfer Out) | (50,000) | 0 | (50,000) |
| **Total Other Financing Sources (Uses)** | (50,000) | 50,000 | 0 |
| **Net Change in Fund Balance** | 285,622 | (445,640) | (160,018) |
| Beginning Fund Balance | 829,211 | (124,008) | 705,203 |
| **Ending Fund Balance** | $ 1,114,833 | $ (569,648) | $ 545,185 |

See accompanying notes to the basic financial statements.

**Statement of Receipts, Disbursements and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual – General Fund For the Fiscal Year Ended June 30, 2015**

| | Budgeted Amounts | | | Variance with Final Budget Positive |
|---|---|---|---|---|
| | Original | Final | Actual | (Negative) |
| **Receipts** | | | | |
| Taxes | $2,925,558 | $ 2,925,558 | $ 2,751,451 | $ (174,107) |
| Intergovernmental | 1,995,596 | 1,895,711 | 1,800,826 | (94,885) |
| Tuition and Fees | 1,451,026 | 1,378,398 | 1,309,406 | (68,992) |
| Miscellaneous | 79,889 | 75,891 | 72,092 | (3,799) |
| **Total Receipts** | 6,452,069 | 6,275,558 | 5,933,775 | (341,783) |
| **Disbursements** | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 2,450,789 | 2,890,983 | 2,733,734 | 157,249 |
| Special | 512,446 | 543,314 | 513,762 | 29,552 |
| Other | 269,748 | 384,733 | 363,806 | 20,927 |
| Supporting Services: | | | | |
| Pupils | 221,580 | 257,593 | 243,582 | 14,011 |
| Instructional Staff | 46,165 | 128,585 | 121,591 | 6,994 |
| Board of Education | 24,638 | 27,136 | 25,660 | 1,476 |
| Administration | 503,798 | 633,033 | 598,601 | 34,432 |
| Fiscal Services | 133,948 | 234,222 | 221,482 | 12,740 |
| Business | 2,973 | 25,026 | 23,665 | 1,361 |
| Operation and Maintenance of Plant Services | 652,661 | 708,493 | 669,956 | 38,537 |
| Pupil Transportation | 55,347 | 77,258 | 73,056 | 4,202 |
| Central | 30,341 | 71,340 | 67,460 | 3,880 |
| Operation of Non-Instructional Services | 19,251 | 23,901 | 22,601 | 1,300 |
| Extracurricular Activities | 193,685 | 206,232 | 195,014 | 11,218 |
| **Total Disbursements** | 5,117,370 | 6,211,849 | 5,873,970 | 337,879 |
| Excess of Receipts Over(Under) Disbursments | 1,334,699 | 63,709 | 59,805 | (3,904) |
| **Other Financing Sources (Uses)** | | | | |
| (Transfer Out) | (79,479) | (50,000) | (50,000) | 0 |
| **Total Other Financing Sources (Uses)** | (79,479) | (50,000) | (50,000) | 0 |
| **Net Change in Fund Balance** | 1,255,220 | 13,709 | 9,805 | (3,904) |
| Fund Balance - Beginning of Year | 720,161 | 720,161 | 720,161 | 0 |
| Prior Year Encumbrances Appropriated | 108,831 | 108,831 | 108,831 | 0 |
| **Fund Balance - End of Year** | $2,084,212 | $ 842,701 | $ 838,797 | $ (3,904) |

See accompanying notes to the basic financial statements.

**Statement of Fund Net Position – Cash Basis**
**Proprietary Fund**
**June 30, 2015**

| | Governmental Activities - Internal Service Fund |
|---|---|
| **ASSETS** | |
| Equity in Pooled Cash and Cash Equivalents | $ 915 |
| **Total Assets** | 915 |
| | |
| **NET POSITION** | |
| Unrestricted | 915 |
| **Total Net Position** | $ 915 |

See accompanying notes to the basic financial statements.

**Statement of Cash Receipts, Disbursements and Changes in Fund Net Position – Cash Basis**
**Proprietary Fund**
**For the Fiscal Year Ended June 30, 2015**

| | Governmental Activities - Internal Service Fund |
|---|---|
| **Operating Receipts** | |
| **Operating Disbursements** | |
| **Change in Net Position** | $ 0 |
| Beginning Net Position | 915 |
| **Ending Net Position** | $ 915 |

See accompanying notes to the basic financial statements.

