



OHIO AUDITOR OF STATE  
**KEITH FABER**





**CUYAHOGA HEIGHTS LOCAL SCHOOL DISTRICT  
CUYAHOGA COUNTY  
JUNE 30, 2018**

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**CUYAHOGA HEIGHTS LOCAL SCHOOL DISTRICT  
CUYAHOGA COUNTY  
JUNE 30, 2018**

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# OHIO AUDITOR OF STATE KEITH FABER



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## INDEPENDENT AUDITOR'S REPORT

Cuyahoga Heights Local School District  
Cuyahoga County  
4820 East 71<sup>st</sup> Street  
Cuyahoga Heights, Ohio 44125

To the Board of Education:

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Cuyahoga Heights Local School District, Cuyahoga County, Ohio (the District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

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

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

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the District's internal control. Accordingly, we express no 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.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Cuyahoga Heights Local School District, Cuyahoga County, Ohio, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 3 to the financial statements, during 2018, the District adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. We did not modify our opinion regarding this matter.

**Other Matter**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require this presentation to include *management's discussion and analysis*, and schedules of net pension and other post-employment benefit liabilities and pension and other post-employment benefit contributions listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2019, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Keith Faber". The signature is written in a cursive, flowing style.

Keith Faber  
Auditor of State

Columbus, Ohio

November 6, 2019

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## **Cuyahoga Heights Local School District**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2018  
Unaudited*

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The discussion and analysis of the Cuyahoga Heights Local School District's (the School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2018. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

### **School District Highlights**

Highlights for fiscal year 2018 are as follows:

- Tax valuation of the School District increased by \$11,263,010 for tax year 2017.
- The School District actively pursues grants and controls expenses while still maintaining the high academic standards the residents expect of the School District.
- Best Music Communities for Music Education awarded for the thirteenth consecutive year by the National Association of Music Merchants (NAMM) Foundation.

### **Using this Financial Report**

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

The statement of net position and the statement of activities provide information about the activities of the whole School District, presenting both an aggregate and longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements explain how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the Cuyahoga Heights Local School District, the general fund is the most significant fund.

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

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

While these statements contain information about the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2018?" The statement of net position and the statement of activities answer this question. These statements include all non-fiduciary assets and deferred outflows of resources and liabilities and deferred inflows of resources using the accrual basis of accounting, similar to the accounting used by most private-sector companies. These bases of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

## Cuyahoga Heights Local School District

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2018  
Unaudited*

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

In the statement of net position and the statement of activities, all of the School District's activities are classified as governmental. All of the School District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation, operation of food services and extracurricular activities.

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

The analysis of the School District's major funds begins on page 12. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's only major governmental fund is the general fund.

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

**Proprietary Funds** The School District maintains one proprietary fund. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. Internal service funds are an accounting device used to accumulate and allocate costs internally among the School District's various functions. The School District's internal service fund accounts for unanticipated run-off claims.

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

**Cuyahoga Heights Local School District**  
*Management's Discussion and Analysis*  
For the Fiscal Year Ended June 30, 2018  
Unaudited

**The School District as a Whole**

Recall that the statement of net position provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net position for the fiscal year 2018 compared to fiscal year 2017:

**Table 1**  
Net Position  
Governmental Activities

	2018	2017	Change
<b>Assets</b>			
Current and Other Assets	\$27,961,137	\$25,024,162	\$2,936,975
Capital Assets, Net of Depreciation	5,786,722	5,989,233	(202,511)
Total Assets	33,747,859	31,013,395	2,734,464
<b>Deferred Outflows of Resources</b>			
Pension	4,929,104	4,208,828	720,276
OPEB	228,875	39,011	189,864
Total Deferred Outflows of Resources	5,157,979	4,247,839	910,140
<b>Liabilities</b>			
Current and Other Liabilities	1,562,049	1,543,519	(18,530)
Long-Term Liabilities:			
Due Within One Year	600,251	671,255	71,004
Due in More Than One Year:			
Net Pension Liability	15,975,611	21,377,678	5,402,067
Net OPEB Liability	3,874,434	4,605,069	730,635
Other Amounts	690,374	732,151	41,777
Total Liabilities	22,702,719	28,929,672	6,226,953
<b>Deferred Inflows of Resources</b>			
Property Taxes	10,042,010	9,385,907	(656,103)
Payments in Lieu of Taxes	100,513	100,513	0
Pension	735,103	356,217	(378,886)
OPEB	427,278	0	(427,278)
Total Deferred Inflows of Resources	11,304,904	9,842,637	(1,462,267)
<b>Net Position</b>			
Net Investment in Capital Assets	5,464,923	5,504,630	(39,707)
Restricted for:			
Capital Projects	2,547,957	2,457,962	89,995
Other Purposes	668,422	542,884	125,538
Unrestricted (Deficit)	(3,783,087)	(12,016,551)	8,233,464
Total Net Position	\$4,898,215	(\$3,511,075)	\$8,409,290

