



OHIO AUDITOR OF STATE
KEITH FABER



**PAINESVILLE CITY LOCAL SCHOOL DISTRICT
LAKE COUNTY**

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OHIO AUDITOR OF STATE KEITH FABER



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INDEPENDENT AUDITOR'S REPORT

Painesville City Local School District
Lake County
58 Jefferson Street
Painesville, Ohio 44077

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying cash-basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Painesville City Local School District, Lake County, Ohio (the District), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the cash accounting basis Note 2 describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Painesville City Local School District, Lake County, Ohio, as of June 30, 2019, and the respective changes in cash financial position and the respective budgetary comparisons for the General Fund, Special Levy Fund, and Classroom Facilities Maintenance Fund thereof for the year then ended in accordance with the accounting basis described in Note 2.

Accounting Basis

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

Other Matters

Supplementary Information

Our audit was conducted to opine on the financial statements taken as a whole.

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2020, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Keith Faber
Auditor of State
Columbus, Ohio

January 31, 2020

Painesville City Local School District
Statement of Net Position - Cash Basis
June 30, 2019

	<u>Governmental Activities</u>
Assets:	
Equity in Pooled Cash and Cash Equivalents	<u>\$15,190,780</u>
Total Assets	<u>15,190,780</u>
Net Cash Position:	
Restricted for:	
Debt Service	1,795,626
Capital Projects	1,685,741
Classroom Facilities Maintenance	1,668,506
State Funded Programs	47,140
Federally Funded Programs	70,200
Special Levy	2,911,557
Food Service	507,204
Other Purposes	264,900
Unrestricted	<u>6,239,906</u>
Total Net Cash Position	<u>\$15,190,780</u>

See accompanying notes to the basic financial statements.

Painesville City Local School District
Statement of Activities - Cash Basis
For the Fiscal Year Ended June 30, 2019

	Cash Disbursements	Program Cash Receipts		Net (Disbursements) Receipts and Changes in Net Cash Position
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction:				
Regular	\$15,267,714	\$628,664	\$73,037	(\$14,566,013)
Special	7,712,651	327,179	4,851,682	(2,533,790)
Vocational	419,248	0	100,593	(318,655)
Other	3,927,230	0	31,852	(3,895,378)
Support Services:				
Pupil	2,632,226	0	105,404	(2,526,822)
Instructional Staff	1,437,952	0	501,042	(936,910)
General Administration	53,819	0	0	(53,819)
School Administration	3,777,701	0	6,717	(3,770,984)
Fiscal	688,905	328	2,142	(686,435)
Business	65,511	0	0	(65,511)
Operations and Maintenance	4,387,881	0	101,981	(4,285,900)
Pupil Transportation	1,386,401	13,123	267,784	(1,105,494)
Central	1,047,485	0	0	(1,047,485)
Operation of Non-Instructional Services	1,807,389	227,536	1,680,261	100,408
Extracurricular Activities	891,305	206,741	83,637	(600,927)
Capital Outlay	52,500	0	0	(52,500)
Debt Service:				
Principal Retirement	1,375,000	0	0	(1,375,000)
Interest and Fiscal Charges	561,875	0	0	(561,875)
Totals	\$47,492,793	\$1,403,571	\$7,806,132	(38,283,090)

General Receipts:

Property Taxes Levied for:

General Purposes	7,015,897
Special Revenue Purposes	1,638,785
Debt Service Purposes	1,671,288
Capital Projects Purposes	19,036
Grants and Entitlements, Not Restricted	27,165,791
Unrestricted Contributions	725
Investment Earnings	299,989
Advances In	59,642
Advances (Out)	(59,642)
Other Receipts	750,666

Total General Receipts 38,562,177

Change in Net Cash Position 279,087

Net Cash Position - Beginning of Year 14,911,693

Net Cash Position - End of Year \$15,190,780

See accompanying notes to the basic financial statements.

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Painesville City Local School District
Statement of Assets and Fund Balances - Cash Basis
Governmental Funds
June 30, 2019

	General	Special Levy	Classroom Facilities Maintenance	Debt Service
Assets:				
Equity in Pooled Cash and Cash Equivalents	\$6,239,906	\$2,911,557	\$1,668,506	\$1,795,626
Total Assets	<u>6,239,906</u>	<u>2,911,557</u>	<u>1,668,506</u>	<u>1,795,626</u>
Fund Cash Balances:				
Restricted	0	2,911,557	1,668,506	1,795,626
Committed	433,222	0	0	0
Assigned	335,899	0	0	0
Unassigned	5,470,785	0	0	0
Total Fund Cash Balances	<u>\$6,239,906</u>	<u>\$2,911,557</u>	<u>\$1,668,506</u>	<u>\$1,795,626</u>

See accompanying notes to the basic financial statements.

Permanent Improvement	Other Governmental Funds	Total Governmental Funds
\$1,685,741	\$889,444	\$15,190,780
1,685,741	889,444	15,190,780
1,685,741	889,444	8,950,874
0	0	433,222
0	0	335,899
0	0	5,470,785
\$1,685,741	\$889,444	\$15,190,780

Painesville City Local School District
Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balances - Cash Basis
Governmental Funds
For the Fiscal Year Ended June 30, 2019

	General	Special Levy	Classroom Facilities Maintenance	Debt Service
Receipts:				
Property and Other Taxes	\$7,015,897	\$1,514,856	\$123,929	\$1,671,288
Tuition and Fees	937,234	0	0	0
Investment Earnings	162,063	0	38,433	41,891
Intergovernmental	30,183,477	0	86,551	351,866
Extracurricular Activities	70,083	0	0	0
Charges for Services	17,397	0	0	0
Other Receipts	694,779	0	0	0
Total Receipts	39,080,930	1,514,856	248,913	2,065,045
Cash Disbursements:				
Current:				
Instruction:				
Regular	13,544,351	1,651,124	0	0
Special	6,048,231	0	0	0
Vocational	419,248	0	0	0
Other	3,896,089	0	0	0
Support Services:				
Pupil	2,533,847	0	0	0
Instructional Staff	973,801	0	0	0
General Administration	53,819	0	0	0
School Administration	3,771,226	0	0	0
Fiscal	660,691	0	0	23,999
Business	65,511	0	0	0
Operations and Maintenance	3,891,567	0	142,690	0
Pupil Transportation	1,212,887	0	0	0
Central	1,047,485	0	0	0
Operation of Non-Instructional Services	73,751	0	0	0
Extracurricular Activities	672,534	0	0	0
Capital Outlay	0	0	0	0
Debt Service:				
Principal Retirement	0	0	0	1,375,000
Interest and Fiscal Charges	0	0	0	561,875
Total Cash Disbursements	38,865,038	1,651,124	142,690	1,960,874
Excess of Receipts Over (Under) Cash Disbursements	215,892	(136,268)	106,223	104,171
Other Financing Sources (Uses):				
Advances In	59,642	0	0	0
Advances (Out)	0	0	0	0
Transfers In	0	0	0	0
Transfers (Out)	(398)	0	0	0
Total Other Financing Sources (Uses)	59,244	0	0	0
Net Change in Fund Cash Balance	275,136	(136,268)	106,223	104,171
Fund Cash Balance - Beginning of Year	5,964,770	3,047,825	1,562,283	1,691,455
Fund Cash Balance - End of Year	\$6,239,906	\$2,911,557	\$1,668,506	\$1,795,626

See accompanying notes to the basic financial statements.