**Statement of Fiduciary Net Position – Cash Basis**
**Fiduciary Funds**
**June 30, 2015**

| | Private Purpose Trust | Agency |
|---|---|---|
| **ASSETS** | | |
| Equity in Pooled Cash and Cash Equivalents | $ 24,493 | $ 32,397 |
| | | |
| **NET POSITION** | | |
| Held in Trust for Scholarships | 24,493 | $ 0 |
| Held on Behalf of : | | |
| Others | 0 | 2,026 |
| Students | 0 | 30,371 |
| **Total Net Position** | $ 24,493 | $ 32,397 |

See accompanying notes to the basic financial statements.

**Statement of Changes in Fiduciary Net Position – Cash Basis**
**Fiduciary Funds**
**For the Fiscal Year Ended June 30, 2015**

| | Private Purpose Trust |
|---|---|
| **Additions** | |
| Miscellaneous | $ 8,018 |
| | |
| **Deductions** | |
| Purchased Services | 2,338 |
| | |
| Change in Net Position | 5,680 |
| | |
| Net Position - Beginning of Year | 18,813 |
| **Net Position - End of Year** | $ 24,493 |

See accompanying notes to the basic financial statements.

## Notes to the Basic Financial Statements

## For the Fiscal Year Ended June 30, 2015

NOTE 1: **REPORTING ENTITY**

Fairport Harbor Exempted Village School District (the "District") is organized under Article VI, Section 2 of the Constitution of the State of Ohio. The District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The District provides educational services as authorized by state statute and federal guidelines.

The legislative power of the District is vested in the Board of Education, consisting of five members elected at large for staggered four-year terms and provides educational services as mandated by State or federal agencies. The Board controls the District's two educational facilities consisting of one elementary school (K-5) and one high school (6-12).

The reporting entity is composed of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading.

A. **Primary Government**

The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For the District, this includes the agencies and departments that provide the following services: general operations, food service and student related activities of the District.

B. **Component Units**

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the District is obligated for the debt of the organization. The District is also financially accountable for any organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes. Component units also include legally separate, tax-exempt entities whose resources are for the direct benefit of the District, are accessible to the District and are significant in amount to the District. The District has no component units.

The District is associated with three jointly governed organizations, a claims servicing pool, a related organization and an insurance purchasing pool. These organizations are the Lake Geauga Computer Association, the Auburn Career Center, the Ohio Schools Council Association, the Lake County Council of Governments Health Care Benefits Self-Insurance Program, the Fairport Harbor Public Library and the Ohio School Boards' Association Workers' Compensation Group Rating Program which are presented in Notes 13, 14, 15 and 16 to the basic financial statements.

The District's management believes these financial statements present all activities for which the District is financially accountable.

## Notes to the Basic Financial Statements

## For the Fiscal Year Ended June 30, 2015

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

As discussed further in Note 2 C, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting.

A. **Basis of Presentation**

The District's basic financial statements consist of government-wide financial 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 District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental in nature and those that are considered business-type activities. Governmental activities generally are financed through taxes, intergovernmental receipts or other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. The District does not have any business-type activities.

The statement of net position presents the cash balance of the governmental activities of the District at fiscal year-end. The statement of activities compares disbursements with program receipts for each function or program of the District's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the government is responsible. Program receipts include charges paid by the recipient of the program's goods or services, grants and contributions restricted to meeting the operational or capital requirements of a particular program, and receipts of interest earned on grants that are required to be used to support a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a cash basis or draws from the District's general receipts.

***Fund Financial Statements*** During the fiscal year, the District segregates transactions related to certain 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 District at this more detailed level. The focus of governmental and proprietary 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. Fiduciary funds are reported by type.

Proprietary fund financial statements distinguish operating transactions from nonoperating transactions. Operating receipts generally result from exchange transactions such as charges for services directly relating to the fund's principal services. Operating disbursements include costs of sales and services and administrative costs. The fund financial statements report all other receipts and disbursements as nonoperating.

**Notes to the Basic Financial Statements**

**For the Fiscal Year Ended June 30, 2015**

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

B. **Fund Accounting**

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

***Governmental Funds*** The District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange transactions as governmental funds. The following is the District's major fund:

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

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

***Proprietary Funds*** The District classifies funds financed primarily from user charges for goods or services as proprietary. The District only has one internal service fund.

*Internal Service Fund* - The Internal Service Fund is used to account for the financing of goods or services provided by one department or agency to other governmental units, on a cost-reimbursement basis.

***Fiduciary Funds*** The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are not available to support the District's own programs. The District has two private purpose trust funds, one accounts for a scholarship, and the other is to track an endowment of the District. Agency funds are custodial in nature. The District's agency funds account for various student-managed activities and unclaimed monies.

C. **Basis of Accounting**

The District's financial statements are prepared using the cash basis of accounting. Receipts are recorded in the District's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred. Any such modifications made by the District are described in the appropriate section in this note.

