

South Euclid-Lyndhurst City School District

**Basic Financial Statements
June 30, 2017**



Dave Yost • Auditor of State

Board of Education
South Euclid-Lyndhurst City School District
5044 Mayfield Road
Lyndhurst, Ohio 44124

We have reviewed the *Independent Auditor's Report* of the South Euclid-Lyndhurst City School District, Cuyahoga County, prepared by Ciuni & Panichi, Inc., for the audit period July 1, 2016 through June 30, 2017. 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 South Euclid-Lyndhurst City School District is responsible for compliance with these laws and regulations.

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

Dave Yost
Auditor of State

January 23, 2018

South Euclid-Lyndhurst City School District

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Independent Auditor's Report

Board of Education
South Euclid-Lyndhurst City School District
Lyndhurst, Ohio

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the South Euclid-Lyndhurst City School District (the "District"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District'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.

Board of Education
South Euclid-Lyndhurst City School District

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2017, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 11 and the schedules of the School District's proportionate share of the net pension liability and schedules of the School District's contributions on pages R2 through R8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2017, on our consideration of the District'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 District's internal control over financial reporting and compliance.

Ciuni + Panichi, Inc.

Cleveland, Ohio
December 28, 2017

South Euclid-Lyndhurst City School District

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2017

Unaudited

The discussion and analysis of the South Euclid-Lyndhurst City School District's (the School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2017. The intent of this discussion and analysis is to look at the School 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 School District's financial performance.

Financial Highlights

Key financial highlights for 2017 are as follows:

- Net position decreased in fiscal year 2017 primarily due to an increase in the net pension liability, which was partially offset by changes in deferred outflows of resources and deferred inflows of resources associated with the unfunded pension liabilities specific to the State Teachers Retirement System (STRS) and the State Employees Retirement System (SERS). Net position also decreased due to a decrease in net capital assets resulting from current year deletions and depreciation exceeding current year additions. The decrease in net position was partially offset by a drop in outstanding debt obligations resulting from the continued pay-down of the School District's tax anticipation note and general obligation bonds.
- The School District's enrollment decreased from 3,527 students in fiscal year 2016 to 3,377 students in fiscal year 2017.
- The School District actively pursues grants and controls expenses while still maintaining the high academic standards the residents expect of the School District.

Using this Annual Financial Report

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

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

Reporting the School District as a Whole

Statement of Net Position and the Statement of Activities

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2017?" The Statement of Net Position and the Statement of Activities answer this question. These statements include *all assets and deferred outflows of resources and liabilities and deferred inflows of resources* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

South Euclid-Lyndhurst City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
Unaudited

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

In the Statement of Net Position and the Statement of Activities, Governmental Activities include the School District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities and non-instructional services.

Reporting the School District's Most Significant Funds

Fund Financial Statements

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

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

Fiduciary Funds Fiduciary funds are used to account for resources held for the benefit of parties outside the School District. Fiduciary funds are not reflected on the government-wide financial statements because the resources from these funds are not available to support the School District's programs. These funds use the accrual basis of accounting.

The School District as a Whole

Recall that the Statement of Net Position provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net position for fiscal year 2017 compared to fiscal year 2016.

South Euclid-Lyndhurst City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
Unaudited

(Table 1)
 Net Position

	Governmental Activities		
	2017	2016	Change
Assets			
Current and Other Assets	\$72,931,242	\$68,822,909	\$4,108,333
Capital Assets, Net	19,400,364	19,920,160	(519,796)
<i>Total Assets</i>	<u>92,331,606</u>	<u>88,743,069</u>	<u>3,588,537</u>
Deferred Outflows of Resources			
Deferred Charge on Refunding	33,220	49,830	(16,610)
Pension	18,469,091	8,095,789	10,373,302
<i>Total Deferred Outflows of Resources</i>	<u>18,502,311</u>	<u>8,145,619</u>	<u>10,356,692</u>
Liabilities			
Current Liabilities	7,937,413	8,846,404	908,991
Long Term Liabilities:			
Due Within One Year	1,764,366	1,770,242	5,876
Due in More than One Year			
Net Pension Liability	101,812,811	83,056,598	(18,756,213)
Other Amounts	5,947,105	6,459,422	512,317
<i>Total Liabilities</i>	<u>117,461,695</u>	<u>100,132,666</u>	<u>(17,329,029)</u>
Deferred Inflows of Resources			
Property Taxes	35,744,057	28,326,737	(7,417,320)
Pension	1,161,665	6,443,378	5,281,713
<i>Total Deferred Inflows of Resources</i>	<u>36,905,722</u>	<u>34,770,115</u>	<u>(2,135,607)</u>
Net Position			
Net Investment in Capital Assets	15,943,070	14,323,067	1,620,003
Restricted:			
Capital Projects	3,089,356	1,988,110	1,101,246
Debt Service	831,553	883,126	(51,573)
Other Purposes	977,138	1,066,217	(89,079)
Unrestricted (Deficit)	<u>(64,374,617)</u>	<u>(56,274,613)</u>	<u>(8,100,004)</u>
<i>Total Net Position</i>	<u><u>(\$43,533,500)</u></u>	<u><u>(\$38,014,093)</u></u>	<u><u>(\$5,519,407)</u></u>

The net pension liability (NPL) is the largest single liability reported by the School District at June 30, 2017 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement 27." For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the School District's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

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

South Euclid-Lyndhurst City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
Unaudited

GASB 68 requires the net pension liability to equal the School District's proportionate share of each plan's collective:

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

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

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

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

Total current and other assets increased due mainly to increases in cash and cash equivalents and intergovernmental receivables. The increase in cash and cash equivalents was due to the sale of School District property for \$1.25 million during fiscal year 2017 as well as to lower capital outlay expenditures. The increase in intergovernmental receivables was attributable to fiscal year 2017 State Foundation adjustments that came through Foundation during the first part of fiscal year 2018 as well as a refund from the Bureau of Worker's Compensation. Net capital assets decreased as a result of current year deletions and depreciation outpacing capital asset additions. Current liabilities decreased largely as a result of the continued pay-down of the School District's tax anticipation note. Long-term general obligation bond debt decreased due to annual debt payments.

South Euclid-Lyndhurst City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
Unaudited

Table 2 shows the change in net position for fiscal years 2017 and 2016.

(Table 2)
Changes in Net Position
Governmental Activities

	2017	2016	Change
Program Revenues			
Charges for Services and Sales	\$2,918,911	\$2,348,782	\$570,129
Operating Grants, Contributions and Interest	5,329,518	5,510,351	(180,833)
Capital Grants	242,713	262,888	(20,175)
<i>Total Program Revenues</i>	<u>8,491,142</u>	<u>8,122,021</u>	<u>369,121</u>
General Revenues			
Property Taxes	37,540,017	50,289,884	(12,749,867)
Grants and Entitlements	14,705,515	14,677,230	28,285
Unrestricted Contributions	10,745	66	10,679
Investment Earnings	187,095	172,363	14,732
Payment in Lieu of Taxes	0	29,907	(29,907)
Gain from Sale of Capital Assets	4,875	11,625	(6,750)
Miscellaneous	314,507	801,357	(486,850)
<i>Total General Revenues</i>	<u>52,762,754</u>	<u>65,982,432</u>	<u>(13,219,678)</u>
<i>Total Revenues</i>	<u>61,253,896</u>	<u>74,104,453</u>	<u>(12,850,557)</u>
Program Expenses			
Instruction	38,951,363	35,689,141	(3,262,222)
Support Services			
Pupil	5,185,585	4,464,394	(721,191)
Instructional Staff	1,321,820	1,647,752	325,932
Board of Education	272,994	343,706	70,712
Administration	4,339,183	4,205,042	(134,141)
Fiscal	1,720,497	1,799,976	79,479
Business	557,450	528,299	(29,151)
Operation and Maintenance of Plant	6,688,734	6,250,890	(437,844)
Pupil Transportation	2,938,305	2,731,295	(207,010)
Central	1,530,728	1,767,733	237,005
Food Service Operations	1,891,401	1,978,889	87,488
Other Non-Instructional Services	978,004	1,093,913	115,909
Extracurricular Activities	1,463,017	1,380,657	(82,360)
Interest and Fiscal Charges	131,795	232,432	100,637
<i>Total Program Expenses</i>	<u>67,970,876</u>	<u>64,114,119</u>	<u>(3,856,757)</u>
<i>Excess of Revenues Over (Under) Expenses</i>	<u>(6,716,980)</u>	<u>9,990,334</u>	<u>(16,707,314)</u>
Special Item			
Gain on Disposition of Land	1,197,573	0	1,197,573
<i>Change in Net Position</i>	<u>(5,519,407)</u>	<u>9,990,334</u>	<u>(15,509,741)</u>
Net Position Beginning of Year	<u>(38,014,093)</u>	<u>(48,004,427)</u>	<u>9,990,334</u>
Net Position End of Year	<u><u>(\$43,533,500)</u></u>	<u><u>(\$38,014,093)</u></u>	<u><u>(\$5,519,407)</u></u>

South Euclid-Lyndhurst City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
Unaudited

Governmental Activities

Program revenues increased for governmental activities in fiscal year 2017 as a result of higher charges for services revenue mainly attributable to increased tuition and fees. General revenues decreased in fiscal year 2017 primarily resulting from a significant decrease in property taxes due to the timing of advance settlements. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. At June 30, 2017, the amount available to advance was much lower than in the prior fiscal year due to the fact that many taxpayers paid after the June 30 advance date but before the end of the second half property tax collections.

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenue generated by a voter levy does not increase solely as a result of inflation. Although school districts experience inflationary growth in expenses, tax revenue does not keep pace with the increased expenses due to House Bill 920 (HB 920). As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would be assessed \$35.00 annually in taxes. If three years later the home was appraised and increased to \$200,000 (and the inflationary increase in value is comparable to the other property owners), the effective tax rate would become .5 mills and the owner would still be assessed \$35.00 and the School District would collect the same dollar value the levy generated in the year it was passed.

Thus, school districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to voters to maintain a constant level of service. Property taxes made up the largest percentage of revenue for governmental activities for the School District in fiscal year 2017.

Program expenses increased in fiscal year 2017 due to changes in the net pension liability. Program expenses excluding amounts related to the net pension liability actually decreased due to lower salaries and capital maintenance expenditures during fiscal year 2017.