Permanent Improvement	Other Governmental Funds	Total Governmental Funds
\$19,036	\$0	\$10,345,006
0	648	937,882
47,283	10,319	299,989
17,814	4,332,216	34,971,924
0	137,218	207,301
0	226,656	244,053
0	70,946	765,725
<u>84,133</u>	<u>4,778,003</u>	<u>47,771,880</u>
10,971	61,268	15,267,714
0	1,664,420	7,712,651
0	0	419,248
0	31,141	3,927,230
0	98,379	2,632,226
0	464,151	1,437,952
0	0	53,819
0	6,475	3,777,701
2,008	2,207	688,905
0	0	65,511
337,380	16,244	4,387,881
83,356	90,158	1,386,401
0	0	1,047,485
0	1,733,638	1,807,389
0	218,771	891,305
52,500	0	52,500
0	0	1,375,000
0	0	561,875
<u>486,215</u>	<u>4,386,852</u>	<u>47,492,793</u>
<u>(402,082)</u>	<u>391,151</u>	<u>279,087</u>
0	0	59,642
0	(59,642)	(59,642)
0	398	398
0	0	(398)
<u>0</u>	<u>(59,244)</u>	<u>0</u>
<u>(402,082)</u>	<u>331,907</u>	<u>279,087</u>
<u>2,087,823</u>	<u>557,537</u>	<u>14,911,693</u>
<u>\$1,685,741</u>	<u>\$889,444</u>	<u>\$15,190,780</u>

Painesville City Local School District
Statement of Receipts, Cash Disbursements and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2019

	General Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Budgetary Basis Receipts:				
Taxes	\$6,946,151	\$7,014,944	\$7,015,897	\$953
Tuition and Fees	750,380	757,812	757,915	103
Investment Earnings	160,452	162,041	162,063	22
Intergovernmental	29,565,300	29,858,108	29,862,166	4,058
Extracurricular Activities	18,410	18,592	18,595	3
Other Receipts	528,843	534,080	534,153	73
Total Budgetary Basis Receipts	37,969,536	38,345,577	38,350,789	5,212
Budgetary Basis Disbursements:				
Current:				
Instruction:				
Regular	13,992,474	13,466,629	13,537,332	(70,703)
Special	5,863,200	5,642,858	5,672,484	(29,626)
Vocational	260,109	250,334	251,648	(1,314)
Other	4,029,029	3,877,616	3,897,974	(20,358)
Support Services:				
Pupil	2,608,025	2,510,014	2,523,192	(13,178)
Instructional Staff	851,077	819,093	823,393	(4,300)
General Administration	55,757	53,661	53,943	(282)
School Administration	3,904,099	3,757,381	3,777,108	(19,727)
Fiscal	682,904	657,240	660,691	(3,451)
Business	69,038	66,443	66,792	(349)
Operations and Maintenance	3,794,645	3,652,040	3,671,214	(19,174)
Pupil Transportation	1,268,810	1,221,128	1,227,539	(6,411)
Central	1,085,272	1,044,487	1,049,971	(5,484)
Operation of Non-Instructional Services	76,231	73,366	73,751	(385)
Extracurricular Activities	670,068	644,886	648,272	(3,386)
Total Budgetary Basis Disbursements	39,210,738	37,737,176	37,935,304	(198,128)
Excess of Budgetary Basis Receipts Over (Under) Budgetary Basis Disbursements	(1,241,202)	608,401	415,485	(192,916)
Other Financing Sources (Uses):				
Transfers (Out)	(289,263)	(278,392)	(279,854)	(1,462)
Total Other Financing Sources (Uses)	(289,263)	(278,392)	(279,854)	(1,462)
Net Change in Fund Balance	(1,530,465)	330,009	135,631	(194,378)
Fund Balance Beginning of Year (includes prior year encumbrances appropriated)	5,843,080	5,843,080	5,843,080	0
Fund Balance End of Year	\$4,312,615	\$6,173,089	\$5,978,711	(\$194,378)

See accompanying notes to the basic financial statements.

Painesville City Local School District
Statement of Receipts, Cash Disbursements and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2019

	Special Levy Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Budgetary Basis Receipts:				
Taxes	\$1,600,000	\$1,514,856	\$1,514,856	\$0
Total Budgetary Basis Receipts	<u>1,600,000</u>	<u>1,514,856</u>	<u>1,514,856</u>	<u>0</u>
Budgetary Basis Disbursements:				
Current:				
Instruction:				
Regular	<u>1,600,000</u>	<u>1,651,125</u>	<u>1,651,124</u>	<u>1</u>
Total Budgetary Basis Disbursements	<u>1,600,000</u>	<u>1,651,125</u>	<u>1,651,124</u>	<u>1</u>
Net Change in Fund Balance	0	(136,269)	(136,268)	1
Fund Balance Beginning of Year (includes prior year encumbrances appropriated)	<u>3,047,822</u>	<u>3,047,822</u>	<u>3,047,822</u>	<u>0</u>
Fund Balance End of Year	<u>\$3,047,822</u>	<u>\$2,911,553</u>	<u>\$2,911,554</u>	<u>\$1</u>

See accompanying notes to the basic financial statements.

Painesville City Local School District
Statement of Receipts, Cash Disbursements and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2019

	Classroom Facilities Maintenance Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Budgetary Basis Receipts:				
Taxes	\$62,235	\$122,782	\$123,929	\$1,147
Investment Earnings	19,300	38,077	38,433	356
Intergovernmental	43,464	85,750	86,551	801
Total Budgetary Basis Receipts	124,999	246,609	248,913	2,304
Budgetary Basis Disbursements:				
Current:				
Support Services:				
Operations and Maintenance	500,000	147,282	143,996	3,286
Total Budgetary Basis Disbursements	500,000	147,282	143,996	3,286
Net Change in Fund Balance	(375,001)	99,327	104,917	5,590
Fund Balance Beginning of Year (includes prior year encumbrances appropriated)	1,562,288	1,562,288	1,562,288	0
Fund Balance End of Year	\$1,187,287	\$1,661,615	\$1,667,205	\$5,590

See accompanying notes to the basic financial statements.

Painesville City Local School District
Statement of Fiduciary Net Position - Cash Basis
Fiduciary Funds
June 30, 2019

	Private Purpose Trust	Agency
Assets:		
Equity in Pooled Cash and Cash Equivalents	\$10,980	\$28,566
Total Assets	<u>10,980</u>	<u>28,566</u>
Net Cash Position:		
Held on Behalf of Scholarship Programs	10,980	0
Held on Behalf of Student Managed Activity	<u>0</u>	<u>28,566</u>
Total Net Cash Position	<u>\$10,980</u>	<u>\$28,566</u>

See accompanying notes to the basic financial statements.

Painesville City Local School District
Statement of Changes in Fiduciary Net Position - Cash Basis
Fiduciary Fund
For the Fiscal Year Ended June 30, 2019

	Private Purpose Trust
Additions:	
Investment Earnings	\$263
Total Additions	<u>263</u>
Deductions:	
Scholarships	<u>0</u>
Total Deductions	<u>0</u>
Change in Net Cash Position	263
Net Cash Position - Beginning of Year	<u>10,717</u>
Net Cash Position - End of Year	<u><u>\$10,980</u></u>

See accompanying notes to the basic financial statements.