## Cuyahoga Heights Local School District

### *Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2018 Unaudited*

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The net pension liability (NPL) is the largest single liability reported by the School District at June 30, 2018, and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement 27." For fiscal year 2018, the School District adopted GASB Statement 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB). For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the School District's actual financial condition by adding deferred inflows related to pension and OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting deferred outflows related to pension and OPEB.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability* or *net OPEB liability*. GASB 68 and GASB 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio's statewide pension/OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 and GASB 75 require the net pension liability and the net OPEB liability to equal the School District's proportionate share of each plan's collective:

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

GASB notes that pension and OPEB obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension and other postemployment benefits. GASB noted that the unfunded portion of this promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the School District is not responsible for certain key factors affecting the balance of these liabilities. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The Ohio Revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The retirement system is responsible for the administration of the pension and OPEB plans.

**Cuyahoga Heights Local School District**  
*Management's Discussion and Analysis*  
For the Fiscal Year Ended June 30, 2018  
Unaudited

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

In accordance with GASB 68 and GASB 75, the School District's statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's *change* in net pension liability and net OPEB liability, respectively, not accounted for as deferred inflows/outflows.

As a result of implementing GASB 75, the School District is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2017, from \$1,054,983 to (\$3,511,075).

The increase in net position is attributable to a decrease of the net pension liability. The largest component of the decrease results from changes in assumptions and benefit terms. STRS adopted certain assumption changes, including a reduction in their discount rate, and also voted to suspend cost of living adjustments (COLA). SERS decreased their COLA assumption.

In order to further understand what makes up the changes in net position for the current year, the following table gives readers further details regarding the results of activities for the current fiscal year. Table 2 shows total revenues, expenses and changes in net position for the fiscal years 2018 and 2017.

**Table 2**  
Governmental Activities

	2018	2017	Change
<b>Program Revenues</b>			
Charges for Services and Sales	\$1,131,256	\$1,119,804	\$11,452
Operating Grants and Contributions	273,861	356,754	(82,893)
<i>Total Program Revenues</i>	1,405,117	1,476,558	(71,441)
<b>General Revenues</b>			
Property Taxes	11,157,910	9,971,027	1,186,883
Grants and Entitlements	3,940,815	4,290,571	(349,756)
Payment in Lieu of Taxes	733,443	386,961	346,482
Investment Earnings	182,733	80,266	102,467
Gain on Sale of Capital Assets	1,499	0	1,499
Miscellaneous	25,570	56,346	(30,776)
<i>Total General Revenues</i>	16,041,970	14,785,171	1,256,799
<i>Total Revenues</i>	\$17,447,087	\$16,261,729	\$1,185,358

(continued)

**Cuyahoga Heights Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2018*  
*Unaudited*

**Table 2**  
 Governmental Activities (continued)

	2018	2017	Change
<b>Program Expenses</b>			
Instruction:			
Regular	\$2,438,377	\$6,311,987	\$3,873,610
Special	1,574,635	1,540,874	(33,761)
Vocational	10,821	8,820	(2,001)
Support Services:			
Pupil	479,285	755,188	275,903
Instructional Staff	351,503	526,606	175,103
Board of Education	37,381	62,567	25,186
Administration	166,912	1,367,940	1,201,028
Fiscal	535,902	653,421	117,519
Business	32,715	41,542	8,827
Operation and Maintenance of Plant	1,422,228	1,514,744	92,516
Pupil Transportation	725,076	836,768	111,692
Central	376,777	572,931	196,154
Operation of Food Service	287,298	292,996	5,698
Operation of Other Non-Instructional Services	49,070	54,971	5,901
Extracurricular Activities	542,237	917,122	374,885
Interest and Fiscal Charges	16,363	22,802	6,439
<i>Total Program Expenses</i>	<u>9,046,580</u>	<u>15,481,279</u>	<u>6,434,699</u>
<i>Special Item - Settlement</i>	<u>8,783</u>	<u>66,108</u>	<u>(57,325)</u>
<i>Change in Net Position</i>	8,409,290	846,558	7,562,732
<i>Net Position Beginning of Year</i>	<u>(3,511,075)</u>	N/A	
<i>Net Position End of Year</i>	<u><u>\$4,898,215</u></u>	<u><u>(\$3,511,075)</u></u>	<u><u>\$8,409,290</u></u>