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

(Table 3)
 Governmental Activities

Programs	Total Cost of Services 2017	Net Cost of Services 2017	Total Cost of Services 2016	Net Cost of Services 2016
Instruction	\$38,951,363	(\$34,480,877)	\$35,689,141	(\$31,810,133)
Support Services:				
Pupil and Instructional Staff	6,507,405	(5,994,106)	6,112,146	(5,767,505)
Board of Education, Administration, Fiscal and Business	6,890,124	(6,643,475)	6,877,023	(6,671,131)
Operation and Maintenance of Plant	6,688,734	(6,406,064)	6,250,890	(6,014,282)
Pupil Transportation	2,938,305	(2,697,798)	2,731,295	(2,243,425)
Central	1,530,728	(1,465,122)	1,767,733	(1,707,321)
Operation of Non-Instructional Services	2,869,405	(441,491)	3,072,802	(359,566)
Extracurricular Activities	1,463,017	(1,219,006)	1,380,657	(1,186,303)
Interest and Fiscal Charges	131,795	(131,795)	232,432	(232,432)
Total Expenses	\$67,970,876	(\$59,479,734)	\$64,114,119	(\$55,992,098)

South Euclid-Lyndhurst City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
Unaudited

The School District's Funds

Information about the School District's major funds begins with the balance sheet. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$60,763,200 and expenditures of \$65,222,691. The total fund balance for the general fund decreased in fiscal year 2017 due to a significant drop in property taxes resulting from the timing of advance settlements. The community as a whole is by far the primary support for the South Euclid-Lyndhurst City School District's students.

General Fund Budgeting Highlights

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

During the course of fiscal year 2017, the School District modified its general fund budget. The School District uses site-based budgeting and budgeting systems which are designed to tightly control total site budgets but provide flexibility for site management.

For the general fund, final budget basis revenue was higher than the original budget estimate due mainly to an increase in estimated property taxes and an increase in intergovernmental revenues as the School District received notifications of current year grant awards and changes in State aid were finalized.

For the general fund, final budget basis expenditures were higher than the original budget basis expenditures mainly due to increases in various support services.

Total actual expenditures on the budget basis were less than final budgeted amounts. This is largely attributable to the School District's cost cutting measures.

Capital Assets

Table 4 shows fiscal year 2017 balances compared to fiscal year 2016 balances.

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

	2017	2016	Change
Land	\$734,366	\$786,793	(\$52,427)
Buildings and Improvements	14,662,513	15,141,801	(479,288)
Furniture and Equipment	2,576,970	2,258,757	318,213
Vehicles	1,426,515	1,732,809	(306,294)
Total	\$19,400,364	\$19,920,160	(\$519,796)

The decrease in capital assets is due to current year depreciation and deletions exceeding capital asset additions. In fiscal year 2017, capital asset additions included buildings and improvements and the purchase of various furniture and equipment. For additional information, see Note 10.

South Euclid-Lyndhurst City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
Unaudited

Senate Bill 345 requires school districts to set aside certain general fund revenues for the purpose of capital improvements. For fiscal year 2017, this amounted to \$594,008. Please see Note 14 for additional information regarding set-asides.

Debt

Table 5 summarizes the outstanding debt.

(Table 5)
 Outstanding Debt at Fiscal Year End

	2017	2016	Change
School Improvement Refunding Bonds - 2006	\$1,885,924	\$2,768,886	(\$882,962)
Tax Anticipation Note - 2007	1,231,979	2,415,353	(1,183,374)
Energy Conservation Notes	400,000	475,000	(75,000)
Total Debt	\$3,517,903	\$5,659,239	(\$2,141,336)

On June 28, 2006, the School District issued \$9,389,995 in voted general obligation bonds, which included serial, term and capital appreciation bonds in the amount of \$7,065,000, \$1,830,000 and \$494,995, respectively. The bonds advance refunded \$5,605,000 of outstanding 1993 School Improvement General Obligation Bonds and \$3,785,000 of outstanding 1996 School Improvement General Obligation Bonds.

On April 19, 2007, the School District issued \$9,950,000 in tax anticipation notes in order to finance new construction. The notes were issued for an eleven year period and have a final maturity date of December 1, 2017.

On August 5, 2016, the School District issued \$400,000 in bond anticipation notes for the purpose of updating school buildings to conserve energy. The notes mature on August 4, 2017, and carry an interest rate of 1.20 percent.

Please see Notes 16 and 17 for additional information.

Current Financial Related Activities

The financial future and wellbeing of any School District is not without internal and external challenges. For the most part, both internal and external challenges are quite similar in most School Districts. In this School District, a primary internal challenge is student achievement and a primary external challenge is the over-reliance on local property taxes required to fund general operations.

Unfortunately, the South Euclid-Lyndhurst City School District, like many in Ohio, must rely heavily on its property tax payers for both residents and businesses to support its general operations. Approximately sixty-five percent of general fund revenue is received from property taxes paid by residents and business owners. Thankfully, the South Euclid-Lyndhurst community has been extremely supportive of the School District and has approved continuing operating levies in 1978, 1982, 1986, 1991, 1994, 1998, 2001, 2005, 2008, and again in 2012.

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For the Fiscal Year Ended June 30, 2017
Unaudited

By a considerable margin residents passed a 5.9 mill continuing operating levy on November 6, 2012, which provides about \$4 million (after allowance for delinquencies) annually. One of the major campaign promises the Board of Education made was to remain off the ballot again until at least November 2016.

Current financial projections suggest that, unless something drastic were to change within the projections for fiscal years 2017, 2018 and 2019, the School District will not need to seek additional operating funding through a ballot issue until at least November 2019.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional information, contact Paul J. Pestello, Treasurer of South Euclid-Lyndhurst City School District, 5044 Mayfield Road, Lyndhurst, Ohio 44124 or pestello@sel.k12.oh.us.

South Euclid-Lyndhurst City School District

Statement of Net Position

June 30, 2017

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$22,487,562
Accounts Receivable	18,539
Accrued Interest Receivable	22,133
Intergovernmental Receivable	2,283,810
Prepaid Items	125,715
Materials and Supplies Inventory	23,562
Inventory Held for Resale	27,101
Property Taxes Receivable	47,942,820
Non-depreciable Capital Assets	734,366
Depreciable Capital Assets, Net	18,665,998
<i>Total Assets</i>	<u>92,331,606</u>
Deferred Outflows of Resources	
Deferred Charge on Refunding	33,220
Pension	18,469,091
<i>Total Deferred Outflows of Resources</i>	<u>18,502,311</u>
Liabilities	
Accounts Payable	527,401
Accrued Wages and Benefits	4,861,649
Intergovernmental Payable	1,029,813
Matured Compensated Absences Payable	186,071
Accrued Interest Payable	15,500
Notes Payable	1,316,979
Long-Term Liabilities:	
Due Within One Year	1,764,366
Due In More Than One Year:	
Net Pension Liability (See Note 11)	101,812,811
Other Amounts	5,947,105
<i>Total Liabilities</i>	<u>117,461,695</u>
Deferred Inflows of Resources	
Property Taxes	35,744,057
Pension	1,161,665
<i>Total Deferred Inflows of Resources</i>	<u>36,905,722</u>
Net Position	
Net Investment in Capital Assets	15,943,070
Restricted for:	
Capital Outlay	3,089,356
Debt Service	831,553
Scholarships	36,587
Athletics and Music	154,576
Auxiliary Services	84,950
Title I	115,805
Unclaimed Monies	23,181
Other Purposes	562,039
Unrestricted (Deficit)	<u>(64,374,617)</u>
<i>Total Net Position</i>	<u><u>(\$43,533,500)</u></u>

The accompanying notes are an integral part of the basic financial statements

South Euclid-Lyndhurst City School District

Statement of Activities

For the Fiscal Year Ended June 30, 2017

	Program Revenues				Net (Expense)
	Expenses	Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants	Revenue and Changes in Net Position
Governmental Activities					
Instruction:					
Regular	\$26,278,403	\$943,190	\$383,876	\$126,726	(\$24,824,611)
Special	11,228,811	353,936	2,523,696	0	(8,351,179)
Vocational	1,444,149	54,116	84,946	0	(1,305,087)
Support Services:					
Pupil	5,185,585	185,912	12,785	0	(4,986,888)
Instructional Staff	1,321,820	40,312	175,169	99,121	(1,007,218)
Board of Education	272,994	10,378	0	0	(262,616)
Administration	4,339,183	153,802	0	0	(4,185,381)
Fiscal	1,720,497	62,843	0	0	(1,657,654)
Business	557,450	19,626	0	0	(537,824)
Operation and Maintenance of Plant	6,688,734	265,804	0	16,866	(6,406,064)
Pupil Transportation	2,938,305	98,052	142,455	0	(2,697,798)
Central	1,530,728	50,070	15,536	0	(1,465,122)
Operation of Non-Instructional Services:					
Food Service Operations	1,891,401	455,567	1,148,060	0	(287,774)
Other Non-Instructional Services	978,004	1,229	823,058	0	(153,717)
Extracurricular Activities	1,463,017	224,074	19,937	0	(1,219,006)
Interest and Fiscal Charges	131,795	0	0	0	(131,795)
Totals	<u>\$67,970,876</u>	<u>\$2,918,911</u>	<u>\$5,329,518</u>	<u>\$242,713</u>	<u>(59,479,734)</u>
General Revenues					
Property Taxes Levied for:					
General Purposes					35,422,230
Debt Service					720,891
Capital Projects					1,396,896
Grants and Entitlements not Restricted to Specific Programs					14,705,515
Unrestricted Contributions					10,745
Investment Earnings					187,095
Gain from Sale of Capital Assets					4,875
Miscellaneous					314,507
Total General Revenues					<u>52,762,754</u>
Special Item - Gain on Disposition of Land					<u>1,197,573</u>
Total General Revenues and Special Item					<u>53,960,327</u>
Change in Net Position					(5,519,407)
Net Position Beginning of Year					<u>(38,014,093)</u>
Net Position End of Year					<u>(\$43,533,500)</u>