**Painesville City Local School District
Lake County, Ohio
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2019**

Note 1 - Description of the District and Reporting Entity

Description of the District

The Painesville City Local School District (the "District"), located in Lake County, is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a local district as defined by Section 3311.03 of the Ohio Revised Code. The District operates under a five member elected Board of Education and is responsible for the provision of public education to residents of the District.

Average daily membership (ADM) as of June 1, 2019 was 3,143. The District employed 247 certificated employees and 171 non-certificated employees. It currently operates six instructional facilities.

Reporting Entity

In accordance with all relevant Governmental Accounting Standards Board (GASB) pronouncements, the financial reporting entity consists of a primary government and its component units. The District is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate, and is fiscally independent of other state and local governments.

There are no component units combined with the District for financial statement presentation purposes, and it is not included in any other governmental reporting entity. Consequently, the District's financial statements include only the funds of those organizational entities for which its elected governing body is financially accountable. The District's major operations include education, pupil transportation, food service, and maintenance of District facilities.

The District participates in three jointly governed organizations, a claims servicing pool, a shared risk pool and an insurance purchasing pool, that are further described in the notes to the financial statements.

Note 2 – Summary of Significant Accounting Policies

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

Fund Accounting

The District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the District are grouped into the categories governmental and fiduciary.

Governmental Funds

Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. The following are the District's major governmental funds:

Painesville City Local School District
Lake County, Ohio
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2019

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

Special Levy Fund – The special levy fund is from the Lake County School Financing District that is made up of Perry, Madison, Riverside and Painesville City Local Schools. The funds are to be used for educational programs and services.

Classroom Facilities Maintenance Fund – The classroom facilities maintenance fund is used to account for the proceeds of a levy for the maintenance of facilities.

Debt Service Fund – The debt service fund is used to account for the accumulation of resources for the payment of general obligation bond principal and interest and certain long-term obligations from governmental resources when the District is obligated in some manner for the payment.

Permanent Improvement Fund – The permanent improvement fund is used to account for all transactions related to the acquiring, construction or improving of such permanent improvements as are authorized by Chapter 5705.

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

Fiduciary Funds

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

Basis of Presentation

Government-wide Financial Statements

The statement of net position - cash basis and the statement of activities - cash basis display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The government-wide statement of activities compares disbursements with program receipts for each function or program of the District's governmental activities. These disbursements are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program receipts include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Receipts which are not classified as program receipts are presented as general receipts of the District. The comparison of direct disbursements with program receipts identifies the extent to which each business segment or governmental function is self-financing on the cash basis or draws from the general receipts of the District.

Painesville City Local School District
Lake County, Ohio
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2019

Fund Financial Statements

The fund financial statements report more detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Fund statements present each major fund in a separate column and aggregate non-major funds in a single column. Fiduciary funds are reported by fund type.

Equity in Pooled Cash and Cash Equivalents

To improve cash management, cash received by the District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the basic financial statements.

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

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

During 2019, the District invested in money market funds, negotiable certificates of deposit, and STAR Ohio. Investments are reported at cost, except for the money market fund and STAR Ohio. The District's money market fund investment is recorded at amount reported by the financial institution at June 30, 2019.

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 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.

There were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, 24 hours advance notice is appreciated for deposits and withdrawals of \$25 million or more. STAR Ohio reserves the right to limit the transaction to \$100 million per day, requiring the excess amount to be transacted the following business day(s), but only to the \$100 million limit. All accounts of the participant will be combined for these purposes.

Following Ohio statutes, the Board has, by resolution, specified the funds to receive an allocation of interest earnings. Interest during the fiscal year amounted to \$162,063 credited to the general fund, \$38,433 credited to the classroom facilities maintenance fund, \$41,891 credited to the debt service fund, \$47,283 credited to the permanent improvement fund, and \$10,319 credited to other governmental funds.

Inventory and Prepaid Items

The District reports disbursements for inventory and prepaid items when paid. These items are not reflected in the accompanying financial statements under the cash basis of accounting.

**Painesville City Local School District
Lake County, Ohio
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2019**

Capital Assets

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

Accumulated Leave

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

Interfund Activity

During the course of normal operations, the District has numerous transactions between funds, including expenditures and transfers of resources to provide services and improve assets. Operating subsidies are recorded as operating transfers. The classification of amounts recorded as subsidies, advances or equity contributions is based on the intent of the District at the time of the transaction.

Employer Contributions to Cost-Sharing Plans

The District recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described later in the notes, the employer contributions include portions for pension benefits and other postemployment benefits (OPEB).

Long-Term Debt

Bonds and other long-term debt issuances are not recognized as a liability in the financial statements under the cash basis of accounting. These statements report proceeds of debt when cash is received, and debt service disbursements for debt principal payments.

Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

Tax Budget

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates. By no later than January 20, the Board-adopted budget is filed with the Lake County Budget Commission for rate determination.

**Painesville City Local School District
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Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2019**

Estimated Resources

Prior to April 1, the Board accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the Commission's certificate of estimated resources which states the projected receipts of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in receipts are identified by the District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the amended certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2019.

Appropriations

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution must be legally enacted by the Board of Education at the fund level of expenditures, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education. The Board may pass supplemental fund appropriations so long as the total appropriations by fund does not exceed the amounts set forth in the most recent Certificate of Estimated Resources. During the year, several supplemental appropriations were legally enacted. The budget figures, which appear in the statements of budgetary comparisons, represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds, other than agency funds, consistent with statutory provisions.

Lapsing of Appropriations

At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated. While the District is reporting financial position, results of operations and changes in fund balances on the cash basis, the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balance – Budget and Actual (Budgetary Basis) presented for the general fund, special levy, and classroom facilities maintenance are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budget basis and the cash basis is outstanding year end encumbrances are treated as disbursements (budget) rather than restricted, committed or assigned fund balance (cash).

The following table summarizes the adjustments necessary to reconcile the cash basis statement to the budgetary basis statement for the general fund, special levy fund, and classroom facilities maintenance:

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Notes to the Financial Statements
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Net Change in Fund Cash Balance:

	General	Special Levy	Classroom Facilities Maintenance
Cash Basis	\$275,136	(\$136,268)	\$106,223
Adjustment for Encumbrances	(69,504)	0	(1,306)
Funds Budgeted Elsewhere	(70,001)	0	0
Budget Basis	<u>\$135,631</u>	<u>(\$136,268)</u>	<u>\$104,917</u>

Fund Cash Balance

In accordance with Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting*, the District classifies its fund cash balance based on the purpose for which the resources were received and the level of constraint placed on the resources. The following categories are used:

Nonspendable

The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of interfund loans.

Restricted

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

Committed

The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the District Board of Education. Those committed amounts cannot be used for any other purpose unless the 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

The assigned fund balance classifications are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. These amounts are assigned by the District’s Board of Education. In the general fund, assigned amounts represent intended uses established by policies of the District Board of Education or a District official delegated by that authority by resolution or by State Statute. State statute authorizes the District’s Treasurer to assign fund balance for purchases on order provided such amounts have been lawfully appropriated.

Unassigned

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

Painesville City Local School District
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Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2019

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

Net Cash Position

Net cash position are reported as restricted when enabling legislation or creditors, grantors or laws or regulations of other governments have imposed limitations on its use.