The information necessary to restate the 2017 beginning balances and the 2017 OPEB expense amounts for the effects of the initial implementation of GASB 75 is not available. Therefore, 2017 functional expenses still include OPEB expense of \$39,011 computed under GASB 45. GASB 45 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 75, OPEB expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of OPEB expense. Under GASB 75, the 2018 statements report negative OPEB expense of \$446,766. Consequently, in order to compare 2018 total program expenses to 2017, the following adjustments are needed:

Total 2018 program expenses under GASB 75	\$9,046,580
Negative OPEB expense under GASB 75	446,766
2018 contractually required contribution	<u>46,455</u>
Adjusted 2018 program expenses	9,539,801
Total 2017 program expenses under GASB 45	<u>(15,481,279)</u>
Decrease in program expenses not related to OPEB	<u><u>(\$5,941,478)</u></u>

**Cuyahoga Heights Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2018*  
*Unaudited*

***Governmental Activities***

The largest component of the decrease in program expenses results from changes in assumptions and benefit terms related to pensions. STRS adopted certain assumption changes, including a reduction in their discount rate, and also voted to suspend cost of living adjustments (COLA). SERS decreased their COLA assumption. (See Note 22) As a result of these changes, pension expense decreased from \$1,697,711 in fiscal year 2017 to a negative pension expense of \$4,645,034 for fiscal year 2018. The allocation of the fiscal year 2018 negative pension expense to program expenses is as follows:

<b>Program Expenses</b>	<b>2018 Program Expenses Related to Negative Pension Expense</b>
Instruction:	
Regular	(\$3,181,307)
Support Services:	
Pupil	(193,933)
Instructional Staff	(150,985)
Board of Education	(493)
Administration	(760,827)
Fiscal	(15,793)
Operation and Maintenance of Plant	(34,574)
Pupil Transportation	(39,857)
Central	(6,917)
Operation of Food Service	(7,588)
Operation of Other Non-Instructional Services	(925)
Extracurricular Activities	(251,835)
Total Expenses	<u><u>(\$4,645,034)</u></u>

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenue generated by a voted levy does not increase solely as a result of inflation. It increases as a result of new construction or collection from a new voted levy. Although school districts experience inflationary growth in expenses, tax revenue does not keep pace with the increased expenses due to House Bill 920. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home were reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay less than \$35.00 and the School District would collect the same dollar value the levy generated in the year it passed. The 10 percent rollback on all residential/agricultural property and the 2.5 percent rollback on all owner occupied homes would reduce the amount of taxes paid.

Thus school districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to the voters to maintain a constant level of service.

The School District actively pursues grants and controls expenses while still maintaining the high academic standards the residents expect of the School District. Revenue from property taxes increased in fiscal year 2018 due to an increase in assessed valuations throughout the School District.

**Cuyahoga Heights Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2018*  
*Unaudited*

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

The majority of the programs listed below rely on general revenues for financing. Clearly, the communities that comprise the School District are the greatest source of financial support for the students of the Cuyahoga Heights Local School District.

**Table 3**  
 Total and Net Cost of Program Services  
 Governmental Activities

	2018		2017	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Instruction:				
Regular	\$2,438,377	\$2,089,575	\$6,311,987	\$5,975,325
Special	1,574,635	1,403,718	1,540,874	1,251,526
Vocational	10,821	10,160	8,820	8,334
Support Services:				
Pupil	479,285	402,905	755,188	713,674
Instructional Staff	351,503	301,406	526,606	477,376
Board of Education	37,381	35,286	62,567	59,177
Administration	166,912	102,537	1,367,940	1,298,761
Fiscal	535,902	504,654	653,421	618,308
Business	32,715	31,180	41,542	39,493
Operation and Maintenance of Plant	1,422,228	1,334,492	1,514,744	1,437,847
Pupil Transportation	725,076	631,957	836,768	744,841
Central	376,777	347,446	572,931	558,812
Operation of Food Service	287,298	61,451	292,996	91,083
Operation of Other Non-Instructional Services	49,070	46,580	54,971	53,088
Extracurricular Activities	542,237	321,753	917,122	654,274
Interest and Fiscal Charges	16,363	16,363	22,802	22,802
Total	<u>\$9,046,580</u>	<u>\$7,641,463</u>	<u>\$15,481,279</u>	<u>\$14,004,721</u>

The dependence upon general revenues for governmental activities is apparent.