The accompanying notes are an integral part of the basic financial statements

South Euclid-Lyndhurst City School District

Balance Sheet

Governmental Funds

June 30, 2017

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Equity in Pooled Cash and Cash Equivalents	\$18,299,617	\$4,164,764	\$22,464,381
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	23,181	0	23,181
Accounts Receivable	18,539	0	18,539
Accrued Interest Receivable	22,133	0	22,133
Intergovernmental Receivable	1,433,776	850,034	2,283,810
Prepaid Items	119,268	6,447	125,715
Materials and Supplies Inventory	21,711	1,851	23,562
Inventory Held for Resale	0	27,101	27,101
Interfund Receivable	325,000	0	325,000
Property Taxes Receivable	45,229,268	2,713,552	47,942,820
<i>Total Assets</i>	<u>\$65,492,493</u>	<u>\$7,763,749</u>	<u>\$73,256,242</u>
Liabilities			
Accounts Payable	\$362,411	\$164,990	\$527,401
Accrued Wages and Benefits	4,640,930	220,719	4,861,649
Intergovernmental Payable	999,818	29,995	1,029,813
Matured Compensated Absences Payable	170,183	15,888	186,071
Interfund Payable	0	325,000	325,000
Accrued Interest Payable	0	5,000	5,000
Notes Payable	0	1,316,979	1,316,979
<i>Total Liabilities</i>	<u>6,173,342</u>	<u>2,078,571</u>	<u>8,251,913</u>
Deferred Inflows of Resources			
Property Taxes	33,730,864	2,013,193	35,744,057
Unavailable Revenue	3,836,023	1,075,928	4,911,951
<i>Total Deferred Inflows of Resources</i>	<u>37,566,887</u>	<u>3,089,121</u>	<u>40,656,008</u>
Fund Balances			
Nonspendable	164,160	8,298	172,458
Restricted	0	2,865,160	2,865,160
Committed	85,487	0	85,487
Assigned	3,509,929	0	3,509,929
Unassigned (Deficit)	17,992,688	(277,401)	17,715,287
<i>Total Fund Balances</i>	<u>21,752,264</u>	<u>2,596,057</u>	<u>24,348,321</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$65,492,493</u>	<u>\$7,763,749</u>	<u>\$73,256,242</u>

The accompanying notes are an integral part of the basic financial statements

South Euclid-Lyndhurst City School District
*Reconciliation of Total Governmental Fund Balances to
 Net Position of Governmental Activities*
 June 30, 2017

Total Governmental Fund Balances	\$24,348,321
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*Amounts reported for governmental activities in the
 statement of net position are different because:*

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	19,400,364
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Other long-term assets are not available to pay for current-period expenditures and therefore are reported as unavailable revenue in the funds:

Delinquent Property Taxes	3,992,346	
Grants	852,366	
Tuition and Fees	67,239	
	67,239	

Total	4,911,951
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In the statement of activities, interest is accrued on outstanding loans, whereas in governmental funds, an interest expenditure is reported when due.	(10,500)
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The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds:

Deferred Outflows - Pension	18,469,091	
Deferred Inflows - Pension	(1,161,665)	
Net Pension Liability	(101,812,811)	
	(101,812,811)	

Total	(84,505,385)
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:

General Obligation Bonds	(1,885,924)	
Energy Conservation Note	(315,000)	
Capital Lease Payable	(4,590)	
Compensated Absences	(5,265,957)	
Special Termination Benefits	(240,000)	
Deferred Charge on Refunding	33,220	
	33,220	

Total	(7,678,251)
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<i>Net Position of Governmental Activities</i>	(\$43,533,500)
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The accompanying notes are an integral part of the basic financial statements

South Euclid-Lyndhurst City School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2017

	General	Other Governmental Funds	Total Governmental Funds
Revenues			
Property Taxes	\$35,058,880	\$2,094,704	\$37,153,584
Intergovernmental	16,077,165	4,060,220	20,137,385
Interest	187,095	2,132	189,227
Tuition and Fees	2,146,285	654	2,146,939
Extracurricular Activities	86,112	99,866	185,978
Contributions and Donations	10,745	66,080	76,825
Charges for Services	30,971	455,567	486,538
Rentals	32,217	0	32,217
Payments in Lieu of Taxes	40,000	0	40,000
Miscellaneous	242,704	71,803	314,507
<i>Total Revenues</i>	<u>53,912,174</u>	<u>6,851,026</u>	<u>60,763,200</u>
Expenditures			
Current:			
Instruction:			
Regular	23,631,632	425,848	24,057,480
Special	9,214,450	1,360,349	10,574,799
Vocational	1,420,317	83	1,420,400
Support Services:			
Pupil	4,824,867	20,249	4,845,116
Instructional Staff	1,108,040	195,844	1,303,884
Board of Education	272,994	0	272,994
Administration	4,036,184	1,080	4,037,264
Fiscal	1,745,503	0	1,745,503
Business	499,646	0	499,646
Operation and Maintenance of Plant	6,146,850	0	6,146,850
Pupil Transportation	2,588,574	13,200	2,601,774
Central	1,340,286	26,377	1,366,663
Operation of Non-Instructional Services:			
Food Service Operations	0	1,877,554	1,877,554
Other Non-Instructional Services	25,141	904,278	929,419
Extracurricular Activities	1,007,608	336,762	1,344,370
Capital Outlay	104,780	639,302	744,082
Debt Service:			
Principal Retirement	53,447	1,255,000	1,308,447
Interest and Fiscal Charges	1,891	144,555	146,446
<i>Total Expenditures</i>	<u>58,022,210</u>	<u>7,200,481</u>	<u>65,222,691</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(4,110,036)</u>	<u>(349,455)</u>	<u>(4,459,491)</u>
Other Financing Sources (Uses)			
Energy Conservation Notes Issued	0	315,000	315,000
Sale of Capital Assets	5,375	0	5,375
Transfers In	0	625,000	625,000
Transfers Out	(625,000)	0	(625,000)
<i>Total Other Financing Sources (Uses)</i>	<u>(619,625)</u>	<u>940,000</u>	<u>320,375</u>
Special Item			
Proceeds from the Disposition of Land	0	1,250,000	1,250,000
<i>Net Change in Fund Balances</i>	<u>(4,729,661)</u>	<u>1,840,545</u>	<u>(2,889,116)</u>
<i>Fund Balances Beginning of Year</i>	<u>26,481,925</u>	<u>755,512</u>	<u>27,237,437</u>
<i>Fund Balances End of Year</i>	<u>\$21,752,264</u>	<u>\$2,596,057</u>	<u>\$24,348,321</u>

The accompanying notes are an integral part of the basic financial statements

South Euclid-Lyndhurst City School District
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2017*

Net Change in Fund Balances - Total Governmental Funds (\$2,889,116)

*Amounts reported for governmental activities in the
statement of activities are different because:*

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

Capital Asset Additions	1,366,356
Current Year Depreciation	(1,831,092)

Total (464,736)

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (55,060)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:

Property Taxes	386,433
Intergovernmental	72,149
Tuition and Fees	67,239
Payments in Lieu of Taxes	(40,000)

Total 485,821

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 1,308,447

Other financing sources in the governmental funds, such as notes issued, increase long-term liabilities in the statement of net position. (315,000)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Accrued Interest on Bonds	3,299
Amortization of Bond Premium	27,962
Amortization of Deferred Charge on Refunding	(16,610)

Total 14,651

Contractual required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows. 4,818,191

Except for amounts reported as deferred inflows/outflows, changes in net pension liability are reported as pension expense in the statement of activities. (7,919,389)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Compensated Absences	(263,216)
Special Termination Benefits	(240,000)

Total (503,216)

Change in Net Position of Governmental Activities (\$5,519,407)

The accompanying notes are an integral part of the basic financial statements

South Euclid-Lyndhurst City School District
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2017

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Property Taxes	\$40,708,613	\$41,655,000	\$41,657,371	\$2,371
Intergovernmental	15,495,757	15,856,000	15,857,813	1,813
Interest	214,025	219,000	237,491	18,491
Tuition and Fees	1,130,325	1,162,615	1,162,615	0
Extracurricular Activities	77,503	81,030	81,030	0
Gifts and Donations	9,350	9,350	9,350	0
Charges for Services	30,971	30,971	30,971	0
Rentals	31,950	31,950	31,950	0
Payment in Lieu of Taxes	39,091	40,000	40,000	0
Miscellaneous	231,997	230,739	232,887	2,148
<i>Total Revenues</i>	<u>57,969,582</u>	<u>59,316,655</u>	<u>59,341,478</u>	<u>24,823</u>
Expenditures				
Current:				
Instruction:				
Regular	23,802,587	23,996,276	23,575,446	420,830
Special	9,036,440	9,319,046	9,233,048	85,998
Vocational	1,874,169	1,504,289	1,440,868	63,421
Support Services:				
Pupil	4,694,432	4,892,776	4,796,934	95,842
Instructional Staff	1,498,570	1,244,570	1,168,115	76,455
Board of Education	1,036,352	1,068,526	275,248	793,278
Administration	4,075,968	4,111,468	4,021,498	89,970
Fiscal	1,837,566	1,813,506	1,757,553	55,953
Business	526,937	551,937	510,756	41,181
Operation and Maintenance of Plant	6,804,986	6,738,186	6,436,955	301,231
Pupil Transportation	2,876,105	2,896,020	2,659,089	236,931
Central	1,647,486	1,915,086	1,444,846	470,240
Operation of Non-Instructional Services	150,151	161,876	7,952	153,924
Extracurricular Activities	1,104,450	1,129,450	1,014,725	114,725
Capital Outlay	0	132,000	104,980	27,020
Debt Service:				
Principal Retirement	53,447	53,447	53,447	0
Interest and Fiscal Charges	1,891	1,891	1,891	0
<i>Total Expenditures</i>	<u>61,021,537</u>	<u>61,530,350</u>	<u>58,503,351</u>	<u>3,026,999</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(3,051,955)</u>	<u>(2,213,695)</u>	<u>838,127</u>	<u>3,051,822</u>
Other Financing Sources (Uses)				
Sale of Capital Assets	5,000	5,000	5,375	375
Advances In	24,000	24,000	24,000	0
Advances Out	(20,000)	(325,000)	(325,000)	0
Transfers Out	(497,000)	(897,000)	(897,000)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(488,000)</u>	<u>(1,193,000)</u>	<u>(1,192,625)</u>	<u>375</u>
<i>Net Change in Fund Balance</i>	<u>(3,539,955)</u>	<u>(3,406,695)</u>	<u>(354,498)</u>	<u>3,052,197</u>
<i>Fund Balance Beginning of Year</i>	17,067,891	17,067,891	17,067,891	0
Prior Year Encumbrances Appropriated	493,833	493,833	493,833	0
<i>Fund Balance End of Year</i>	<u>\$14,021,769</u>	<u>\$14,155,029</u>	<u>\$17,207,226</u>	<u>\$3,052,197</u>

The accompanying notes are an integral part of the basic financial statements

South Euclid-Lyndhurst City School District

Statement of Fiduciary Assets and Liabilities

Agency Funds

June 30, 2017

Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$77,871</u>
Liabilities	
Undistributed Monies	\$1,551
Due to Students	<u>76,320</u>
<i>Total Liabilities</i>	<u>\$77,871</u>

The accompanying notes are an integral part of the basic financial statements

South Euclid-Lyndhurst City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017*

Note 1 – Description of the School District and Reporting Entity

The South Euclid-Lyndhurst City School District (School District) is a body public and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The School District is governed by a locally-elected five-member Board of Education (Board) and provides educational services as mandated by state and/or federal agencies. This Board controls the School District's six instructional/support facilities which are staffed by 243 classified and 294 certificated personnel who provide services to 3,377 students and other community members.