The District first applies restricted resources when a disbursement is incurred for purposes for which both restricted and unrestricted net cash position are available.

Note 3 - Equity in Pooled Cash and Cash Equivalents

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the statement of net position and balance sheet as "Equity in Pooled Cash and Cash Equivalents." State statute requires the classification of monies held by the District into three categories:

Active Monies

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

Inactive Monies

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.

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, or by the financial institutions participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution.

Painesville City Local School District
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Interim Monies

Those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Ohio law permits interim monies to be invested or deposited in the following securities:

1. 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 provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio, and with certain limitations including a requirement for maturity within ten years from the date of settlement, bonds and other obligations of political subdivisions of the State of Ohio, if training requirements have been met;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio).
8. Certain bankers' acceptances for a period not to exceed one hundred eighty days) and commercial paper notes (for a period not to exceed two hundred seventy days) in an amount not to exceed 40 percent of the interim monies available for investment at any one time 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. Except as noted above, an investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity.

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

Painesville City Local School District
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Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2019

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. As of June 30, 2019, \$642,572 of the District's bank balance of \$892,572 was exposed to custodial credit risk because it was uninsured and collateralized.

The District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or be protected by:

Eligible securities pledged to the School District and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105% of the deposits being secured; or

Participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102% of the deposits being secured or a rate set by the Treasurer of State.

Investments

As of June 30, 2019, the District had the following investments (there were no long-term investments; for financial statement reporting purposes the investments below are considered cash equivalents):

Investment Type	Fair Value	Fair Value Hierarchy	Weighted Average Maturity (Years)
Money Market Funds	\$122,983	N/A	0.00
Negotiable CD's	5,350,975	Level 2	1.48
STAR Ohio	9,348,507	N/A	0.15
Total Fair Value	\$14,822,465		
Portfolio Weighted Average Maturity			0.63

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Inputs to the valuation techniques used in fair the measurement for Level 2 include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data by correlation or other means. Level 3 inputs are significant unobservable inputs. The above table identifies the District's recurring fair value measurements as of June 30, 2019. STAR Ohio is reported at its share price (Net Asset value per share).

Interest Rate Risk

In accordance with the investment policy, the District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to three years.

**Painesville City Local School District
 Lake County, Ohio
 Notes to the Financial Statements
 For the Fiscal Year Ended June 30, 2019**

Credit Risk

It is the District’s policy to limit its investments that are not obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government to investments which have a credit quality rating of the top 2 ratings issued by nationally recognized statistical rating organizations. The District’s investments in Money Market Funds and negotiable CD’s were not rated by Standard & Poor’s and Fitch Ratings and by Moody’s Investors Service. Investments in STAR Ohio were rated AAAM by Standard & Poor’s.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the District’s securities are either insured and registered in the name of the District or at least registered in the name of the District.

Concentration of Credit Risk

The District’s investment policy allows investments in Federal Agencies or Instrumentalities. All investments were issued or guaranteed by the federal government. At year end, the District’s allocations of investments (cash equivalents) were as follows: Money Market Accounts (1%), negotiable CD’s (36%), and STAROhio (63%).

Note 4 - Property Taxes

Property taxes are levied and assessed on a calendar year basis. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real and public utility personal property located in the District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31 of the prior year, were levied April 1 and are collected with real property taxes. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. All property is required to be revalued every six years. Public utility property taxes are assessed on real property at 35 percent of true value.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. The District receives property taxes from Lake County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2018, are available to finance fiscal year 2020 operations. The amount available for advance can vary based on the date the tax bills are sent.

The assessed values upon which the fiscal year 2019 taxes were collected are:

	Second Half 2018 Amount	First Half 2019 Amount
Agricultural/Residential and Other Real Estate	\$173,433,130	\$182,923,010
Public Utility Personal	2,622,880	2,757,250
Total	<u>\$176,056,010</u>	<u>\$185,680,260</u>

Painesville City Local School District
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For the Fiscal Year Ended June 30, 2019

Note 5 – Debt

Long-Term Obligations

The changes in the District’s long-term debt during fiscal year 2019 were as follows:

Governmental Activities	Maturity Dates	Beginning Balance	Increases	Decreases	Ending Balance	Due In One Year
<u>General Obligation Bonds:</u>						
2012 Advance Refunding of 2004 OSFC -						
Current Interest Bonds	12/1/32	\$7,680,000	\$0	(\$130,000)	\$7,550,000	\$130,000
Capital Appreciation Bonds	12/1/26	74,986	0	0	74,986	0
Accreted Interest	12/1/26	235,276	83,417	0	318,693	0
Premium on Refunding	12/1/32	775,382	0	(53,475)	721,907	0
2013 Advance Refunding of 2004 OSFC -						
Current Interest Bonds	12/1/32	7,870,000	0	0	7,870,000	0
Capital Appreciation Bonds	12/1/20	25,302	0	(5,490)	19,812	12,650
Accreted Interest	12/1/20	477,693	165,386	(139,510)	503,569	0
Premium on Refunding	12/1/32	967,166	0	(66,701)	900,465	0
2014 Advance Refunding of 2005 OSFC -						
Current Interest Bonds	12/1/24	5,525,000	0	(1,100,000)	4,425,000	700,000
Premium on Refunding	12/1/24	384,164	0	(54,881)	329,283	0
Total		\$24,014,969	\$248,803	(\$1,550,057)	\$22,713,715	\$842,650

The District’s outstanding bonds from direct borrowings and direct placements related to governmental activities of \$22,713,715 contain a provision that in an event of default, outstanding amounts become immediately due if the District is unable to make payment.

2012 Advance Refunding

On June 14, 2012 the District issued \$8,345,000 in current interest bonds with an average interest rate of 3.18% with a maturity date of December 1, 2032 and \$74,986 in capital appreciation bonds with a maturity date of December 1, 2026 of which \$8,420,000 was used to partially advance refund \$16,945,000 of outstanding Ohio Schools Facilities Commission School (OSFC) Improvement Bonds with average interest rates of 4.87%. These bonds are being retired from the debt service fund.

2013 Advance Refunding

On February 28, 2013 the District issued \$8,490,000 in current interest bonds with an average interest rate of 2.781% with a maturity date of December 1, 2032 and \$34,995 in capital appreciation bonds with a maturity date of December 1, 2020 of which \$8,524,995 was used to partially advance refund \$16,945,000 of outstanding OSFC Improvement Bonds with average interest rates of 4.87%. These bonds are being retired from the debt service fund.

2014 Advance Refunding

On March 20, 2014 the District issued \$7,515,000 in current interest bonds with an average interest rate of 3.288% with a maturity date of December 1, 2024 and \$664,994 in capital appreciation bonds that matured on December 1, 2016 of which \$8,179,994 was used to partially advance refund \$8,525,007 of outstanding OSFC Improvement Bonds with average interest rates of 4.62%. These bonds are being retired from the debt service fund.