**The School District's Funds**

Information regarding the School District's major funds begins on page 17. These funds are accounted for using the modified accrual basis of accounting. Total governmental funds increased from the prior fiscal year due to an increase in property taxes. This property tax increase was attributable to increased assessed valuations during fiscal year 2018. This is also the reason for the increase in the general fund balance.

***General Fund Budgeting Highlights***

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



## **Cuyahoga Heights Local School District**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2018  
Unaudited*

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During the course of fiscal year 2018, the School District amended its general fund budget several times. The School District uses an operational unit budget process and has in place systems that are designed to tightly control expenses but provide flexibility for program based decision and management.

The general fund's actual revenues were greater than final budget basis revenues due to more than expected intergovernmental receipts and property taxes. The general fund's actual expenditures were lower than the final budget basis expenditures. This is due in large part to the School District's continued commitment to provide a quality education while still controlling the costs of that quality education.

### **Capital Assets and Debt Administration**

#### *Capital Assets*

All capital assets, except land, are reported net of depreciation. The decrease in capital assets was due to depreciation outpacing the purchase of new assets during the fiscal year, which consisted mostly of new classroom electronic equipment for students. See Note 12 for additional capital asset information.

#### *Debt*

At June 30, 2018, the School District had \$321,799 outstanding in capital leases. The School District has entered into capital leases for various improvements to School District buildings and printers. See Notes 17 and 18 to the basic financial statements for additional information on the School District's long-term obligations.

### **School District Outlook**

The School District relies heavily on its local property taxpayers. The School District has been affected by declining tax base, changes in the personal property tax structure, commercial business uncertainties, and rising costs of goods and services. The overall tax valuation decreased from \$522,191,973 in 2002 to \$339,586,450 in 2014. The tax valuation showed a slight decrease to \$336,222,870 in 2015. Although House Bill 66 of the 126<sup>th</sup> General Assembly provided for the phase-out of tangible personal property taxes on general business, the law provided for school districts to be held harmless by the State for their local tax revenue losses. The hold-harmless period was to be followed by a period of phasing out the hold-harmless guarantee. House Bill 1 of the 128<sup>th</sup> General Assembly has postponed the starting of the phase-out period. House Bill 64 of the 131<sup>st</sup> General Assembly reinstated the phase-out of tangible personal property taxes with a hold-harmless in the first year of the budget only. As a result of a history of changing legislation, the School District is cautious to count on hold-harmless dollars as a future revenue source. The State's biennial budget bill has been the vehicle for legislative changes in the past. The School District, with the help of the State associations we support, will keep apprised of changes at the State level working with our legislators to retain the hold-harmless reimbursement.

## **Cuyahoga Heights Local School District**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2018  
Unaudited*

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The future of State funding may greatly affect the financial horizon of the School District. The State of Ohio was found by the Ohio Supreme Court to be operating an unconstitutional education system in regards to the funding formula. There have been several attempts to “fix” the funding formula; however, the current funding formula is in constant flux. Most budget bills change the formula, caps and guarantees of the funding we receive from the State of Ohio.

Possibly the most critical piece of funding is the uncertainty of the replacement dollars for tangible personal property tax. Over \$2.5 million was received from the State of Ohio in fiscal year 2018 to offset the loss of tangible personal property tax. The new State budget reflects changes in our hold-harmless reimbursement. The reduction of this stream of revenue over time will be financially devastating. All scenarios require management to plan carefully and prudently to provide the resources to meet student needs over the next several years. The due diligence of the Board of Education, Administration, Treasurer, Superintendent, community, Finance and BEST Committee contributes to the financial success of the School District and prudent financial decisions for the School District.

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

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Treasurer at Cuyahoga Heights Local School District, 4820 E. 71st Street, Cuyahoga Heights, Ohio 44125-1095, or call (216) 429-5800 Treasurer's office.