**Notes to the Basic Financial Statements**

**For the Fiscal Year Ended June 30, 2015**

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

C. **Basis of Accounting** (Continued)

As a result of the use of this cash basis of accounting, certain assets and their related receipts (such as accounts receivable and receipts for billed or provided services not yet collected) and certain liabilities and their related disbursements (such as accounts payable and disbursements for goods or services received but not yet paid, and accrued disbursements and liabilities) and deferred inflows/outflows are not recorded in these financial statements.

D. **Budgetary Process**

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on cash disbursements plus encumbrances at the level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. The Treasurer has been given the authority to allocate Board appropriations to the function and object level within all funds without resolution by the Board of Education.

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in receipts are identified by the Treasurer. The amounts reported as the original and final budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original and final appropriations were passed by the Board.

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

E. **Cash and Investments**

To improve cash management, cash received by the District is pooled and invested. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through District records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

Investments of the District's cash management pool and investments with an original maturity of three months or less at the time they are purchased by the District are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra receipts), respectively.

**Notes to the Basic Financial Statements**

**For the Fiscal Year Ended June 30, 2015**

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

E. **Cash and Investments** (Continued)

During fiscal year 2015, investments were limited to STAR Ohio, which is reported at cost. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for at June 30, 2015.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings.

F. **Restricted Assets**

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. The District did not have any restricted assets as of June 30, 2015.

G. **Inventory and Prepaid Items**

The District reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

H. **Capital Assets**

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

I. **Interfund Receivables/Payables**

The District reports advances-in and advances-out for interfund loans. These items are not reflected as assets and liabilities in the accompanying financial statements.

J. **Accumulated Leave**

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the District's cash basis of accounting.

K. **Employer Contributions to Cost-Sharing Pension Plans**

The District recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 9 and 10, the employer contributions include portions for pension benefits and for post-employment health care benefits.

**Notes to the Basic Financial Statements**

**For the Fiscal Year Ended June 30, 2015**

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

L. **Pension**

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 positon 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.

M. **Long-Term Obligations**

The District's cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither another financing source nor a capital outlay expenditure are reported at inception. Lease payments are reported when paid.

N. **Net Position**

Net Position is the residual amount when comparing assets and deferred outflows of resources to liabilities and deferred inflows of resources. The restricted component of net position is reported when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

The government-wide statement of net position reports $128,791 of the restricted component of net position, none of which is restricted by enabling legislation. The District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted components of net position are available.

O. **Fund Balance**

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

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

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

**Notes to the Basic Financial Statements**

**For the Fiscal Year Ended June 30, 2015**

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

O. **Fund Balance** (Continued)

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

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

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

The District applies restricted resources first when disbursements 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 disbursements are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

P. **Interfund Transactions**

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

NOTE 3: **CHANGE IN ACCOUNTING PRINCIPLES**

GASB Statement Number 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27. The objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2014 and have been implemented by the District. Due to the District's basis of accounting, the implementation of this Statement does not impact the District's financial statements; however the note disclosures for pension plans and post-employment benefits have been impacted.

## Notes to the Basic Financial Statements

## For the Fiscal Year Ended June 30, 2015

NOTE 3: **CHANGE IN ACCOUNTING PRINCIPLES** (Continued)

GASB Statement Number 69, Government Combinations and Disposals of Government Operations. The objective of this Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2013 and have been implemented by the District but did not impact the District's financial statements or note disclosures.

GASB Statement Number 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – and amendment of GASB Statement No. 68. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, Accounting and Financial Reporting for Pensions. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The requirements of this Statement should be applied simultaneously with the provisions of Statement No. 68 and have been implemented by the District. Due to the District's basis of accounting, the implementation of this Statement does not impact the District's financial statements.

NOTE 4: **BUDGETARY BASIS OF ACCOUNTING**

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budgetary Basis presented for the General Fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the cash basis is outstanding year end encumbrances are treated as cash disbursements (budgetary basis) rather than as a part of restricted, committed, or assigned fund balance (cash basis). The encumbrances outstanding at year end (budgetary basis) amounted to $274,866.

NOTE 5: **DEPOSITS AND INVESTMENTS**

Monies held by the District are classified by State statute into three categories.

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

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

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

## Notes to the Basic Financial Statements

## For the Fiscal Year Ended June 30, 2015

NOTE 5: **DEPOSITS AND INVESTMENTS** (Continued)

Interim monies held by the District can 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 payment of principal and interest by the United States;

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, 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 securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;

4. Bonds and other obligations of the State of Ohio or Ohio local governments;

5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;

6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

7. The State Treasurer's investment pool (STAR Ohio); and

8. Commercial paper and bankers acceptances if training requirements have been met.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. Investments may only be made through specified dealers and institutions.