Painesville City Local School District
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For the Fiscal Year Ended June 30, 2019

Principal and interest requirements to retire long-term debt obligation outstanding at year end are as follows:

Year	Current Interest Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2020	\$830,000	\$541,471	\$1,371,471	\$12,650	\$139,510	\$152,160
2021	845,000	524,683	1,369,683	7,162	582,838	590,000
2022	1,450,000	499,650	1,949,650	0	0	0
2023	1,485,000	464,277	1,949,277	0	0	0
2024	1,515,000	426,065	1,941,065	0	0	0
2025-2029	6,320,000	3,663,564	9,983,564	74,986	1,995,014	2,070,000
2030-2033	7,400,000	490,068	7,890,068	0	0	0
Total	<u>\$19,845,000</u>	<u>\$6,609,778</u>	<u>\$26,454,778</u>	<u>\$94,798</u>	<u>\$2,717,362</u>	<u>\$2,812,160</u>

Note 6 – Lessor

Lake-Geauga United Head Start

In 2017, the District entered into a 3-year lease with Lake-Geauga United Head Start to lease property for use at a rate of \$137,055 per year. The lease meets the criteria of a lease and therefore has been recorded as a sale since all the benefits and risks of ownership have been transferred to the lessee. Rental payments received for during 2019 were \$137,055.

Note 7 - Defined Benefit Pension Plans

The Statewide retirement systems provide both pension and other postemployment benefits (OPEB).

Net Pension Liability/Net OPEB Liability (Asset)

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

The net pension/OPEB liability (asset) represent the District’s proportionate share of each pension/OPEB plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension/OPEB plan’s fiduciary net position. The net pension/OPEB liability (asset) 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 these estimates annually.

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

GASB 68/75 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires funding to come from these employers. All pension contributions to date have come solely from these employers (which also includes pension costs paid in the form of withholdings from employees). The retirement systems may allocate a portion of the

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employer contributions to provide for these OPEB benefits. In addition, health care plan enrollees pay a portion of the health care costs in the form of a monthly premium. State statute requires the retirement systems to amortize unfunded pension liabilities within 30 years. If the pension amortization period exceeds 30 years, each retirement system’s board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension/OPEB liability (asset). Resulting adjustments to the net pension/OPEB liability (asset) would be effective when the changes are legally enforceable. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients.

The remainder of this note includes the required pension disclosures. See Note 8 for the required OPEB disclosures.

Plan Description - School Employees Retirement System (SERS)

Plan Description

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

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; 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; 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.

An individual whose benefit effective date is before April 1, 2018, is eligible for a cost of living adjustment (COLA) on the first anniversary date of the benefit. Beginning April 1, 2018, new benefit recipients must wait until the fourth anniversary of their benefit for COLA eligibility. The COLA is added each year to the base benefit amount on the anniversary date of the benefit. A three-year COLA suspension is in effect for all benefit recipients for the years 2018, 2019, and 2020. Upon resumption of the COLA, it will be indexed to the percentage increase in the CPI-W, not to exceed 2.5 percent and with a floor of 0 percent.

Funding Policy

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to

Painesville City Local School District
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statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2019, the allocation to pension, death benefits, and Medicare B was 13.5 percent. The remaining .5 percent was allocated to the Health Care Fund.

The District's contractually required contribution to SERS was \$745,253 for fiscal year 2019.

Plan Description - State Teachers Retirement System (STRS)

Plan Description

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. In April 2017, the Retirement Board made the decision to reduce COLA granted on or after July 1, 2017, to 0 percent to preserve the fiscal integrity of the retirement system. Benefit recipients' base benefit and past cost-of living increases are not affected by this change. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 27 years of service, or 30 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 9.53 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.47 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 goes 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, 2019, the employer rate was 14 percent and the plan members were also required to contribute 14 percent of covered salary. For fiscal year 2019, the contributions rates were equal to the statutory maximum rates and the full employer contribution was allocated to pension.

The School District's contractually required contribution to STRS was \$2,616,504 for fiscal year 2019.

Net Pension Liability

The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the 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>
Proportionate Share of the Net Pension Liability	\$8,721,587	\$32,669,250	\$41,390,837
Proportion of the Net Pension Liability:			
Current Measurement Date	0.15228400%	0.14857929%	
Prior Measurement Date	0.16295950%	0.15313272%	
Change in Proportionate Share	-0.01067550%	-0.00455343%	

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, 2018, are presented below:

Inflation	3.00%
Future Salary Increases, including inflation	3.50% - 18.20%
COLA or Ad Hoc COLA	2.50%
Investment Rate of Return	7.50% net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)

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. Mortality among service retired members, and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120 percent of male rates, and 110 percent of female rates. Mortality among disabled members were based upon the RP-2000 Disabled Mortality Table, 90 percent for male rates and 100 percent for female rates, set back five years is 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 average 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.

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%	

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Discount Rate

The total pension liability was calculated using the discount rate of 7.50%. 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%. 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 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%, 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%, or one percentage point higher 8.50% than the current rate.

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
Proportionate share of the net pension liability	\$12,285,013	\$8,721,587	\$5,733,893

Actuarial Assumptions - STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2018, actuarial valuation, are presented below:

Inflation	2.50%
Projected salary increases	12.50% at age 20 to 2.50% at age 65
Investment Rate of Return	7.45%, net of investment expenses, including inflation
Discount Rate of Return	7.45%
Payroll Increases	3.00%
Cost-of-Living Adjustments (COLA)	0%, effective July 1, 2017

Post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the July 1, 2018 valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

STRS Ohio's 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:

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Asset Class	Target Allocation	Long-Term Expected Rate of Return *
Domestic Equity	28.00%	7.35%
International Equity	23.00%	7.55%
Alternatives	17.00%	7.09%
Fixed Income	21.00%	3.00%
Real Estate	10.00%	6.00%
Liquidity Reserves	1.00%	2.25%
Total	100.00%	

*10-Year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25% and does not include investment expenses. Over a 30-year period, STRS investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

Discount Rate

The discount rate used to measure the total pension liability was 7.45% as of June 30, 2018. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at the statutory contribution rates in accordance with the rates described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Based on those assumptions, STRS fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2018. Therefore, the long-term expected rate of return on pension plan investments of 7.45% was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2018.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following table represents the net pension liability as of June 30, 2018, calculated using the current period discount rate assumption of 7.45%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower 6.45% or one percentage point higher 8.45% than the current discount rate:

	1% Decrease 6.45%	Current Discount Rate 7.45%	1% Increase 8.45%
Proportionate share of the net pension liability	\$47,709,139	\$32,669,250	\$19,940,024

Note 8 - Defined Benefit OPEB Plans

See note 7 for a description of the net OPEB liability (asset).

Plan Description - School Employees Retirement System (SERS)

Health Care Plan Description

The District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. SERS' Health Care Plan provides healthcare benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible dependents.

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Members who retire after June 1, 1986, need 10 years of service credit, exclusive of most types of purchased credit, to qualify to participate in SERS' health care coverage. In addition to age and service retirees, disability benefit recipients and beneficiaries who are receiving monthly benefits due to the death of a member or retiree, are eligible for SERS' health care coverage. Most retirees and dependents choosing SERS' health care coverage are over the age of 65 and therefore enrolled in a fully insured Medicare Advantage plan; however, SERS maintains a traditional, self-insured preferred provider organization for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program. Health care is a benefit that is permitted, not mandated, by statute. 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 2019, .5 percent 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 2019, this amount was \$21,600. 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 2019, the District's surcharge obligation was \$87,416.

The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The District's contractually required contribution to SERS was \$114,032 for fiscal year 2019.