# Cuyahoga Heights Local School District

## Statement of Net Position

June 30, 2018

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$15,773,171
Accounts Receivable	1,965
Intergovernmental Receivable	163,673
Prepaid Items	22,122
Materials and Supplies Inventory	14,336
Inventory Held for Resale	1,201
Property Taxes Receivable	11,884,156
Payments in Lieu of Taxes Receivable	100,513
Non-depreciable Capital Assets	798,600
Depreciable Capital Assets, Net	4,988,122
<i>Total Assets</i>	<u>33,747,859</u>
<b>Deferred Outflows of Resources</b>	
Pension	4,929,104
OPEB	228,875
<i>Total Assets</i>	<u>5,157,979</u>
<b>Liabilities</b>	
Accounts Payable	108,721
Accrued Wages and Benefits	1,227,797
Intergovernmental Payable	221,953
Matured Compensated Absences Payable	3,325
Accrued Interest Payable	253
Long-Term Liabilities:	
Due Within One Year	600,251
Due In More Than One Year:	
Net Pension Liability (See Note 22)	15,975,611
Net OPEB Liability (See Note 23)	3,874,434
Other Amounts Due in More Than One Year	690,374
<i>Total Liabilities</i>	<u>22,702,719</u>
<b>Deferred Inflows of Resources</b>	
Property Taxes	10,042,010
Payment in Lieu of Taxes	100,513
Pension	735,103
OPEB	427,278
<i>Total Deferred Inflows of Resources</i>	<u>11,304,904</u>
<b>Net Position</b>	
Net Investment in Capital Assets	5,464,923
Restricted for:	
Capital Projects	2,547,957
Music and Athletics	645,101
Other Purposes	23,321
Unrestricted (Deficit)	<u>(3,783,087)</u>
<i>Total Net Position</i>	<u><u>\$4,898,215</u></u>

See accompanying notes to the basic financial statements

**Cuyahoga Heights Local School District**

*Statement of Activities*

*For the Fiscal Year Ended June 30, 2018*

	Program Revenues			Net (Expense)
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Revenue and Changes in Net Position
<b>Governmental Activities</b>				
Instruction:				
Regular	\$2,438,377	\$347,002	\$1,800	(\$2,089,575)
Special	1,574,635	81,159	89,758	(1,403,718)
Vocational	10,821	586	75	(10,160)
Support Services:				
Pupil	479,285	56,127	20,253	(402,905)
Instructional Staff	351,503	29,297	20,800	(301,406)
Board of Education	37,381	2,095	0	(35,286)
Administration	166,912	64,375	0	(102,537)
Fiscal	535,902	31,248	0	(504,654)
Business	32,715	1,535	0	(31,180)
Operation and Maintenance of Plant	1,422,228	77,736	10,000	(1,334,492)
Pupil Transportation	725,076	41,490	51,629	(631,957)
Central	376,777	29,331	0	(347,446)
Operation of Food Service	287,298	148,172	77,675	(61,451)
Operation of Other Non-Instructional Services	49,070	2,490	0	(46,580)
Extracurricular Activities	542,237	218,613	1,871	(321,753)
Interest and Fiscal Charges	16,363	0	0	(16,363)
<b>Totals</b>	<b>\$9,046,580</b>	<b>\$1,131,256</b>	<b>\$273,861</b>	<b>(7,641,463)</b>

**General Revenues**

Property Taxes Levied for General Purposes	11,157,910
Grants and Entitlements not Restricted to Specific Programs	3,940,815
Payment in Lieu of Taxes	733,443
Investment Earnings	182,733
Gain on Sale of Capital Assets	1,499
Miscellaneous	25,570
<b>Total General Revenues</b>	<b>16,041,970</b>
Special Item - Settlement	8,783
<b>Total General Revenues and Special Item</b>	<b>16,050,753</b>
Change in Net Position	8,409,290
<i>Net Position Beginning of Year - Restated (See Note 3)</i>	<i>(3,511,075)</i>
<b>Net Position End of Year</b>	<b>\$4,898,215</b>