### Deposits

***Custodial Credit Risk*** Custodial credit risk for deposits is the risk that in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in possession of an outside party. At fiscal year end, all of the District’s bank balance of $113,626 was fully insured by the FDIC.

## Notes to the Basic Financial Statements

## For the Fiscal Year Ended June 30, 2015

NOTE 5: **DEPOSITS AND INVESTMENTS** (Continued)

The 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 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 one hundred five percent of the deposits being secured.

**Investments**

As of June 30, 2015, the District had the following investments:

| Investment Type | Cost | Credit Rating (*) | Investment Maturities (in Years) <1 |
|---|---|---|---|
| STAR Ohio | $ 534,759 | AAAm | $ 534,759 |

* Credit Rating was obtained from Standard & Poor's for all investments.

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

***Credit Risk*** See the above table for credit ratings for all investments. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The District has no investment policy that would further limit its investment choices.

***Custodial Credit Risk*** For an investment, custodial credit risk is the risk that in the event of failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All investments other than STAR Ohio are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent but not in the District's name. The District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee

***Concentration of Credit Risk*** The District places no limit on the amount it may invest in any one issuer. The District's investment STAR Ohio represents all of the District's total investments.

**Notes to the Basic Financial Statements**

**For the Fiscal Year Ended June 30, 2015**

NOTE 6: **PROPERTY TAXES**

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

Property taxes include amounts levied against all real and public utility tangible personal property (used in business) located in the District. Real property tax receipts received in calendar 2015 represents collections of calendar year 2014 taxes. Real property taxes received in calendar year 2015 were levied after April 1, 2014, on the assessed value listed as of January 1, 2014, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax receipts received in calendar 2015 represents collections of calendar year 2014 taxes. Public utility real and tangible personal property taxes received in calendar year 2015 became a lien on December 31, 2013, were levied after April 1, 2014 and are collected in 2015 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

The District receives property taxes from Lake and Geauga Counties. The County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2015, are available to finance fiscal year 2015 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The full tax rate at the fiscal year ended June 30, 2015 was $89.45 per $1,000 of assessed valuation. The assessed values of real and public utility property on which the fiscal years 2015 taxes were collected were as follows:

| | 2014 2nd Half Collection | | 2015 1st Half Collection | |
|---|---|---|---|---|
| | Amount | Percent | Amount | Percent |
| Agricultural/Residental and Other Real Estate | $ 49,386,270 | 92.39% | $ 49,179,680 | 92.21% |
| Public Utility Personal | 4,067,160 | 7.61% | 4,153,280 | 7.79% |
| Total | $ 53,453,430 | 100.00% | $ 53,332,960 | 100.00% |

NOTE 7: **INTERFUND TRANSACTIONS**

Transfers of $50,000 were made from the General fund into other governmental funds. All transfers comply with the Ohio Revised Code.

**Notes to the Basic Financial Statements**

**For the Fiscal Year Ended June 30, 2015**

NOTE 8: **RISK MANAGEMENT**

A. **Property and Liability**

The District is exposed to various risks of loss related to torts; theft of, damage, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2015, the District contracted with various insurance agencies for various types of insurance. Coverage is as follows:

| Package Policy<br>Schools of Ohio Risk Sharing Authority Limits | |
|---|---|
| Blanket Property Coverage | $ 67,920,625 |
| Equipment Breakdown - subject to policy limits ( $500 Deductible) | 50,000,000 |
| Miscellaneous Property - Cameras ( $250 Deductible) | |
| Miscellaneous Property - Musical Instruments ( $500 Deductible) | 1,000,000 |
| Miscellaneous Property - Band Uniforms ( $500 Deductible) | 1,000,000 |
| Miscellaneous Property - Mobile Agricultural Equip. ( $500 Deductible) | 76,591 |
| Computer Coverage ( $500 Deductible) | 100,000 |
| General Liability Coverage | 12,000,000 |
| Sexual Misconduct | 2,000,000 |
| Employee Benefits Liability Claims Made | 12,000,000 |
| Employers Stop Gap Liability | 12,000,000 |
| School Leaders E & O Liability Claims Made ( $500 Deductible) | 1,000,000 |
| Public Employee Dishonesty Blanket Bond ( $500 Deductible) | 100,000 |
| Forgery and Alteration ( $500 Deductible) | 100,000 |
| Money and Securities (on premises) ( $500 Deductible) | 100,000 |
| Theft Disappearance & Destruction (off premises) ( $500 Deductible) | 100,000 |

| Automobile Policy<br>Schools of Ohio Risk Sharing Authority | |
|---|---|
| Auto Liability | $ 12,000,000 |
| Medical Payments | 10,000 |
| Uninsured Motorists Liability | 100,000 |
| Comp/Collision Deductibles ($1,000) | |
| Hired & Non-Owned Liability Coverage | 52,587 |

| Umbrella Policy<br>Schools of Ohio Risk Sharing Authority | |
|---|---|
| Umbrella Policy Limit | $ 10,000,000 |