Plan Description - State Teachers Retirement System (STRS)

Plan Description

The State Teachers Retirement System of Ohio (STRS) administers a cost-sharing Health Plan administered for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Medicare Part B premium reimbursements will be discontinued effective January 1, 2020. The Plan is included in the report of STRS which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy

Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for

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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, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2019, STRS did not allocate any employer contributions to post-employment health care.

Net OPEB Liability (Asset)

The net OPEB liability (asset) was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability (asset) was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability (asset) was based on the District's share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net OPEB Liability	\$8,721,587	\$0	\$8,721,587
Proportionate Share of the Net OPEB (Asset)	0	(2,387,517)	(2,387,517)
Proportion of the Net OPEB Liability/Asset:			
Current Measurement Date	0.15528562%	0.14857929%	
Prior Measurement Date	<u>0.16295950%</u>	<u>0.15313272%</u>	
Change in Proportionate Share	-0.00767388%	-0.00455343%	

Actuarial Assumptions - SERS

The total OPEB liability is determined by SERS' actuaries in accordance with GASB Statement No. 74, as part of their annual actuarial valuation for each 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 terminations). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

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

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

Key methods and assumptions used in calculating the total OPEB liability in the latest actuarial valuation date of June 30, 2018, are presented below:

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Inflation	3.00%
Future Salary Increases, including inflation	3.50% to 18.20%
Investment Rate of Return	7.50% net of investment expense, including inflation
Municipal Bond Index Rate:	
Measurement Date	3.62%
Prior Measurement Date	3.56%
Single Equivalent Interest Rate, net of plan investment expense, including price inflation:	
Measurement Date	3.70%
Prior Measurement Date	3.63%
Medical Trend Assumption:	
Medicare	5.375% to 4.75%
Pre-Medicare	7.25% to 4.75%

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, 120 percent of male rates and 110 percent of female rates. RP-2000 Disabled Mortality Table with 90 percent for male rates and 100 percent for female rates set back five years. The most recent experience study was completed for the five year period ended June 30, 2015.

The long-term expected rate of return on plan assets is reviewed as part of the actuarial five-year experience study. The most recent study covers fiscal years 2010 through 2015, and was adopted by the Board on April 21, 2016. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return, 7.50 percent, by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as used in the June 30, 2015 five-year experience study, are summarized as follows:

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%	

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Discount Rate

The discount rate used to measure the total OPEB liability at June 30, 2018 was 3.70 percent. The discount rate used to measure total OPEB liability prior to June 30, 2018 was 3.63 percent. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the state statute contribution rate of 2.00 percent of projected covered employee payroll each year, which includes a 1.50 percent payroll surcharge and 0.50 percent of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2026. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2025 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.62 percent, as of June 30, 2018 (i.e. municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

Sensitivity of the Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates

The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability of SERS, what SERS' net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.70%) and higher (4.70%) than the current discount rate (3.70%). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.25% decreasing to 3.75%) and higher (8.25% decreasing to 5.75%) than the current rate.

	1% Decrease (2.70%)	Current Discount Rate (3.70%)	1% Increase (4.70%)
Proportionate share of the net OPEB liability	\$5,227,470	\$4,308,042	\$3,580,027
	1% Decrease (6.25 % decreasing to 3.75%)	Current Trend Rate (7.25 % decreasing to 4.75%)	1% Increase (8.25 % decreasing to 5.75%)
Proportionate share of the net OPEB liability	\$3,475,800	\$4,308,042	\$5,410,081

Actuarial Assumptions - STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the June 30, 2018, actuarial valuation are presented below:

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Inflation	2.50 percent
Projected salary increases	12.50% at age 20 to 2.50% at age 65
Investment Rate of Return	7.45%, net of investment expenses, including inflation
Payroll Increases	3%
Discount Rate of Return	7.45%
Health Care Cost Trends:	
Medical	
Pre-Medicare	6% initial, 4% ultimate
Medicare	5% initial, 4% ultimate
Prescription Drug	
Pre-Medicare	8% initial, 4% ultimate
Medicare	(5.23%) initial, 4% ultimate

Projections of benefits include the historical pattern of sharing benefit costs between the employers and retired plan members.

For healthy retirees the mortality rates are based on the RP-2014 Annuitant Mortality Table with 50% of rates through age 69, 70% of rates between ages 70 and 79, 90% of rates between ages 80 and 84, and 100% of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. For disabled retirees, mortality rates are based on the RP-2014 Disabled Mortality Table with 90% of rates for males and 100% of rates for females, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the June 30, 2018, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

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	28.00%	7.35%
International Equity	23.00%	7.55%
Alternatives	17.00%	7.09%
Fixed Income	21.00%	3.00%
Real Estate	10.00%	6.00%
Liquidity Reserves	1.00%	2.25%
Total	100.00%	

*10 year annualized geometric nominal returns, which includes the real rate of return and inflation of 2.25% and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actual rate of return, without net value added by management.

Discount Rate

The discount rate used to measure the total OPEB liability was 7.45% as of June 30, 2018. The blended discount rate used to measure the total OPEB liability was 4.13% as of June 30, 2017. The projection of

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cash flows used to determine the discount rate assumes STRS Ohio continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on health care plan investments of 7.45% was used to measure the total OPEB liability as of June 30, 2018. The blended discount rate of 4.13%, which represents the long-term expected rate of return of 7.45% for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 3.58% for the unfunded benefit payments, was used to measure the total OPEB liability as of June 30, 2017.

Sensitivity of the Proportionate Share of the Net OPEB (Asset) to Changes in the Discount and Health Care Cost Trend Rate

The following table represents the net OPEB (asset) as of June 30, 2018, calculated using the current period discount rate assumption of 7.45%, as well as what the net OPEB (asset) would be if it were calculated using a discount rate that is one percentage point lower (6.45%) or one percentage point higher (8.45%) than the current assumption. Also shown is the net OPEB (asset) as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
Proportionate share of the net OPEB asset	(\$2,046,326)	(\$2,387,517)	(\$2,674,273)

	1% Decrease	Current Trend Rate	1% Increase
Proportionate share of the net OPEB (asset)	(\$2,658,085)	(\$2,387,517)	(\$2,112,735)

Since the Prior Measurement Date

The discount rate was increased from the blended rate of 4.13% to the long-term expected rate of return of 7.45% based on the methodology defined under GASB *Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)*. Valuation year per capita health care costs were updated.

The subsidy multiplier for non-Medicare benefit recipients was increased from 1.900% to 1.944% per year of service effective January 1, 2019. The non-Medicare frozen subsidy base premium was increased effective January 1, 2019 and all remaining Medicare Part B premium reimbursements were scheduled to be discontinued beginning January 1, 2020. However, in June of 2019, the STRS Board voted to extend the current Medicare Part B partial reimbursement for one year.

Note 9 – Contingent Liabilities

Grants

The District received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, the effect of any such disallowed claims on the overall financial position of the District at June 30, 2019, if applicable, cannot be determined at this time.

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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. ODE has finalized the adjustments and they did not have any significant impact on the School District's funding. As a result, the impact of future FTE adjustments on the fiscal year 2019 financial statements is not determinable, at this time. Management believes this may result in either an additional receivable to, or a liability of, the District.