See accompanying notes to the basic financial statements

**Cuyahoga Heights Local School District**

*Balance Sheet  
Governmental Funds  
June 30, 2018*

	General	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$12,413,392	\$3,314,037	\$15,727,429
Accounts Receivable	1,965	0	1,965
Intergovernmental Receivable	143,050	20,623	163,673
Prepaid Items	22,122	0	22,122
Materials and Supplies Inventory	13,940	396	14,336
Inventory Held for Resale	0	1,201	1,201
Interfund Receivable	105,079	0	105,079
Property Taxes Receivable	11,884,156	0	11,884,156
Payments in Lieu of Taxes Receivable	0	100,513	100,513
<i>Total Assets</i>	<u>\$24,583,704</u>	<u>\$3,436,770</u>	<u>\$28,020,474</u>
<b>Liabilities</b>			
Accounts Payable	\$101,214	\$7,507	\$108,721
Accrued Wages and Benefits	1,215,515	12,282	1,227,797
Intergovernmental Payable	215,846	6,107	221,953
Matured Compensated Absences Payable	3,325	0	3,325
Interfund Payable	0	105,079	105,079
<i>Total Liabilities</i>	<u>1,535,900</u>	<u>130,975</u>	<u>1,666,875</u>
<b>Deferred Inflows of Resources</b>			
Unavailable Revenue	608,057	8,566	616,623
Payment in Lieu of Taxes	0	100,513	100,513
Property Taxes	10,042,010	0	10,042,010
<i>Total Deferred Inflows of Resources</i>	<u>10,650,067</u>	<u>109,079</u>	<u>10,759,146</u>
<b>Fund Balances</b>			
Nonspendable	36,062	396	36,458
Restricted	0	3,215,031	3,215,031
Assigned	148,333	0	148,333
Unassigned (Deficit)	12,213,342	(18,711)	12,194,631
<i>Total Fund Balances</i>	<u>12,397,737</u>	<u>3,196,716</u>	<u>15,594,453</u>
<i>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</i>	<u>\$24,583,704</u>	<u>\$3,436,770</u>	<u>\$28,020,474</u>

See accompanying notes to the basic financial statements

**Cuyahoga Heights Local School District**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Position of Governmental Activities  
 June 30, 2018*

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<b>Total Governmental Fund Balances</b>	<b>\$15,594,453</b>
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*Amounts reported for governmental activities in the statement of net position are different because:*

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	5,786,722
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Other long-term assets are not available to pay for current-period expenditures and therefore are reported as unavailable in the funds:	
Delinquent Property Taxes	606,092
Intergovernmental	8,566
Tuition and Fees	1,965
Total	616,623

An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.	45,742
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In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(253)
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Capital Leases	(321,799)
Compensated Absences	(968,826)
Total	(1,290,625)

The net pension and net OPEB liabilities are not due and payable in the current period; therefore, the liabilities and related deferred outflows/inflows are not reported in governmental funds:	
Deferred Outflows - Pension	4,929,104
Deferred Outflows - OPEB	228,875
Net Pension Liability	(15,975,611)
Net OPEB Liability	(3,874,434)
Deferred Inflows - Pension	(735,103)
Deferred Inflows - OPEB	(427,278)
Total	(15,854,447)

<i>Net Position of Governmental Activities</i>	<u><u>\$4,898,215</u></u>
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See accompanying notes to the basic financial statements

**Cuyahoga Heights Local School District**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2018*

	General	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>			
Property Taxes	\$11,091,758	\$0	\$11,091,758
Payment in Lieu of Taxes	157,508	575,935	733,443
Intergovernmental	4,029,277	220,091	4,249,368
Interest	182,733	0	182,733
Tuition and Fees	545,408	16,200	561,608
Extracurricular Activities	16,173	36,680	52,853
Contributions and Donations	1,257	1,871	3,128
Charges for Services	217,248	148,172	365,420
Rentals	16,495	132,915	149,410
Miscellaneous	14,168	11,402	25,570
<i>Total Revenues</i>	<u>16,272,025</u>	<u>1,143,266</u>	<u>17,415,291</u>
<b>Expenditures</b>			
Current:			
Instruction:			
Regular	6,382,338	16,524	6,398,862
Special	1,498,880	75,755	1,574,635
Vocational	10,821	0	10,821
Support Services:			
Pupil	703,931	33,816	737,747
Instructional Staff	531,636	26,447	558,083
Board of Education	38,683	0	38,683
Administration	1,169,433	0	1,169,433
Fiscal	592,355	0	592,355
Business	28,347	0	28,347
Operation and Maintenance of Plant	1,421,619	19,756	1,441,375
Pupil Transportation	759,629	0	759,629
Central	230,979	316,449	547,428
Operation of Food Service	0	303,861	303,861
Operation of Other Non-Instructional Services	42,702	0	42,702
Extracurricular Activities	623,223	128,026	751,249
Capital Outlay	5,800	53,351	59,151
Debt Service:			
Principal Retirement	26,020	136,784	162,804
Interest and Fiscal Charges	445	16,667	17,112
<i>Total Expenditures</i>	<u>14,066,841</u>	<u>1,127,436</u>	<u>15,194,277</u>
<i>Excess of Revenues Over Expenditures</i>	<u>2,205,184</u>	<u>15,830</u>	<u>2,221,014</u>
<b>Other Financing Sources (Uses)</b>			
Sale of Capital Assets	1,499	0	1,499
Transfers In	0	235,000	235,000
Transfers Out	(235,000)	0	(235,000)
<i>Total Other Financing Sources (Uses)</i>	<u>(233,501)</u>	<u>235,000</u>	<u>1,499</u>
Special Item - Settlement	0	8,783	8,783
<i>Net Change in Fund Balances</i>	1,971,683	259,613	2,231,296
<i>Fund Balances Beginning of Year</i>	<u>10,426,054</u>	<u>2,937,103</u>	<u>13,363,157</u>
<i>Fund Balances End of Year</i>	<u>\$12,397,737</u>	<u>\$3,196,716</u>	<u>\$15,594,453</u>