## Notes to the Basic Financial Statements

## For the Fiscal Year Ended June 30, 2015

NOTE 8: **RISK MANAGEMENT** (Continued)

A. **Property and Liability** (Continued)

Settled claims have not exceeded this commercial coverage in any of the past three years and there have been no significant reductions in insurance coverage from the prior year.

All employees of the District are covered by a blanket bond, while certain individuals in policy making roles are covered by separate, higher limit bond coverage.

B. **Employee Medical Coverage**

The District has elected to provide medical coverage through premium payments to the Lake County Council of Governments Health Care Benefits Program. See Note 14 for additional information.

C. **Workers' Compensation**

For fiscal year 2015, the District participated in the Ohio School Boards' Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 16). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Comp. Management provides administrative, cost control and actuarial services to the GRP.

NOTE 9: **DEFINED BENEFIT PENSION PLANS**

A. **Net Pension Liability**

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

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

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

**Notes to the Basic Financial Statements**

**For the Fiscal Year Ended June 30, 2015**

NOTE 9: **DEFINED BENEFIT PENSION PLANS** (Continued)

A. **Net Pension Liability** (Continued)

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

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

B. **School Employee Retirement System**

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

Age and service requirements for retirement are as follows:

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

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

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

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

## Notes to the Basic Financial Statements

## For the Fiscal Year Ended June 30, 2015

NOTE 9: **DEFINED BENEFIT PENSION PLANS** (Continued)

A. **School Employee Retirement System** (Continued)

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

The District's contractually required contribution to SERS for the fiscal year ended June 30, 2015, was $80,934.

B. **State Teachers Retirement System**

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

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

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

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

**Notes to the Basic Financial Statements**

**For the Fiscal Year Ended June 30, 2015**

NOTE 9: **DEFINED BENEFIT PENSION PLANS** (Continued)

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

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, 2015, plan members were required to contribute 12 percent of their annual covered salary. The District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2015 contribution rates were equal to the statutory maximum rates.

The District's contractually required contribution to STRS for the fiscal year ended June 30, 2015, was $322,665.

C. **Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System.

**Notes to the Basic Financial Statements**

**For the Fiscal Year Ended June 30, 2015**

NOTE 9: **DEFINED BENEFIT PENSION PLANS** (Continued)

D. **Net Pension Liability**

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

| | SERS | STRS | Total |
|---|---|---|---|
| Proportionate Share of the Net Pension Liability | $929,037 | $5,483,459 | $6,412,496 |
| Proportion of the Net Pension Liability | 0.018357% | 0.02254391% | |

E. **Actuarial Assumptions - SERS**

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

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

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

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

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

**Notes to the Basic Financial Statements**

**For the Fiscal Year Ended June 30, 2015**

NOTE 9: **DEFINED BENEFIT PENSION PLANS** (Continued)

E. **Actuarial Assumptions - SERS** (Continued)

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

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

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

| Asset Class | Target Allocation | Long Term Expected Real Rate of Return |
|---|---|---|
| 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 | 15.00 | 7.50 |
| Total | 100.00 % | |

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

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

| | 1% Decrease (6.75%) | Current Discount Rate (7.75%) | 1% Increase (8.75%) |
|---|---|---|---|
| School District's proportionate share of the net pension liability | $1,325 | $929 | $596 |

## Notes to the Basic Financial Statements

## For the Fiscal Year Ended June 30, 2015

NOTE 9: **DEFINED BENEFIT PENSION PLANS** (Continued)

F. **Actuarial Assumptions - STRS**

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

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

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

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

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

| Asset Class | Target Allocation | Long Term Expected Real Rate of Return |
|---|---|---|
| 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 |
| Total | 100.00 % | |

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

## Notes to the Basic Financial Statements

## For the Fiscal Year Ended June 30, 2015

NOTE 9: **DEFINED BENEFIT PENSION PLANS** (Continued)

F. **Actuarial Assumptions - STRS** (Continued)

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

| | 1% Decrease (6.75%) | Current Discount Rate (7.75%) | 1% Increase (8.75%) |
|---|---|---|---|
| School District's proportionate share of the net pension liability | $7,850 | $5,483 | $3,482 |