Reporting Entity

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

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

The School District participates in two jointly governed organizations and two public entity pools. These organizations are Connect, Ohio Schools Council, Ohio School Boards Association Workers' Compensation Group Rating Program, and Suburban Health Consortium. These organizations are presented in Notes 18 and 19 of the basic financial statements.

Note 2 – Summary of Significant Accounting Policies

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

Basis of Presentation

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

South Euclid-Lyndhurst City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017*

Government-wide Financial Statements The statement of net position and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. These statements usually distinguish between those activities of the School District that are governmental and those that are considered business-type. The School District, however, has no business-type activities.

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

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

Fund Accounting

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

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

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

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

South Euclid-Lyndhurst City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017*

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

Measurement Focus

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

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

Basis of Accounting

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

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

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 7). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure

South Euclid-Lyndhurst City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017*

requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

Deferred Outflows/Inflows of Resources In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School District, deferred outflows of resources are reported on the government-wide statement of net position for deferred charges on refunding and for pension. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred outflows of resources related to pension are explained in Note 11.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the School District, deferred inflows of resources include property taxes, pension and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2017, but which were levied to finance fiscal year 2018 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the School District, unavailable revenue includes delinquent property taxes and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. The details of these unavailable revenues are identified on the Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities found on page 15. Deferred inflows of resources related to pension are reported on the government-wide statement of net position. (See Note 11)

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

Pensions

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

South Euclid-Lyndhurst City School District

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Budgetary Data

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

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

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

Cash and Cash Equivalents

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

During fiscal year 2017, investments were limited to STAR Ohio, a Treasury money market account and negotiable certificates of deposit. Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices.

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

For 2017, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

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Following Ohio statutes, the Board of Education has, by resolution, identified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2017 amounted to \$187,095 which includes \$32,913 assigned from other School District funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents.

Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments or imposed by law through constitutional provisions. Restricted assets in the general fund include money set aside for unclaimed monies.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2017, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount at the time of purchase and reflecting the expenditure/expense in the fiscal year which services are consumed.

Inventory

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventories consist of expendable supplies held for consumption and donated and purchased food held for resale.

Capital Assets

The School District's only capital assets are general capital assets. These assets generally result from expenditures in the governmental funds. They are reported in the governmental activities column of the governmental-wide statement of net position but are not reported in the fund financial statements.

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The School District was able to estimate the historical cost for the initial reporting of assets by backtrending (i.e., estimating the current replacement cost of the asset to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). Donated capital assets are recorded at their acquisition values as of the date received. The School District maintains a capitalization threshold of \$1,000. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	10-40 years
Furniture and Equipment	5-20 years
Vehicles	10 years

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Interfund Balances

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

Fund Balance

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

Nonspendable The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

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

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

Assigned Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. These amounts are assigned by the School District Board of Education. In the general fund, assigned amounts represent intended uses established by the School District Board of Education or a School District official delegated that authority by State statute. State statute authorizes the Treasurer to assign fund balance purchases on order provided such amounts have been lawfully appropriated. The Board of Education assigned fund balance for administrative programs, after school daycare program, athletics and to cover a gap between estimated revenue and appropriations in fiscal year 2018’s budget.

Unassigned Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

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

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*Notes to the Basic Financial Statements
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Bond Premium

On the government-wide financial statements, bond premiums are deferred and amortized over the term of the bonds using the straight-line method. Bond premiums are presented as an increase of the face amount of the bonds payable. On the governmental fund statements, bond premiums are receipted in the year the bonds are issued. Under Ohio law, premiums on the original issuance of debt are to be deposited to the bond retirement fund to be used for debt retirement and are precluded from being applied to the project fund. Ohio law does allow premiums on refunding debt to be used as part of the payment to the bond escrow agent.

Deferred Charge on Refunding

On the government-wide financial statements, the difference between the reacquisition price (funds required to refund the old debt) and the net carrying amount of the old debt, the gain/loss on the refunding, is being amortized as a component of interest expense. This deferred amount is amortized over the life of the old or new debt, whichever is shorter, using the straight-line method and is presented as deferred outflows of resources on the statement of net position.

Compensated Absences

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

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy. The School District records a liability for accumulated unused sick leave for employees after 10 years of current service with the School District.

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

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the fund or funds from which the employees who have accumulated the leave are paid.

Accrued Liabilities and Long-Term Obligations

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

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

Net Position

Net position represents the difference between all other elements in a statement of financial position. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws, or regulations of other governments adopted by the School District. Net position restricted for other purposes include resources restricted for athletic programs, education management information systems, entry-year programs, school-net professional development and miscellaneous state and federal grant programs.

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

Internal Activity

Transfers between governmental funds are eliminated on the government-wide financial statements. Internal events that are allocations of overhead expenses from one function to another or within the same function are eliminated on the Statement of Activities. Interfund payments for services provided and used are eliminated.

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

Estimates

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

South Euclid-Lyndhurst City School District

*Notes to the Basic Financial Statements
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Note 3 – Fund Balances

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

Fund Balances	General	Other Governmental Funds	Total
<i>Nonspendable:</i>			
Unclaimed Monies	\$23,181	\$0	\$23,181
Prepays	119,268	6,447	125,715
Materials and Supplies Inventory	21,711	1,851	23,562
Total Nonspendable	164,160	8,298	172,458
<i>Restricted for:</i>			
Scholarships	0	36,587	36,587
Leadership/Intern Programs	0	130,496	130,496
Athletics	0	154,576	154,576
Non-Public Schools	0	84,950	84,950
Teacher Development	0	3,717	3,717
English Proficiency	0	20,607	20,607
Capital Projects	0	1,634,121	1,634,121
Debt Service	0	800,106	800,106
Total Restricted	0	2,865,160	2,865,160
<i>Committed to:</i>			
Educational Service Center Services	12,454	0	12,454
Legal and Audit/Consulting Services	9,004	0	9,004
Termination Benefits	60,899	0	60,899
Other Purposes	3,130	0	3,130
Total Committed	85,487	0	85,487
<i>Assigned to:</i>			
Administration	44,349	0	44,349
After School Daycare Program	471	0	471
Athletics	267,674	0	267,674
Purchases on Order			
Salaries and Fringe Benefits	7,475	0	7,475
Purchased Services	118,605	0	118,605
Materials and Supplies	117,682	0	117,682
Capital Outlay and Other	7,399	0	7,399
Fiscal Year 2018 Operations	2,946,274	0	2,946,274
Total Assigned	3,509,929	0	3,509,929
<i>Unassigned (Deficit)</i>	17,992,688	(277,401)	17,715,287
<i>Total Fund Balances</i>	\$21,752,264	\$2,596,057	\$24,348,321

South Euclid-Lyndhurst City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017*

Note 4 – Fund Deficits

At June 30, 2017, the following funds have deficit balances:

Other Governmental Funds:

Special Revenue Funds:

Food Service	\$9,491
Alternative School Grant	6,039
Title VI-B	136,958
Title I	90,757
Preschool Handicap	4,170
Title II-A	4,959

Capital Projects Funds:

Building	16,729
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The deficit in the building capital projects fund is the result of the issuance of short-term notes for an energy conservation project. Once the notes are retired, the deficit will be eliminated.

The deficits in the nonmajor special revenue funds are caused by the recognition of expenditures on the modified accrual basis of accounting. The general fund is liable for any deficits in these funds and provides transfers when cash is required, rather than when accruals occur.

Note 5 – Budgetary Basis of Accounting

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Advances-In and Advances-Out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).
3. Unrecorded cash represents amounts received but not included as revenue on the budgetary statements, but is reported on the operating statements prepared using GAAP.
4. Investments are reported at cost (budget basis) rather than at fair value (GAAP basis).
5. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
6. Budgetary revenues and expenditures of the public school support, latchkey, stadium funds and termination benefits are classified to general fund for GAAP Reporting.

South Euclid-Lyndhurst City School District

*Notes to the Basic Financial Statements
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7. Encumbrances are treated as expenditures (budget basis) rather than as restricted, committed or assigned fund balance (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements on a fund type basis for the general fund:

	<u>General</u>
GAAP Basis	(\$4,729,661)
Net Adjustment for Revenue Accruals	5,677,403
Advances In	24,000
Beginning Unrecorded Cash	2,266
Ending Unrecorded Cash	(18,338)
Beginning Fair Value Adjustment for Investments	42,288
Ending Fair Value Adjustment for Investments	40,188
Net Adjustment for Expenditure Accruals	(361,608)
Perspective Difference:	
Public School Support	2,470
Latchkey	3,242
Stadium Funds	(51,000)
Termination Benefits	(50,180)
Advances Out	(325,000)
Encumbrances	(610,568)
Budget Basis	<u><u>(\$354,498)</u></u>

Note 6 – Deposits and Investments

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

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

Inactive deposits are public deposits that the Board 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.

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Interim monies held by the School District can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio;
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);
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.