See accompanying notes to the basic financial statements

**Cuyahoga Heights Local School District**  
*Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Fiscal Year Ended June 30, 2018*

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<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$2,231,296</b>
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*Amounts reported for governmental activities in the statement of activities are different because :*

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

This is the amount by which depreciation exceeded capital outlay in the current period:

Capital Asset Additions	277,442	
Current Year Depreciation	(479,953)	
Total		(202,511)

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

Delinquent Property Taxes	66,152	
Intergovernmental	(37,820)	
Tuition and Fees	1,965	
Total		30,297

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 162,804

Some expenses reported in the statement of activities, such as accrued interest, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. 749

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (50,023)

Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows:

Pension	1,098,423	
OPEB	46,455	
Total		1,144,878

Except for amounts reported as deferred inflows/outflows, changes in the net pension/OPEB liabilities are reported as pension/OPEB expense in the statement of activities:

Pension	4,645,034	
OPEB	446,766	
Total		5,091,800

<i>Change in Net Position of Governmental Activities</i>	<b><u><u>\$8,409,290</u></u></b>
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See accompanying notes to the basic financial statements



**Cuyahoga Heights Local School District**  
*Statement of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*General Fund*  
*For the Fiscal Year Ended June 30, 2018*

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>Revenues</b>				
Property Taxes	\$8,820,326	\$11,169,446	\$11,283,366	\$113,920
Payment in Lieu of Taxes	156,629	156,629	157,508	879
Intergovernmental	1,875,803	3,064,145	4,023,179	959,034
Interest	7,196	100,000	180,128	80,128
Tuition and Fees	219,046	600,000	643,667	43,667
Charges for Services	81,307	170,000	213,330	43,330
Rentals	480	0	16,495	16,495
Miscellaneous	22,675	0	18,609	18,609
<i>Total Revenues</i>	11,183,462	15,260,220	16,536,282	1,276,062
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	6,524,570	6,478,175	6,432,935	45,240
Special	1,647,463	1,638,543	1,535,107	103,436
Vocational	9,000	10,821	10,821	0
Support Services:				
Pupil	659,072	722,272	685,948	36,324
Instructional Staff	599,513	593,713	519,814	73,899
Board of Education	87,325	69,325	40,842	28,483
Administration	1,311,670	1,319,286	1,221,689	97,597
Fiscal	574,746	597,405	597,405	0
Business	79,475	83,475	30,181	53,294
Operation and Maintenance of Plant	1,652,638	1,652,858	1,428,036	224,822
Pupil Transportation	827,944	828,044	756,554	71,490
Central	201,744	200,744	195,913	4,831
Operation of Other Non-Instructional Services	57,080	58,080	43,635	14,445
Extracurricular Activities	647,696	691,196	657,571	33,625
Capital Outlay	10,000	10,000	5,800	4,200
<i>Total Expenditures</i>	14,889,936	14,953,937	14,162,251	791,686
<i>Excess of Revenues Over (Under) Expenditures</i>	(3,706,474)	306,283	2,374,031	2,067,748
<b>Other Financing Sources (Uses)</b>				
Sale of Capital Assets	5,000	0	1,499	1,499
Advances In	0	0	284,100	284,100
Transfers Out	(120,000)	(135,000)	(235,000)	(100,000)
Advances Out	(110,000)	(110,000)	(15,090)	94,910
<i>Total Other Financing Sources (Uses)</i>	(225,000)	(245,000)	35,509	280,509
<i>Net Change in Fund Balance</i>	(3,931,474)	61,283	2,409,540	2,348,257
<i>Fund Balance Beginning of Year</i>	9,576,441	9,576,441	9,576,441	0
<i>Prior Year Encumbrances Appropriated</i>	186,621	186,621	186,621	0
<i>Fund Balance End of Year</i>	\$5,831,588	\$9,824,345	\$12,172,602	\$2,348,257