NOTE 10: **POST-EMPLOYMENT BENEFITS**

A. **School Employees Retirement System**

Plan Description – In addition to a cost-sharing employer defined benefit pension plan SERS administers two post-employment benefit plans. The Medicare Part B Plan reimburses for Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMOs, PPOs, Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

Funding Policy - The Medicare Part B Plan reimburses premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code Section 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of January 1, 1999 Medicare Part B premiums or the current premium. The Medicare Part B premium for calendar year 2015 was $104.90 for most participants, but could be as high as $335.70 per month depending on their income. SERS' reimbursement to retirees was $45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare Part B Fund. For fiscal year 2015, the actuarially required allocation was 0.76 percent. For the fiscal years ended June 30, 2015, 2014 and 2013 the District's contributions to Medicare Part B Plan were $4,695, $4,036, and $3,790, respectively; 100 percent has been contributed for fiscal years 2015, 2014 and 2013.

## Notes to the Basic Financial Statements

## For the Fiscal Year Ended June 30, 2015

NOTE 10: **POST-EMPLOYMENT BENEFITS** (Continued)

A. **School Employees Retirement System** (Continued)

The Health Care Fund was established under, and is administered in accordance with Internal Receipts Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employers' 14 percent contribution to the Health Care Fund. For the year ended June 30, 2015, the health care allocation is 0.14 percent. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provides that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS covered payroll for the health care surcharge. For fiscal year 2015, the minimum compensation level was established at $20,250. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. For fiscal years ended June 30, 2015, 2014 and 2013, the District's contributions to the Health Care Plan, including the surcharge, were $21,115, $20,993, and $21,344, respectively. 100 percent has been contributed for fiscal years 2015, 2014 and 2013.

The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions Active members do not make contributions to the post-employment benefit plans. The SERS Retirement Board establishes the rules for premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

B. **State Teachers Retirement System**

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

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

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

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

Funding Policy –Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2015, STRS did not allocate any employer contributions to post-employment health care. Of the 14 percent employer contribution rate, 1 percent of covered payroll was allocated to post-employment health care for fiscal years ended June 30, 2014 and 2013. The 14 percent employer contribution rate is the maximum rate established under Ohio Law. The District's contributions for health care for the fiscal years ended June 30, 2015, 2014 and 2013 were $0, $23,762, and $22,988, respectively; 100 percent has been contributed for fiscal years 2015, 2014 and 2013.

**Notes to the Basic Financial Statements**

**For the Fiscal Year Ended June 30, 2015**

NOTE 11: **CONTINGENCIES**

A. **Grants**

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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, based on prior experience, management believes the effect of any such disallowed claims on the overall financial position of the District at June 30, 2015, would be immaterial.

B. **Litigation**

As of June 30, 2015, the District was a party to legal proceedings. Although management cannot presently determine the outcome of these suits, they believe the resolution of these matters will not materially adversely affect the District's financial condition.

C. **State Foundation Funding**

School District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the school district, which can extend past the fiscal year end.

NOTE 12: **SET-ASIDE REQUIREMENTS**

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

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

| | 2015 |
|---|---|
| **Capital Acquisition** | |
| Set Aside Balance as of June 30, 2014 | $ 53,587 |
| Yearly Set Aside Requirement | 99,858 |
| Qualifying Disbursements | (87,179) |
| Total | $ 66,266 |
| | |
| Balance Carried Forward | $ 66,266 |

The District did not have enough qualifying disbursements and offsets during the fiscal year that reduced the capital improvements set-aside amounts below zero.

## Notes to the Basic Financial Statements

## For the Fiscal Year Ended June 30, 2015

NOTE 13: **JOINTLY GOVERNED ORGANIZATIONS**

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

***Auburn Career Center*** **-** The Auburn Career Center is a joint vocational school operated by eleven school districts. Each participating school district appoints one board member to the Auburn Career Center's Board of Education. The students of each participating school district may attend classes offered at the vocational facility. Each participants control over the operation of the Auburn Career Center is limited to representation on the board. The Auburn Career Center receives 1.5 mills of District property taxes which is paid to the Auburn Career Center directly by Geauga County. Continued existence of the Auburn Career Center is not dependent on the School District's continued participation. Financial information can be obtained from the Auburn Career Center, 8140 Auburn Road, Painesville, Ohio 44077.