Investments

Investments are reported at fair value. As of June 30, 2017, the School District had the following investments:

Measurement/Investment	Measurement Amount	Maturity	Standard & Poor's Rating	Percentage of Total Investments
Amortized Cost				
STAR Ohio	\$9,060,922	Average 45.5 Days	AAAm	N/A
Treasury Money Market	1,044,699	Less than one year	AAA	4.63%
Fair Value - Level Two Inputs				
Negotiable Certificates of Deposit	7,710,357	More than one year	N/A	34.17%
Negotiable Certificates of Deposit	<u>4,749,455</u>	Less than one year	N/A	21.05%
Total	<u><u>\$22,565,433</u></u>			

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*Notes to the Basic Financial Statements
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The School District has categorized its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The prior chart identifies the School District's recurring fair value measurements as of June 30, 2017. All of the School District's investments measured at fair value are valued using a matrix or model pricing method (Level 2 inputs).

Credit Risk The negotiable certificates of deposit are unrated. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. STAR Ohio carries a rating of AAAM by Standard and Poor's. The School District has no investment policy that addresses credit risk.

Interest Rate Risk The School District has no policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and that an investment must be purchased with the expectation that it will be held to maturity.

Concentration of Credit Risk The School District places no limit on the amount it may invest in any one issuer.

Note 7 – Property Taxes

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

Property taxes include amounts levied against all real and public utility property located in the School District. Real property tax revenues received in calendar year 2017 represent the collection of calendar year 2016 taxes. Real property taxes received in calendar year 2017 were levied after April 1, 2016, on the assessed value listed as of January 1, 2016, the lien date. Assessed values for real property are established by State law at thirty-five percent of appraised market value. Real property are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in calendar year 2017 represents collections of calendar year 2016 taxes. Public utility real and tangible personal property taxes received in calendar year 2017 became a lien on December 31, 2015, were levied after April 1, 2016, and are collected in 2017 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

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For the Fiscal Year Ended June 30, 2017*

The School District receives property taxes from Cuyahoga County. The County Fiscal Officer periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2017, are available to finance fiscal year 2017 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property and public utility property taxes which are measurable as of June 30, 2017, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred inflows of resources – property taxes. On the accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on the modified accrual basis the revenue has been reported as deferred inflows of resources – unavailable revenue.

The amount available as an advance at June 30, 2017, was \$7,734,969 in the general fund, \$157,953 in the bond retirement debt service fund, and \$313,495 in the permanent improvement capital projects fund. The amount available as an advance at June 30, 2016, was \$14,333,460 in the general fund, \$315,603 in the bond retirement debt service fund, and \$581,963 in the permanent improvement capital projects fund.

The assessed values upon which the fiscal year 2017 taxes were collected are:

	2016 Second Half Collections		2017 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$737,075,340	98.02 %	\$738,309,110	97.91 %
Public Utility Personal	14,868,570	1.98	15,727,200	2.09
Total	\$751,943,910	100.00 %	\$754,036,310	100.00 %
Tax rate per \$1,000 of assessed valuation	\$107.80		\$107.70	

Note 8 – Receivables

Receivables at June 30, 2017, consisted of taxes, accounts (tuition, rent, extracurricular and miscellaneous) and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes. All receivables, except delinquent property taxes, are expected to be collected within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

South Euclid-Lyndhurst City School District

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A summary of the intergovernmental receivables follows:

Governmental Activities	Amount
Prior Year State Foundation Adjustments	\$1,281,010
Title VI-B Grant	481,405
Title I Grant	275,596
Bureau Workers Compensation Refund	145,161
Title II-A Grant	70,864
Title III Grant	7,561
Alternative Schools Grant	5,952
Preschool Handicap Grant	5,639
School Employees Retirement System Refund	5,349
State Breakfast Subsidy	3,017
Medicaid Reimbursement	2,256
Total Governmental Activities	<u><u>\$2,283,810</u></u>

Note 9 – Risk Management

Insurance

The School District is exposed to various risks of loss related to torts, thefts of, damage to, and destruction of assets, errors, and omissions, injuries to employees, and natural disasters. The School District has addressed these various types of risk by purchasing a comprehensive insurance policy through commercial carriers.

General liability insurance is maintained in the amount of \$1,000,000 for each occurrence and \$2,000,000 in the aggregate.

The School District maintains fleet insurance in the amount of \$1,000,000 for any one accident or loss.

The School District maintains replacement cost insurance on buildings and contents in the amount of \$160,016,469.

Settled claims have not exceeded coverage within the last three years. There has not been a significant reduction in coverage from the prior years.

Employee Health Benefits

For fiscal year 2017, the School District was a participant in the Suburban Health Consortium (the “Consortium”) to provide employee health, dental and prescription drug benefits. The Consortium is administered by Medical Mutual. Payments are made to the Consortium for the monthly attachment point, monthly stop-loss premiums, and administrative charges. The fiscal agent of the Consortium is the Orange City School District. The Treasurer of the Orange City School District pays monthly for the actual amount of claims processed, the stop-loss premium and the administrative charges. The entire risk of loss transfers to the Consortium upon payment of the premiums.

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The School District provides vision coverage through VSP and is also subject to certain deductibles, co-pays and maximum benefits as outlined in the plan. In order for employees to be eligible to receive vision coverage they must work at least twenty hours or more for classified and at least half time for certified employees. Per the negotiated agreement, the premium is paid based on full time equivalency. If an employee is not full time, the School District pays the premium for an employee who has single coverage and the difference between the monthly family premium and the employee contribution for family coverage.

Workers' Compensation

For fiscal year 2017, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 19). The intent of the GRP is to achieve the benefit of a reduced premium for the School 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. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Sheakley Uniserve provides administration, cost control, and actuarial services to the GRP.

Note 10 – Capital Assets

Capital asset activity for the fiscal year ended June 30, 2017, was as follows:

	Balance 6/30/16	Additions	Deletions	Balance 6/30/17
Governmental Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	\$786,793	\$0	(\$52,427)	\$734,366
<i>Capital Assets, being depreciated:</i>				
Buildings and Improvements	29,973,027	187,145	(42,126)	30,118,046
Furniture and Equipment	9,578,788	1,179,211	(19,313)	10,738,686
Vehicles	4,218,865	0	0	4,218,865
<i>Total Capital Assets, being depreciated</i>	43,770,680	1,366,356	(61,439)	45,075,597
<i>Less Accumulated Depreciation:</i>				
Buildings and Improvements	(14,831,226)	(663,800)	39,493	(15,455,533)
Furniture and Equipment	(7,320,031)	(860,998)	19,313	(8,161,716)
Vehicles	(2,486,056)	(306,294)	0	(2,792,350)
<i>Total Accumulated Depreciation</i>	(24,637,313)	(1,831,092) *	58,806	(26,409,599)
<i>Total Capital Assets, being depreciated, net</i>	19,133,367	(464,736)	(2,633)	18,665,998
Governmental Activities Capital Assets, Net	\$19,920,160	(\$464,736)	(\$55,060)	\$19,400,364

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* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$974,436
Special	17,428
Vocational	1,751
Support Services:	
Pupil	6,299
Instructional Staff	24,341
Administration	8,253
Fiscal	3,394
Business	10,619
Operation and Maintenance of Plant	140,964
Pupil Transportation	276,950
Central	163,803
Operation of Non-Instructional Services:	
Food Service Operations	25,151
Other Non-Instructional Services	87,491
Extracurricular Activities	90,212
Total Depreciation Expense	<u><u>\$1,831,092</u></u>

Note 11 – Defined Benefit Pension Plans

Net Pension Liability

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

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

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

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

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

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

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

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

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare B

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Fund, and Health Care Fund). For the fiscal year ended June 30, 2017, the allocation to pension, death benefits, and Medicare B was 14 percent. No allocation was made to the Health Care Fund.

The School District's contractually required contribution to SERS was \$1,437,267 for fiscal year 2017. Of this amount \$21,047 is reported as an intergovernmental payable.

Plan Description - State Teachers Retirement System (STRS)

Plan Description – School District licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple employer public employee 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 is 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

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, 12 percent of the 14 percent member rate goes to the DC Plan and the remaining 2 percent is applied to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member 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 service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

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

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit to 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. For the fiscal year ended June 30, 2017, the employer rate was 14 percent and the plan members were also required to contribute 14 percent of covered salary. The statutory member contribution rate was increased one percent to 14 percent on July 1, 2016. The fiscal year 2017 contribution rates were equal to the statutory maximum rates.

The School District's contractually required contribution to STRS was \$3,380,924 for fiscal year 2017. Of this amount \$603,146 is reported as an intergovernmental payable.

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

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School District's proportion of the net pension liability was based on the School District's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net Pension Liability			
Prior Measurement Date	0.32455690%	0.23351627%	
Proportion of the Net Pension Liability			
Current Measurement Date	<u>0.32784280%</u>	<u>0.23247905%</u>	
Change in Proportionate Share	<u>0.00328590%</u>	<u>-0.00103722%</u>	
Proportionate Share of the Net			
Pension Liability	\$23,995,067	\$77,817,744	\$101,812,811
Pension Expense	\$2,461,313	\$5,458,076	\$7,919,389

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At June 30, 2017, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$323,638	\$3,144,211	\$3,467,849
Changes of assumptions	1,601,802	0	1,601,802
Net difference between projected and actual earnings on pension plan investments	1,979,245	6,460,963	8,440,208
Changes in proportionate Share and difference between School District contributions and proportionate share of contributions	141,041	0	141,041
School District contributions subsequent to the measurement date	<u>1,437,267</u>	<u>3,380,924</u>	<u>4,818,191</u>
Total Deferred Outflows of Resources	<u>\$5,482,993</u>	<u>\$12,986,098</u>	<u>\$18,469,091</u>
 Deferred Inflows of Resources			
Changes in Proportionate Share and Difference between School District contributions and proportionate share of contributions	<u>\$183,318</u>	<u>\$978,347</u>	<u>\$1,161,665</u>

\$4,818,191 reported as deferred outflows of resources related to pension resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2018	\$942,882	\$1,218,768	\$2,161,650
2019	941,457	1,218,768	2,160,225
2020	1,409,117	3,698,021	5,107,138
2021	<u>568,952</u>	<u>2,491,270</u>	<u>3,060,222</u>
Total	<u>\$3,862,408</u>	<u>\$8,626,827</u>	<u>\$12,489,235</u>

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.