Litigation

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

Note 10 – Lake County School Financing District

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

The Board of Education of the Lake County Educational Service Center acts as the taxing authority of the Financing District pursuant to Section 3311.50 of the Revised Code. The Financing District receives settlements of taxes levied and distributes within ten days to each of the Member Districts (including Painesville City Local School District) each such Member District's proportionate share of that tax settlement. Each Member District's proportionate share is a fraction, the numerator being Member District's total pupil population and the denominator being the aggregate pupil population of all Member Districts for that year.

Note 11 – Jointly Governed Organizations

Auburn Career Center

The Auburn Career Center is a joint vocational school district, which is a jointly governed organization among eleven school districts. The students of each participating school district may attend classes offered at the vocational facility. Each participant's control over the operation of the Auburn Career Center is limited to representation on the board. Continued existence of the Auburn Career Center is not dependent on the District's continued participation. Financial information can be obtained by writing the Auburn Career Center, 8140 Auburn Road, Painesville, Ohio 44077.

Lake Geauga Computer Association

The Lake Geauga Computer Association (LGCA) is a jointly governed organization that was first formed for the purpose of providing computer services for accounting, grading, scheduling, EMIS and other applications to its eighteen (18) member school districts. Each of the districts supports LGCA based upon a per pupil charge. The executive committee (governing board) consists of the superintendents and treasurers of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the governing board. LGCA's continued existence is not

Painesville City Local School District
Lake County, Ohio
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2019

dependent on the District's continued participation. LGCA is not accumulating significant financial resources or experiencing financial distress, which would cause additional financial benefits or burden on the District. Financial information can be obtained from: Lake Geauga Computer Association, 8140 Auburn Road, Painesville, Ohio 44077.

Ohio Schools Council Association

The Ohio Schools Council Association (the Council) is a jointly governed organization among eighty-two school districts. The jointly governed organization was formed to bring quality products and services at the lowest possible cost to the member districts. The Council's Board consists of seven superintendents of the participating districts whose term rotates every year. The degree of control exercised by any school district is limited to its representation on the Board. Financial information can be obtained by contacting the Executive Secretary of the Ohio Schools Council at 6393 Oak Tree Blvd. #377, Independence, Ohio 44131.

The District also participates in the Council's prepaid natural gas program, which was implemented during fiscal year 1999. This program allows school districts to purchase natural gas at reduced rates, if the school districts will commit to participating for a twelve-year period. The participants make monthly payments based on estimated usage. Each month, these estimated payments are compared to their actual usage and any necessary adjustments are made.

Note 12 – Claims Servicing Pool

The District participates in Lake County Council of Governments Health Care Benefits Program (HCBP) Self-Insurance Program, a shared risk pool, comprised of nine Lake County school districts plus Lakeland Community College and Lake County Educational Service Center. Each district has a representative on the assembly (usually the superintendent or treasurer). Each member pays an administrative fee to the pool. The plan's business and affairs are conducted by a five member Board of Directors elected by the HCBP's assembly. The assembly elects officers for one or two year terms to serve on the Board of Directors.

Note 13 – Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2019, the District contracted with Liberty Mutual Insurance for property and general liability insurance. There is a \$1,000,000 limit of liability.

Commercial umbrella liability is protected by Liberty Mutual Insurance with a \$10,000,000 single and aggregate occurrence limit. Vehicles are covered by Liberty Mutual Insurance and have a \$1,000 deductible for comprehensive collision. Automobile liability has a \$1,000,000 combined single limit of liability.

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

The District has elected to provide medical coverage through the Lake County Council of Governments Health Care Benefits Program, see note 12 for more information.

Painesville City Local School District
Lake County, Ohio
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2019

Note 14 – OSBA Insurance Purchasing Pool

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

The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement ensures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of CompManagement & Co. provides administrative, cost control and actuarial services to the GRP.

Note 15 – Set-Aside Requirements

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

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

	<u>Capital Improvements</u>
Set Aside Reserve Balance as of June 30, 2018	\$0
Current Year Set Aside Requirements	505,617
Current Year Offsets	<u>(16,966,333)</u>
Total	<u><u>(\$16,460,716)</u></u>
Set Aside Balance Carried Forward to Future Years	<u><u>\$0</u></u>
Set Aside Balance as of June 30, 2019	<u><u>\$0</u></u>

Although the School District had qualifying offsets and disbursements during the fiscal year that reduced the set-aside amount below zero for the capital improvements set aside, this amount may not be used to reduce the set aside requirements of future years. This negative balance is therefore not presented as being carried forward to future fiscal years.

Painesville City Local School District
Lake County, Ohio
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2019

Note 16 – 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:

<u>Fund Balances</u>	<u>General</u>	<u>Special Levy</u>	<u>Classroom Facilities Maintenance</u>	<u>Debt Service</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Restricted for:							
Other Grants	\$0	\$0	\$0	\$0	\$0	\$102,133	\$102,133
Special Levy	0	2,911,557	0	0	0	0	2,911,557
District Managed Student Activity	0	0	0	0	0	162,767	162,767
Miscellaneous State Grants	0	0	0	0	0	14,251	14,251
Title VI B	0	0	0	0	0	23,323	23,323
Title III	0	0	0	0	0	4,637	4,637
Auxiliary Services	0	0	0	0	0	27,823	27,823
Public Preschool	0	0	0	0	0	5,066	5,066
Title I	0	0	0	0	0	34,772	34,772
Preschool	0	0	0	0	0	1,228	1,228
Improving Teacher Grants	0	0	0	0	0	6,240	6,240
Classroom Facilities Maintenance	0	0	1,668,506	0	0	0	1,668,506
Debt Service Payments	0	0	0	1,795,626	0	0	1,795,626
Food Service	0	0	0	0	0	507,204	507,204
Capital Improvements	0	0	0	0	1,685,741	0	1,685,741
Total Restricted	0	2,911,557	1,668,506	1,795,626	1,685,741	889,444	8,950,874
Committed to:							
Fund Deficit/Emergency	433,222	0	0	0	0	0	433,222
Total Committed	433,222	0	0	0	0	0	433,222
Assigned to:							
Public School Support	34,060	0	0	0	0	0	34,060
Budgetary Reserve	232,547	0	0	0	0	0	232,547
Encumbrances	69,292	0	0	0	0	0	69,292
Total Assigned	335,899	0	0	0	0	0	335,899
Unassigned	5,470,785	0	0	0	0	0	5,470,785
Total Fund Balance	\$6,239,906	\$2,911,557	\$1,668,506	\$1,795,626	\$1,685,741	\$889,444	\$15,190,780

Note 17 – Interfund Balances and Transfers

During the fiscal year 2019, following advances and transfers were made:

	Advances		Transfers	
	In	Out	In	Out
General Fund	\$59,642	\$0	\$0	\$398
Other Governmental Funds	0	59,642	398	0
Total All Funds	\$59,642	\$59,642	\$398	\$398

The advances were to cover negative fund cash balances in the prior year. The advances were repaid to the general fund within one year.

Painesville City Local School District
Lake County, Ohio
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2019

Transfers are used to move receipts from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted receipts collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Transfers between governmental funds are eliminated in the statement of activities – modified cash basis.

Note 18 – Compliance

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

Note 19 – Implementation of New Accounting Principles

For the fiscal year ended June 30, 2019, the following have been implemented Governmental Accounting Standards Board (GASB) Statement No. 83, *Certain Asset Retirement Obligations* and GASB No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*.

GASB Statement No. 83 sets out to address the accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The implementation of GASB Statement No. 83 did not have an effect on the financial statements.