***Ohio Schools Council Association*** **-** The Ohio Schools Council Association (Council) is a jointly governed organization among 196 school districts. The jointly governed organization was created by school districts for the purpose of saving money through volume purchases. Each school district supports the Council by paying an annual participation fee. Each school district member superintendent serves as a representative of the Assembly. The Assembly elects five of the Council's Board members and the remaining four are representatives of the Greater Cleveland School Superintendents' Association. The Council operates under a nine-member Board of Directors (the Board). The Board is the policy making authority of the Council. The Board meets monthly September through June. The Board appoints an Executive Director who is responsible for receiving and disbursing funds, investing available funds, preparing financial reports for the Board and Assembly and carrying out such other responsibilities as designated by the Board. The degree of control exercised by any school district is limited to its representation on the Board. In fiscal year 2015, the District paid $750 to the Council. Financial information can be obtained by contacting William J. Zelei, the Executive Director of the Ohio Schools Council at 6393 Oak Tree Blvd., Suite 377, Independence, Ohio 44131.

The District participates in the Council's natural gas program. The Council provides participating school districts the ability to purchase natural gas at reduced rates, if the school districts will commit to participating for a twelve year period. There are currently 151 school districts in the Program. The participants make monthly payments based on estimated usage. Each September, these estimated payments are compared to their actual usage for the year (July to June). School Districts that paid more in estimated billings than their actual billings are issued credits on future billings beginning in September until the credits are exhausted and school districts that did not pay enough on estimated billings are invoiced for the difference on the September monthly estimated billing.

NOTE 14: **CLAIMS SERVICING POOL**

The District participates in the Lake County Council of Governments Health Care Benefits (HCBP) Self Insurance Program, a claims servicing pool comprised of ten Lake County school districts and one Cuyahoga County school district. Each school district has a representative on the assembly (usually the superintendent or designee). Each member pays an administrative fee to the pool. The plan's business and affairs are conducted by a five member Board of Directors elected by the HCBP's assembly. The assembly elects officers for one year terms to serve on the Board of Directors. Financial information can be obtained by writing the Auburn Career Center, 8140 Auburn Road, Painesville, Ohio 44077.

## Notes to the Basic Financial Statements

## For the Fiscal Year Ended June 30, 2015

NOTE 15: **RELATED ORGANIZATION**

The Fairport Harbor Public Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Fairport Harbor Exempted Village School District's Board of Education. The Board of Trustees possess its own contracting and budgeting authority, hires and fires personnel and does not depend on the School District for operational subsidies. Although the District does serve as the taxing authority and may issue tax related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of tax, the rate and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the Fairport Harbor Public Library, Linda Hofer, Clerk/Treasurer, at 335 Vine Street, Fairport Harbor, Ohio, 44077.

NOTE 16: **INSURANCE PURCHASING POOL**

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

NOTE 17: **LAKE COUNTY SCHOOL FINANCING DISTRICT**

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

The Lake County Educational Service Center acts as the taxing authority of the Financing District pursuant to Section 3311.50 of the Ohio Revised Code. The Financing District receives settlements of taxes levied and distributes within ten days to each of the Member school districts; each of such Member school district's proportionate shares of that tax settlement. Each Member school district's proportionate share is a fraction, the numerator being Member school district's total pupil population and the denominator being the aggregate pupil population of all Member school districts as of that date. The District reports these receipts in the "Taxes" account.

NOTE 18: **COMPLIANCE**

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

**Notes to the Basic Financial Statements**

**For the Fiscal Year Ended June 30, 2015**

NOTE 18: **COMPLIANCE (Continued)**

B. Contrary to Section 5705.10, the District had several funds that had negative fund balances at year end. The following funds reported negative cash balances and did not meet the allowable exceptions permitted by Ohio Revised Code Section 3315.20:

| | Negative Cash Balance |
|---|---|
| Nonmajor Special Revenue Funds | |
| Permanent Improvement Fund | $ 347,100 |
| District Managed Activities | 17,470 |
| Ohio Reads | 263 |
| Race to the Top | 132,538 |
| IDEA, Part B | 126,185 |
| Title I | 8,578 |

JAMES G. ZUPKA, C.P.A., INC.
*Certified Public Accountants*
*5240 East 98th Street*
*Garfield Hts., Ohio 44125*

Member American Institute of Certified Public Accountants | (216) 475 - 6136 | Ohio Society of Certified Public Accountants

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

Board of Education
Fairport Harbor Exempted Village School District
Fairport Harbor, Ohio

Honorable Dave Yost
Auditor of State
State of Ohio

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Fairport Harbor Exempted Village School District, Lake County, Ohio, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Fairport Harbor Exempted Village School District, Ohio's basic financial statements and have issued our report thereon dated January 27, 2017, wherein we noted that the Fairport Harbor Exempted Village School District, Ohio, uses a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

**Internal Control Over Financial Reporting**

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

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

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Fairport Harbor Exempted Village School District, Ohio's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as **Finding Number 2015-001** and **Finding Number 2015-002.**