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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, 2016, compared with June 30, 2015, are presented below:

	June 30, 2016	June 30, 2015
Wage Inflation	3.00 percent	3.25 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent	4.00 percent to 22.00 percent
COLA or Ad Hoc COLA	3 percent	3 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal	Entry Age Normal

For 2016, the mortality assumptions are that mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females. For 2015, the mortality assumptions were based on the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables were used for the period after disability retirement.

The most recent experience study was completed for the five year period ended June 30, 2015.

The long-term return expectation for the Pension Plan Investments has been determined by 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 an arithmetic weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalanced uncorrelated asset classes.

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Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	1.00 %	0.50 %
US Stocks	22.50	4.75
Non-US Stocks	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	10.00	3.00
Total	100.00 %	

Discount Rate The total pension liability was calculated using the discount rate of 7.50 percent. A discount rate of 7.75 percent was used in the prior measurement period. 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 (7.50 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 School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.50 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 (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
School District's proportionate share of the net pension liability	\$31,767,975	\$23,995,067	\$17,488,822

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Salary increases	12.25 percent at age 20 to 2.75 percent at age 70
Investment Rate of Return	7.75 percent, net of investment expenses, including inflation
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 commences on fifth anniversary of retirement date.

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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 no set back from age 90 and above.

Actuarial assumptions used in the June 30, 2016, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

STRS’ investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

Asset Class	Target Allocation	Long-Term Expected 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 %	7.61 %

* 10 year annualized geometric nominal returns include the real rate of return and inflation of 2.5 percent, and does not include investment expenses. The total fund long-term expected return reflects diversification among the asset classes and therefore is not a weighted average return of the individual asset classes.

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. 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 of future plan members, are excluded. 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, 2016. 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, 2016.

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

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For the Fiscal Year Ended June 30, 2017

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$103,413,461	\$77,817,744	\$56,226,251

Changes between Measurement Date and Report Date

In March 2017, the STRS Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of June 30, 2017. The most significant change is a reduction in the discount rate from 7.75 percent to 7.45 percent. In April 2017, the STRS Board voted to suspend cost of living adjustments granted on or after July 1, 2017. Although the exact amount of these changes is not known, the overall impact to the School District's NPL is expected to be significant.

Note 12 – Postemployment Benefits

School Employees Retirement System

Health Care Plan Description - The School District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. SERS offers several types of health plans from various vendors, including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrator and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Active employee members do not contribute to the Health Care Plan. The SERS Retirement Board established the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2017, no allocation of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2017, this amount was \$23,500. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2017, the School District's surcharge obligation was \$138,296, which will be paid in 2018 and is included in intergovernmental payable.

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The surcharge, added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The School District's contributions for health care for the fiscal years ended June 30, 2017, 2016 and 2015 were \$153,490, \$126,680 and \$206,902, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

State Teachers Retirement System (STRS)

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For the fiscal years ended June 30, 2017, June 30, 2016 and June 30, 2015, STRS Ohio did not allocate any employer contributions to post-employment health care.

Note 13 – Employee Benefits

Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees whose established contractual year is 240 days or more earn 10 to 25 days of vacation per year, depending upon length of service and hours worked. Teachers do not earn vacation time. Administrators employed to work 260 days per year earn 20 to 30 days of vacation annually. Accumulated unused vacation time is paid to classified employees and administrators upon termination of employment.

Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. Employee sick leave may be accumulated to a maximum number of days, classified employees, teachers and administrators have an unlimited number of days. Upon retirement, employees receive payment for a percentage of their total sick leave accumulation, up to a maximum number of days. Classified employees receive 30 percent of their total sick leave accumulation to a maximum of 75 days, teachers receive 30 percent of their total sick leave accumulation to a maximum of 80 days, and administrators receive 30 percent of their total sick leave to a maximum of 90 days.

Early Retirement Incentive

The School District negotiated an early retirement incentive for eligible certified employees who submit an irrevocable notice of resignation for retirement from the State Teachers Retirement System on or before March 2023 to take effect on or before July 1, 2023 and who are not seeking reemployment with the School District. The incentive amount is \$60,000 per eligible employee to be made in three equal payments in January of the first, second and third consecutive year after retirement. There was a liability of \$240,000 as of June 30, 2017 for this plan.

South Euclid-Lyndhurst City School District

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Life Insurance

The School District provides life insurance and accidental death and dismemberment insurance to most employees administered by Anthem through the Suburban Health Consortium, in the amount of \$60,000 for all certified employees, \$50,000 for classified employees, and \$135,000 for administrators.

Note 14 – Set-Asides

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

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

	<u>Capital Improvements</u>
Set-Aside Balance as of June 30, 2016	\$0
Current Year Set-Aside Requirement	594,008
Current Year Offsets	(810,189)
Qualifying Disbursements	(1,054,165)
Totals	<u>(\$1,270,346)</u>
Set-Aside Balance Carried Forward to Future Fiscal Years	<u>\$0</u>
Set-Aside Balance as of June 30, 2017	<u>\$0</u>

While the qualifying disbursements and offsets during the fiscal year reduced the capital improvement set-aside amount to below zero, this amount may not be used to reduce the set-aside requirements of future fiscal years.

Note 15 – Capital Lease

In a prior year, the School District entered into a capital lease for copiers. The lease obligation meets the criteria of a capital lease and has been recorded on the government-wide statements. The original amounts capitalized for the capital lease and the book value as of June 30, 2017 follows:

	<u>Amounts</u>
Asset:	
Furniture and Equipment	\$152,498
Less: Accumulated Depreciation	(38,124)
Current Book Value	<u>\$114,374</u>

Amortization of the asset held under the capital lease is included in depreciation expense.

South Euclid-Lyndhurst City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017*

As of June 30, 2017, the present value of the minimum lease payments was \$4,590, consisting of the fiscal year 2018 minimum lease payment of \$4,611 less the amount representing interest of \$21.

Note 16 – Short-Term Debt

The School District’s note activity, including amounts outstanding and interest rates, is as follows:

	Balance 6/30/2016	Additions	Deletions	Balance 6/30/2017
Permanent Improvement Fund				
Tax Anticipation Note 2007 - 5.0%	\$2,345,000	\$0	(\$1,145,000)	\$1,200,000
Unamortized Premium	70,353	0	(38,374)	31,979
Total Tax Anticipation Note	<u>2,415,353</u>	<u>0</u>	<u>(1,183,374)</u>	<u>1,231,979</u>
Building Fund				
Energy Conservation Notes, Series 2015 - 0.95%	75,000	0	(75,000)	0
Energy Conservation Notes, Series 2016 - 1.20%	0	85,000	0	85,000
Total Energy Conservation Notes	<u>75,000</u>	<u>85,000</u>	<u>(75,000)</u>	<u>85,000</u>
<i>Total Short-Term Debt</i>	<u>\$2,490,353</u>	<u>\$85,000</u>	<u>(\$1,258,374)</u>	<u>\$1,316,979</u>

The energy conservation improvement bond anticipation notes are backed by the full faith and credit of the School District and will mature within one year. The note liability is reflected in the fund which received the proceeds.

The tax anticipation notes will be paid from the permanent improvement capital project fund with property tax revenue. The notes were issued with a premium of \$422,115. The amortization of the premium for fiscal year 2017 was \$38,374. At June 30, 2017, principal of \$1,200,000 and interest of \$30,000 remain to be paid in fiscal year 2018 to retire the tax anticipation notes.

Note 17 – Long-Term Obligations

The original issue date, interest rate, original issue amount and date of maturity of each of the School District’s long-term obligations are:

Debt Issue	Interest Rate	Issue Amount	Date of Maturity
<i>General Obligation Bonds:</i>			
School Improvement Refunding - 2006 Term Bonds	4.00%	\$1,830,000	December 1, 2018
Energy Conservation Notes, Series 2016	1.20%	315,000	August 4, 2017

South Euclid-Lyndhurst City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017*

Changes in long-term obligations of the School District during fiscal year 2017 were as follows:

	Principal Outstanding 6/30/16	Additions	(Reductions)	Principal Outstanding 6/30/17	Amount Due in One Year
General Obligation Debt:					
School Improvement Refunding - 2006					
Serial Bonds	\$855,000	\$0	(\$855,000)	\$0	\$0
Term Bonds	1,830,000	0	0	1,830,000	900,000
Unamortized Premium	83,886	0	(27,962)	55,924	0
<i>Total General Obligation Bonds</i>	<u>2,768,886</u>	<u>0</u>	<u>(882,962)</u>	<u>1,885,924</u>	<u>900,000</u>
Energy Conservation Notes, Series 2015	400,000	0	(400,000)	0	0
Energy Conservation Notes, Series 2016	0	315,000	0	315,000	0
<i>Total Energy Conservation Notes</i>	<u>400,000</u>	<u>315,000</u>	<u>(400,000)</u>	<u>315,000</u>	<u>0</u>
Other Long-term Obligations:					
Net Pension Liability					
STRS	64,537,067	13,280,677	0	77,817,744	0
SERS	18,519,531	5,475,536	0	23,995,067	0
<i>Total Net Pension Liability</i>	<u>83,056,598</u>	<u>18,756,213</u>	<u>0</u>	<u>101,812,811</u>	<u>0</u>
Capital Lease Payable	58,037	0	(53,447)	4,590	4,590
Compensated Absences	5,002,741	662,869	(399,653)	5,265,957	779,776
Special Termination Benefits	0	240,000	0	240,000	80,000
<i>Total Other Long-term Obligations</i>	<u>88,117,376</u>	<u>19,659,082</u>	<u>(453,100)</u>	<u>107,323,358</u>	<u>864,366</u>
Total Governmental Activities	<u><u>\$91,286,262</u></u>	<u><u>\$19,974,082</u></u>	<u><u>(\$1,736,062)</u></u>	<u><u>\$109,524,282</u></u>	<u><u>\$1,764,366</u></u>

Energy conservation bond anticipation notes were issued to pay the costs of installations, modifications and the remodeling of school buildings to conserve energy. These notes will be paid from the building fund.

The capital lease and early retirement incentive will be paid out of the general fund. Compensated absences will be paid from the general fund and the food service, Title VI-B, Title I and preschool handicap special revenue funds. There is no repayment schedule for the net pension liability. However, employer pension contributions are made from the following funds: general, food service, Title VI-B, Title I and Title II-A. For additional information related to the net pension liability see Note 11.