GASB Statement No. 88 sets out to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. If applicable, GASB Statement No. 88 has been implemented in the notes to financial statements.

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**PAINESVILLE CITY LOCAL SCHOOL DISTRICT
LAKE COUNTY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019**

FEDERAL GRANTOR Pass Through Grantor Program / Cluster Title	Federal CFDA Number	Total Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE		
Passed Through Ohio Department of Education		
School Breakfast Program	10.553	\$ 341,230
<u>Child Nutrition Cluster:</u>		
National School Lunch Program	10.555	1,098,585
National School Lunch Program - Non-Cash Assistance	10.555	<u>137,772</u>
Total - National School Lunch Program		<u>1,236,357</u>
Total U.S. Department of Agriculture/Child Nutrition Cluster		1,577,587
U.S. DEPARTMENT OF EDUCATION:		
Passed Through Ohio Department of Education:		
<u>Special Education Cluster</u>		
Special Education: Grants to States	84.027	39,235
		95,532
		<u>645,942</u>
Total - Special Education Grants to States		780,709
Special Education: Preschool Grants	84.173	1,313
		2,746
		<u>20,804</u>
Total - Special Education: Preschool Grants		<u>24,863</u>
Total Special Education Cluster		805,572
Title I Grants to Local Educational Agencies	84.010	1,304
		89,442
		17,966
		135,299
		<u>919,697</u>
Total - Title I Grants to Local Educational Agencies		1,163,708
English Language Acquisition State Grants	84.365	1,032
		32,051
		<u>104,624</u>
Total - English Language Acquisition State Grants		137,707
Improving Teacher Quality State Grants	84.367	11,250
		330
		<u>142,199</u>
Total - Improving Teacher Quality State Grants		153,779
Student Support and Academic Enrichment Program	84.424	1,897
		<u>62,676</u>
Total - Student Support and Academic Enrichment Program		64,573
Disaster Recovery Assistance for Education	84.938	<u>1,468</u>
Total U.S. Department of Education		<u>2,326,807</u>
Total Expenditures of Federal Awards		<u><u>\$3,904,394</u></u>

The accompanying notes are an integral part of this schedule.

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT
LAKE COUNTY**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
2 CFR 200.510(b)(6)
FOR THE YEAR ENDED JUNE 30, 2019**

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the Painesville City Local School District, Lake County, Ohio (the District) under programs of the federal government for the year ended June 30, 2019. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, or changes in financial position of the District

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement.

NOTE C – INDIRECT COST RATE

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

NOTE D - CHILD NUTRITION CLUSTER

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

NOTE E – FOOD DONATION PROGRAM

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

NOTE F - TRANSFERS BETWEEN PROGRAM YEARS

Federal regulations require schools to obligate certain federal awards by June 30. However, with ODE's consent, schools can transfer unobligated amounts to the subsequent fiscal year's program. The District transferred the following amounts from 2018 to 2019 programs:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amt. Transferred</u>
Student Support and Academic Enrichment	84.424	\$508
Improving Teacher Quality State Grants	84.367	2,798



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

Painesville City Local School District
Lake County
58 Jefferson Street
Painesville, Ohio 44077

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' Government Auditing Standards, the cash-basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Painesville City Local School District, Lake County, Ohio (the District) as of and for the year ended June 30, 2019, and the related notes to the financial statements which collectively comprise the District's basic financial statements and have issued our report thereon date January 31, 2020, wherein we noted the District uses a special purpose framework other than generally accepted accounting principles.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2019-001.

District's Response to Finding

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and corrective action plan. We did not subject the District's response to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



Keith Faber
Auditor of State
Columbus, Ohio

January 31, 2020



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

Painesville City Local School District
Lake County
58 Jefferson Street
Painesville, Ohio 44077

To the Board of Education:

Report on Compliance for the Major Federal Program

We have audited Painesville City Local School District's (the District) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect the Painesville City Local School District's major federal program for the year ended June 30, 2019. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the District's major federal program.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on the Major Federal Program

In our opinion, Painesville City Local School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2019.

Report on Internal Control Over Compliance

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

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

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

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



Keith Faber
Auditor of State
Columbus, Ohio

January 31, 2020

**PAINESVILLE CITY LSD
LAKE COUNTY**

**SCHEDULE OF FINDINGS
2 CFR § 200.515
June 30, 2019**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unmodified
(d)(1)(ii)	Were there any material weaknesses in internal control 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)?	Yes
(d)(1)(iv)	Were there any material weaknesses in internal control reported for major federal programs?	No
(d)(1)(iv)	Were there any 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 § 200.516(a)?	No
(d)(1)(vii)	Major Programs (list):	➤ Nutrition Cluster, CFDA 10.553 and 10.555
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 750,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee under 2 CFR § 200.520?	No

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

FINDING NUMBER 2019-001

Ohio Rev. Code § 117.38 provides that each public office "shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office."

Ohio Admin. Code § 117-2-03(B), which further clarifies the requirements of **Ohio Rev. Code § 117.38**, requires the District to file annual financial reports which are prepared using generally accepted accounting principals (GAAP).

The District prepared financial statements that, although formatted similar to financial statements prescribed by Governmental Accounting Standards Board Statement No. 34, report on the basis of cash receipts and cash disbursements, rather than GAAP. The accompanying financial statements and notes omit certain assets, liabilities, deferred inflows/outflows of resources, fund equities/net position, and disclosures that, while presumed material, cannot be determined at this time.

Pursuant to **Ohio Rev. Code § 117.38** the District may be fined and subject to various other administrative remedies for its failure to file the required financial report. Failure to report on a GAAP basis compromises the District's ability to evaluate and monitor the overall financial condition of the District. To help provide the users with more meaningful financial statements, the District should prepare its annual financial statements according to generally accepted accounting principles.

Officials' Response: See Corrective Action Plan

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.



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Director, ELDServices

Heidi Fyffe-Yocum
Director, State and Federal Programs and Technology

Wendy Camper
Director of Teaching and Learning

Shaun Bell
Director of Operations

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT
LAKE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
2 CFR 200.511(b)
JUNE 30, 2019**

Finding Number	Finding Summary	Status	Additional Information
2018-001	Noncompliance Finding – Ohio Rev. Code § 117.38: The District does not prepare GAAP basis financial statements.	Not Corrected	At this time, Painesville City Local Schools has no plan of action to file under GAAP. The Board believes in weighing out the cost and finds that the addition costs with filing under GAAP is not cost effective. Repeated as 2019-001

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Superintendent

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Sherri Samac
Treasurer/CFO

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Director of Student Services

Ruth G. Haines
Director, ELD Services

Heidi Fyffe-Yocum
Director, State and Federal Programs and Technology

Wendy Camper
Director of Teaching and Learning

Shaun Bell
Director of Operations

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT
LAKE COUNTY**

**CORRECTIVE ACTION PLAN
2 CFR § 200.511(c)
JUNE 30, 2019**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2019-001	At this time, Painesville City Local Schools has no plan of action to file under GAAP. The Board believes in weighing out the cost and finds that the addition costs with filing under GAAP is not cost effective.	N/A	Sherri Samac, Treasurer

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OHIO AUDITOR OF STATE KEITH FABER



PAINESVILLE CITY LOCAL SCHOOL DISTRICT

LAKE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 25, 2020**