**Fairport Harbor Exempted Village School District Response to Findings**

The Fairport Harbor Exempted Village School District, Ohio's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The Fairport Harbor Exempted Village School District, Ohio's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

**Purpose of This Report**

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

James G. Zupka, CPA, President

Digitally signed by James G. Zupka, CPA, President
DN: cn=James G. Zupka, CPA, President, o=James G. Zupka, CPA, Inc., ou=Accounting, email=jgzcpa@sbcglobal.net, c=US
Date: 2017.01.31 16:10:43 -05'00'

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

January 27, 2017

**Finding 2015-001 – Noncompliance Finding – Annual Financial Report**

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

Ohio Administrative Code Section 117-2-03(B) requires the District to prepare its annual financial report in accordance with accounting principles (GAAP). However, as discussed in Note 2, the accompanying financial statements and notes have been prepared on a basis of accounting not in accordance with these generally accepted accounting principles.

Cause/Effect
The accompanying financial statements and footnotes omit entity-wide statements, assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to the Ohio Revised Code Section 117.38, the District may be fined and subject to various other administrative remedies for its failure to file the required financial report within the required time limits.

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

*District Response*
The District omits generally accepted accounting principles reporting due to the cost of compliance. Management believes its limited resources should be directed to educating students rather than satisfying technical accounting standards.

**Finding Number 2015-002 - Material Noncompliance - Negative Cash Fund Balances**

Condition/Criteria
Ohio Revised Code Section 5705.10 (H) indicates money paid into any fund shall be used only for the purpose for which such fund is established. A fund with a negative fund balance signifies that monies from other funds were used to meet their obligations.

During our review of the District's records, we noted that several funds had negative cash fund balances at June 30, 2015:

| | |
|---|---|
| Permanent Improvement | $ 347,100 |
| District Managed Activities | 17,470 |
| Ohio Reads | 263 |
| Race to the Top | 132,538 |
| IDEA, Part B | 126,185 |
| Title I | 8,578 |

Cause/Effect
Negative cash fund balances infer revenues from other sources were borrowed to pay obligations of these funds. Additionally, money spent for purposes other than specified in grant agreements could result in the loss of future grant awards.

Recommendation
We recommend that the District monitor its cash fund balances on a regular basis in order to ensure that sufficient cash is on hand to pay for obligations and that the District utilize advances when necessary.

*District Response*
The negative balances are related to grants not being received timely. Management will advance money for grants in the future to avoid negative cash balances.

**FAIRPORT HARBOR EXEMPTED VILLAGE SCHOOL DISTRICT**
**LAKE COUNTY, OHIO**
**SCHEDULE OF PRIOR AUDIT FINDINGS AND RECOMMENDATIONS**
**JUNE 30, 2015**

| Finding Number | Finding Summary | Corrected? | Not Corrected; Partially Corrected; Significantly Different Corrective Action Taken, or Finding Not Valid: **Explanation** |
|---|---|---|---|
| 2014-001 | Annual Financial Report | No | Repeated as Finding 2015-001. |
| 2014-002 | Negative Fund Cash Balances | No | Repeated as Finding 2015-002 |

The prior audit report, as of June 30, 2014, also included management letter recommendations. Management letter recommendations as of June 30, 2014, have been corrected, repeated, or procedures instituted to prevent occurrences in this audit period.

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

*Certified Public Accountants*
*5240 East 98th Street*
*Garfield Hts., Ohio 44125*

Member American Institute of Certified Public Accountants (216) 475 - 6136 Ohio Society of Certified Public Accountants


## INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

Fairport Harbor Exempted Village School District
Fairport Harbor, Ohio

To the Board of Education:

Ohio Revised Code Section 117.53 states, "the Auditor of State shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The Auditor of State shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedures enumerated below, which were agreed to by the Board, solely to assist the Board in evaluating whether the Fairport Harbor Exempted Village School District (the District), Lake County, Ohio, has adopted its anti-harassment policy in accordance with Ohio Revised Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Board. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board amended its anti-harassment policy to include violence within a dating relationship and harassment on a school bus within the definition of harassment, intimidation or bullying, per the requirements listed in Ohio Revised Code 3313.666.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended for the information and use of the Board and is not intended to be and should not be used by anyone other than these specified parties.

James G. Zupka, CPA, President

Digitally signed by James G. Zupka, CPA, President
DN: cn=James G. Zupka, CPA, President, o=James G. Zupka, CPA, Inc., ou=Accounting, email=jgzcpa@sbcglobal.net, c=US
Date: 2017.01.31 16:12:46 -05'00'

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

January 27, 2017