On June 28, 2006, the School District issued \$9,389,995 in voted general obligation bonds, which included serial, term, and capital appreciation (deep discount) bonds in the amount of \$7,065,000, \$1,830,000 and \$494,995, respectively. The bonds advance refunded \$5,605,000 of outstanding 1993 School Improvement General Obligation Bonds and \$3,785,000 of outstanding 1996 School Improvement General Obligation Bonds which were issued for the purpose of renovating and making additions to school buildings. The bonds will be paid from property taxes in the debt service fund.

The term bonds remained outstanding at June 30, 2017.

The term bonds maturing on December 1, 2018, are subject to mandatory sinking fund redemption at a redemption price of 100 percent of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1, 2017, in the amount of \$900,000 with the balance of \$930,000 to be paid at stated maturity on December 1, 2018.

South Euclid-Lyndhurst City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017*

The School District's overall debt margin was \$66,833,374 with an unvoted debt margin of \$754,036 at June 30, 2017. Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2017, are as follows:

	Term Bonds	
	Principal	Interest
2018	\$900,000	\$55,200
2019	930,000	18,600
Total	<u>\$1,830,000</u>	<u>\$73,800</u>

In 2006, the School District defeased 1993 and 1996 school improvement bond issues, in order to take advantage of lower interest rates. The proceeds of the new bonds were placed in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the School District's financial statements. On June 30, 2017, \$1,920,000 of the defeased bonds are still outstanding.

Note 18 – Jointly Governed Organizations

Connect

Connect is a jointly governed computer service bureau owned and operated by thirteen public school districts. Connect was formed when the Lakeshore Northeast Ohio Computer Consortium and the Lake Erie Educational Computer Association merged during fiscal year 2012. The primary function of Connect is to provide to its members the support and leadership which enables organizations to achieve their objectives through innovative and cost effective shared technology solutions. Major areas of service provided by Connect include accounting, payroll, inventory, career guidance services, handicapped student tracking, pupil scheduling, attendance reporting and grade reporting. Connect is wholly owned by its member districts and is governed by a Board of Directors (member Superintendents). Connect's Board exercises total control over the operations of the organization including budgeting, appropriating, contracting and designating management. Each participant's degree of control is limited to its representation on the Board. Connect's current membership includes the Educational Service Center of Cuyahoga County and thirteen school districts in Cuyahoga County. Each year, the Board of Directors elects a Chairman, a Vice Chairman, and a Recording Secretary. The Treasurer of the fiscal agent is a nonvoting, ex-officio member of the Board of Directors. The Cuyahoga County Educational Service Center serves as the fiscal agent of Connect. Each school district supports Connect based upon a per pupil charge dependent upon the software packages used. In fiscal year 2017, the School District paid \$81,994 to Connect. Financial information can be obtained by contacting the Treasurer of the fiscal agent at 6393 Oak Tree Boulevard, Independence, Ohio 44131.

Ohio Schools Council

The Ohio Schools Council (Council) is a jointly governed organization among 231 school districts. The jointly governed organization was created by school districts for the purpose of saving money through volume purchases. Each district supports the Council by paying an annual participation fee. Each school district member's superintendent serves as a representative of the Assembly, which is the legislative body of the Council. The Council's Board exercises total control over the operations of the organization including budgeting, appropriating, contracting and designating management. Each participant's degree of control is limited to its representation on the Board. The Assembly elects five of the Council's Board

South Euclid-Lyndhurst City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017*

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 to June. The Board appoints an Executive Director who is responsible for receiving and disbursing funds, investing available funds, preparing financial reports for the Board and Assembly and carrying out such other responsibilities as designated by the Board. In fiscal year 2017, the School District paid \$176,273 to the Council. Financial information can be obtained by contacting Dr. William Zelei, the Executive Director of the Ohio Schools Council at 6133 Rockside Road, Suite 10, Independence, Ohio 44131.

The School District participates in the natural gas purchase program. This program allows the School District to purchase natural gas at reduced rates. Constellation New Energy (formerly known as Compass Energy) serves as the new supplier and program manager for the period from April 1, 2016 through March 31, 2019. There are currently 157 participants in the program. The participants make monthly payments based on estimated usage. Each September, these estimated payments are compared to their actual usage for the year (July to June). Districts that paid more in estimated billings than their actual billings are issued credits on future billings in September until the credits are exhausted and districts that did not pay enough on estimated billings are invoiced for the difference on the September monthly estimated billing.

Note 19 – Public Entity Pools

Insurance Purchasing Pool

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

Shared Risk Pool

The Suburban Health Consortium (the "Consortium") is a shared health risk pool created on October 1, 2001, formed by the Boards of Education of several school districts in northeast Ohio, for the purposes of maximizing benefits and/or reducing costs of group health, life, dental and/or other insurance coverage for their employees and the eligible dependents and designated beneficiaries of such employees. The Consortium was formed and operates as a legally separate entity under Ohio Revised Code Section 9.833. The Board of Directors is the governing body of the Consortium. The Board of Education of each Consortium Member appoints its Superintendent or such Superintendent's designee to be its representative on the Board of Directors. The officers of the Board of Directors consist of a Chairman, Vice-Chairman and Recording Secretary, who are elected at the annual meeting of Board of Directors and serve until the next annual meeting. All of the authority of the Consortium is exercised by or under the direction of the Board of Directors. The Board of Directors also set all premiums and other amounts to be paid by the Consortium Members, and the Board of Directors have the authority to waive premiums and other payments. All members of the Board of Directors serve without compensation.

South Euclid-Lyndhurst City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017*

The Fiscal Agent shall be the Board of Education responsible for administering the financial transactions of the Consortium (Orange City School District). The Fiscal Agent shall carry out the responsibilities of the Consortium Fund, enter into contracts on behalf of the Consortium as authorized by the Directors and carry out such other responsibilities as approved by the Directors and agreed to by the Fiscal Agent. Each District Member enrolled in a benefit program may require contributions from its employees toward the cost of any benefit program being offered by such District Member, and such contributions shall be included in the payments from such District Member to the Fiscal Agent for such benefit program. Contributions are to be submitted by each District Member, to the Fiscal Agent, required under the terms of the Consortium Agreement and any benefit program in which such District Member is enrolled to the Fiscal Agent on a monthly basis, or as otherwise required in accordance with any benefit program in which such District Member is enrolled. All general administrative costs incurred by the Consortium that are not covered by the premium payments shall be shared equally by the Consortium Members as approved by the Directors, and shall be paid by each Consortium Member upon receipt of notice from the Fiscal Agent that such payment is due. It is the express intention of the Consortium Members that the Consortium Agreement and the Consortium shall continue for an indefinite term, but may be terminated as provided in the Consortium Agreement.

Any Consortium Member wishing to withdraw from participation in the Consortium or any benefit program shall notify the Fiscal Agent at least one hundred eighty (180) days prior to the effective date of withdrawal. Upon withdrawal of a Consortium Member, the Consortium shall pay the run out of all claims for such Consortium Member provided such Consortium Member has paid to the Consortium, prior to the effective date of withdrawal a withdrawal fee in the amount equal to two months' premiums at the Consortium Member's current rate. Payment of the withdrawal fee does not extend insurance coverage for two months. Upon automatic withdrawal, for non-payment of premiums required by the Consortium Agreement, the Consortium shall pay the run out of all claims for such Consortium Member provided that the Consortium has received from such Consortium Member all outstanding and unpaid premiums and other amounts and the withdrawal fee equal to two months' premiums at the Consortium Member's current rates. Any Consortium Member which withdraws from the Consortium pursuant to the Consortium Agreement shall have no claim to the Consortium's assets. Financial information for the Consortium can be obtained from the Treasurer of the Orange City School District (the Fiscal Agent) at 32000 Chagrin Boulevard, Pepper Pike, Ohio 44124.

Note 20 – Contingencies

Grants

The School District received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2017, if applicable, cannot be determined at this time.

South Euclid-Lyndhurst City School District

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

School Foundation

School District foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end. As of the date of this report, additional ODE adjustments for fiscal year 2017 are not finalized. As a result, the impact of future FTE adjustments on the fiscal year 2017 financial statements is not determinable, at this time. Management believes this may result in either an additional receivable to, or a liability of, the School District.

Litigation

The School District is a party to legal proceedings seeking damages as of June 30, 2017. The School District management is of the opinion that ultimate disposition of these claims and legal proceedings will not have a material effect, if any, on the financial condition of the School District.

Note 21 – Interfund Transfers and Balances

Interfund Transfers

The general fund transferred \$625,000 to other governmental funds to help provide funding for fiscal year 2017.

Interfund Balances

Interfund balances at June 30, 2017, consisted of the following:

<u>Interfund Payable</u>	<u>Interfund Receivable</u>
	<u>General</u>
<i>Other Governmental Funds:</i>	
Local Grants	10,000
Athletics	10,000
Title VI-B	<u>305,000</u>
<i>Total All Funds</i>	<u><u>\$325,000</u></u>

Interfund receivables/payables of \$325,000 between the general fund and various other special revenue funds are due to the timing of the receipt of grant monies. The general fund provides temporary funding of the programs until the grant dollars are received.

South Euclid-Lyndhurst City School District

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Note 22 – Encumbrances

Encumbrances are commitments related to unperformed contracts for goods or services. Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At fiscal year end, the amount of encumbrances expected to be honored upon performance by the vendor in the next fiscal year were as follows:

General Fund	\$610,568
Other Governmental Funds	533,217
Total	<u>\$1,143,785</u>

Note 23 – Change in Accounting Principle

For fiscal year 2017, the School District implemented Governmental Accounting Standards Board (GASB) Statement No. 77, *Tax Abatement Disclosures*. GASB Statement No. 77 requires disclosure of information about the nature and magnitude of tax abatements. These changes were incorporated in the School District's 2017 financial statements; however, the School District had no abatement that met the GASB 77 definition.

The School District also implemented GASB's *Implementation Guide No. 2016-1*. These changes were incorporated in the School District's fiscal year 2017 financial statements; however, there was no effect on beginning net position/fund balance.

Note 24 – Subsequent Event

On August 3, 2017, the School District retired \$400,000 in energy conservation bond anticipation notes and issued \$315,000 in new notes. The new notes have a maturity date of August 3, 2018, and an interest rate of 1.46 percent.

Required Supplementary Information

South Euclid Lyndhurst City School District, Ohio
Required Supplementary Information
Schedule of the School District's Proportionate Share of the
Net Pension Liability
School Employees Retirement System of Ohio
*Last Four Fiscal Years (1) **

	2017	2016	2015	2014
School District's Proportion of the Net Pension Liability	0.32784280%	0.32455690%	0.33065500%	0.33065500%
School District's Proportionate Share of the Net Pension Liability	\$23,995,067	\$18,519,531	\$16,734,261	\$19,662,992
School District's Covered Payroll	\$10,235,579	\$9,797,679	\$9,266,886	\$9,206,344
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	234.43%	189.02%	180.58%	213.58%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	62.98%	69.16%	71.70%	65.52%

(1) Although this schedule is intended to reflect information for ten years, information prior to 2014 is not available. An additional column will be added each year.

* Amounts presented for each fiscal year were determined as of the School District's measurement date which is the prior fiscal year end.

South Euclid Lyndhurst City School District, Ohio
Required Supplementary Information
Schedule of the School District's Proportionate Share of the
Net Pension Liability
State Teachers Retirement System of Ohio
*Last Four Fiscal Years (1) **

	2017	2016	2015	2014
School District's Proportion of the Net Pension Liability	0.23247905%	0.23351627%	0.23737313%	0.23737313%
School District's Proportionate Share of the Net Pension Liability	\$77,817,744	\$64,537,067	\$57,737,359	\$68,776,366
School District's Covered Payroll	\$24,446,664	\$24,376,636	\$24,413,454	\$23,824,092
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	318.32%	264.75%	236.50%	288.68%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.80%	72.10%	74.70%	69.30%

(1) Although this schedule is intended to reflect information for ten years, information prior to 2014 is not available. An additional column will be added each year.

* Amounts presented for each fiscal year were determined as of the School District's measurement date which is the prior fiscal year end.

South Euclid Lyndhurst City School District, Ohio
Required Supplementary Information
Schedule of the School District's Contributions
School Employees Retirement System of Ohio
Last Ten Fiscal Years

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$1,437,267	\$1,432,981	\$1,291,334	\$1,284,390
Contributions in Relation to the Contractually Required Contribution	<u>(1,437,267)</u>	<u>(1,432,981)</u>	<u>(1,291,334)</u>	<u>(1,284,390)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
School District Covered Payroll	\$10,266,193	\$10,235,579	\$9,797,679	\$9,266,886
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	13.18%	13.86%

<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
\$1,274,158	\$1,287,984	\$1,199,885	\$1,288,432	\$898,287	\$952,302
<u>(1,274,158)</u>	<u>(1,287,984)</u>	<u>(1,199,885)</u>	<u>(1,288,432)</u>	<u>(898,287)</u>	<u>(952,302)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$9,206,344	\$9,576,087	\$9,545,622	\$9,515,743	\$9,128,933	\$9,697,576
13.84%	13.45%	12.57%	13.54%	9.84%	9.82%

South Euclid Lyndhurst City School District, Ohio
Required Supplementary Information
Schedule of the School District's Contributions
State Teachers Retirement System of Ohio
Last Ten Fiscal Years

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$3,380,924	\$3,422,533	\$3,412,729	\$3,173,749
Contributions in Relation to the Contractually Required Contribution	<u>(3,380,924)</u>	<u>(3,422,533)</u>	<u>(3,412,729)</u>	<u>(3,173,749)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
School District Covered Payroll	\$24,149,457	\$24,446,664	\$24,376,636	\$24,413,454
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	14.00%	13.00%

<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
\$3,097,132	\$3,259,293	\$3,280,302	\$3,218,006	\$3,237,000	\$3,230,701
<u>(3,097,132)</u>	<u>(3,259,293)</u>	<u>(3,280,302)</u>	<u>(3,218,006)</u>	<u>(3,237,000)</u>	<u>(3,230,701)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$23,824,092	\$25,071,485	\$25,233,092	\$24,753,892	\$24,900,000	\$24,851,546
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

South Euclid Lyndhurst City School District, Ohio

Notes to Required Supplementary Information

For the Fiscal Year Ended June 30, 2017

Changes in Assumptions - SERS

Amounts reported for fiscal year 2017 incorporate changes in assumptions used by SERS in calculating the total pension liability in the latest actuarial valuation. These new assumptions compared with those used in fiscal year 2016 and prior are presented below:

	<u>Fiscal Year 2017</u>	<u>Fiscal Year 2016 and Prior</u>
Wage Inflation	3.00 percent	3.25 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent	4.00 percent to 22.00 percent
Investment Rate of Return (discount rate)	7.50 percent net of investments expense, including inflation	7.75 percent net of investments expense, including inflation

Amounts reported for fiscal year 2017 use mortality assumptions with mortality rates that are based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females. Amounts reported for fiscal year 2016 and prior, use mortality assumptions that are based on the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables were used for the period after disability retirement.



CPAs and Business Advisors

Where Relationships Count.

Independent Auditor’s 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
South Euclid-Lyndhurst City School District
Lyndhurst, 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, each major fund, and the aggregate remaining fund information of the South Euclid-Lyndhurst City School District (the “District”), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements, and have issued our report thereon dated December 28, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District’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 District’s internal control. Accordingly, we do not express an opinion on the effectiveness of the District’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.

Board of Education
South Euclid-Lyndhurst City School District

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District'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.

Ciuni + Panichi, Inc.

Cleveland, Ohio
December 28, 2017

**Independent Auditor’s Report on Compliance for Each Major Program;
Report on Internal Control over Compliance; and Report on the Schedule
of Expenditures of Federal Awards Required by the Uniform Guidance**

Board of Education
South Euclid-Lyndhurst City School District
Lyndhurst, Ohio

Report on Compliance for Each Major Federal Program

We have audited the South Euclid-Lyndhurst City School District’s (the “District”) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District’s major federal programs for the year ended June 30, 2017. The District’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for each of the District’s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control over Compliance

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

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

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

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

Board of Education
South Euclid-Lyndhurst City School District

Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated December 28, 2017, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Ciuni + Panichi, Inc.

Cleveland, Ohio
December 28, 2017

South Euclid-Lyndhurst City School District

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2017

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Receipts	Non-cash Receipts	Disbursements	Non-cash Disbursements
U.S. Department of Agriculture:					
Passed-Through Ohio Department of Education:					
Child Nutrition Cluster:					
School Breakfast Program	10.553	\$ 250,180	\$ -	\$ 250,180	\$ -
National School Lunch Program	10.555	<u>805,294</u>	<u>110,883</u>	<u>805,294</u>	<u>110,883</u>
Total Child Nutrition Cluster		1,055,474	110,883	1,055,474	110,883
U.S. Department of Education:					
Passed-Through Ohio Department of Education:					
Special Education Cluster (IDEA):					
Special Education - Grants to States	84.027	740,684	-	825,763	-
Special Education - Preschool Grants	84.173	<u>36,313</u>	<u>-</u>	<u>35,891</u>	<u>-</u>
Total Special Education Cluster (IDEA)		776,997	-	861,654	-
Title I Grants to Local Educational Agencies	84.010	851,332	-	862,856	-
English Language Acquisition State Grants	84.365	17,054	-	17,007	-
Improving Teacher Quality State Grants	84.367	<u>79,173</u>	<u>-</u>	<u>81,215</u>	<u>-</u>
Total U.S. Department of Education		<u>1,724,556</u>	<u>-</u>	<u>1,822,732</u>	<u>-</u>
U.S. Department of Health and Human Services					
Passed-Through Ohio Department of					
Developmental Disabilities:					
Medicaid Cluster:					
Medicaid Assistance Program (CAFS)	93.778	<u>482,589</u>	<u>-</u>	<u>122,875</u>	<u>-</u>
Total Medicaid Cluster		<u>482,589</u>	<u>-</u>	<u>122,875</u>	<u>-</u>
Total Expenditures of Federal Awards		\$ <u>3,262,619</u>	\$ <u>110,883</u>	\$ <u>3,001,081</u>	\$ <u>110,883</u>

The accompanying notes are an integral part of this schedule

South Euclid-Lyndhurst City School District

Notes to the Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2017

Note 1: Significant Accounting Policies

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") presents the activity of all federal awards of the South Euclid-Lyndhurst City School District (the "District") and is presented on the cash basis of accounting. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position or changes in net position of the District.

Child Nutrition Cluster

Cash receipts from the U.S. Department of Agriculture are commingled with state grants. It is assumed that federal monies are expended first.

Food Donation Program

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This non-monetary assistance (expenditures) is reported in the Schedule at the fair value of the commodities received.

Community Alternative Funding System (CAFS) Settlement Amounts

The District received \$482,589 in CAFS reimbursement. Of this amount, \$359,714 relate to settlements for CAFS services provided during prior years.

Note 2: Indirect Cost Rate

The District has not elected to use the 10% de minimis indirect cost rate to recover indirect costs as allowed under the Uniform Guidance.

South Euclid-Lyndhurst City School District

Schedule of Findings and Questioned Costs
2 CFR Section 200.515

For the Year Ended June 30, 2017

1. Summary of Auditor's Results

(d)(1)(i)	Type of Financial Statement Opinion	Unmodified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any other significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unmodified
(d)(1)(vi)	Are there any reportable findings under 2 CFR Section 200.516(a)?	No
(d)(1)(vii)	Major Programs	Child Nutrition Cluster: CFDA # 10.553 and 10.555 Special Education Cluster (IDEA): CFDA # 84.027 and 84.173
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: >\$750,000 Type B: All Others
(d)(1)(ix)	Low Risk Auditee?	No

2. Findings Related to the Financial Statements Required To Be Reported In Accordance With GAGAS

None noted.

3. Findings for Federal Awards

None noted.

South Euclid-Lyndhurst City School District

Schedule of Prior Audit Findings

For the Year Ended June 30, 2017

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2016-001	Child Nutrition Cluster – Cash Management / Reporting	Yes	Corrected

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Dave Yost • Auditor of State

SOUTH EUCLID LYNDHURST CITY SCHOOL DISTRICT

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 6, 2018**