See accompanying notes to the basic financial statements

**Cuyahoga Heights Local School District**  
*Statement of Fund Net Position*  
*Internal Service Fund*  
*June 30, 2018*

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	<u>Employee Benefit Self Insurance</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$45,742</u>
<b>Net Position</b>	
Unrestricted	<u>\$45,742</u>

See accompanying notes to the basic financial statements

**Cuyahoga Heights Local School District**  
*Statement of Revenues,  
 Expenses and Changes in Fund Net Position  
 Internal Service Fund  
 For the Year Ended June 30, 2018*

	Employee Benefit Self Insurance
<b>Operating Revenues</b>	\$0
<b>Operating Expenses</b>	0
<i>Change in Net Position</i>	0
<i>Net Position Beginning of Year</i>	45,742
<i>Net Position End of Year</i>	\$45,742

See accompanying notes to the basic financial statements

**Cuyahoga Heights Local School District**  
*Statement of Cash Flows*  
*Internal Service Fund*  
*For the Year Ended June 30, 2018*

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	<u>Employee Benefit Self Insurance</u>
<b>Cash Flows from Operating Activities</b>	\$0
<b>Cash Flows from Noncapital Financing Activities</b>	<u>0</u>
<i>Net Change in Cash and Cash Equivalents</i>	0
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>45,742</u>
<i>Cash and Cash Equivalents End of Year</i>	<u><u>\$45,742</u></u>

See accompanying notes to the basic financial statements

**Cuyahoga Heights Local School District**

*Statement of Fiduciary Net Position*

*Fiduciary Funds*

*June 30, 2018*

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	Private Purpose Trust	
	Scholarship	Agency
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$81,671	\$128,712
<b>Liabilities</b>		
Due to Students	0	\$128,712
<b>Net Position</b>		
Restricted for:		
Scholarships:		
Non-Expendable	\$74,671	
Expendable	7,000	
<i>Total Net Position</i>	\$81,671	

See accompanying notes to the basic financial statements

**Cuyahoga Heights Local School District**  
*Statement of Changes in Fiduciary Net Position*  
*Private Purpose Trust Funds*  
*For the Fiscal Year Ended June 30, 2018*

	Scholarship
<b>Additions</b>	
Contributions and Donations	\$250
<b>Deductions</b>	
Scholarships Awarded	9,550
<i>Change in Net Position</i>	(9,300)
<i>Net Position Beginning of Year</i>	90,971
<i>Net Position End of Year</i>	\$81,671

See accompanying notes to the basic financial statements

## **Cuyahoga Heights Local School District**

### *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2018*

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#### **Note 1 – Description of the School District**

The Cuyahoga Heights Local School District (the School District) is located in Cuyahoga County in the Village of Cuyahoga Heights. The School District also serves the Villages of Brooklyn Heights and Valley View. The School District serves an area of approximately 11.3 square miles.

The School District is organized under Sections 2 and 3, Article VI of the Constitution of the State of Ohio. Under such laws, there is no authority for a school district to have a charter or adopt local laws. The legislative power of the School District is vested in the Board of Education, consisting of five members elected at large for staggered four-year terms.

The School District ranks as the 86th smallest by enrollment among the 610 public school districts in the State. It currently operates one elementary school, one middle school and one comprehensive high school. The School District employs 71 certified (including administrative) and 53 non-certified full-time and part-time employees to provide services to approximately 800 students from pre-school (age 4) to grade 12 and various community groups.

#### ***Reporting Entity***

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

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

The School District participates in three jointly governed organizations and two public entity risk pools, the Northeast Ohio Network for Educational Technology, Ohio Schools Council, the Cuyahoga Valley Career Center and the Ohio Association of School Business Officials Workers' Compensation Group Rating Program and the Suburban Health Consortium. These organizations are presented in Notes 19 and 20 to the basic financial statements.

#### **Note 2 – Summary of Significant Accounting Policies**

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

# Cuyahoga Heights Local School District

## *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2018*

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### ***Basis of Presentation***

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

***Government-wide Financial Statements*** The statement of net position and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses. These statements usually distinguish between those activities of the School District that are governmental and those that are considered business-type. The School District, however, has no business-type activities.

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

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

### ***Fund Accounting***

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

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

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



## Cuyahoga Heights Local School District

### *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2018*

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The other governmental funds of the School District account for activities relating to the repayment of general long-term debt principal, interest and related costs and grants and other resources whose use is restricted, committed or assigned to a particular purpose.

***Proprietary Fund Type*** Proprietary funds reporting focuses on the determination of operating income, changes in net position, financial position and cash flows and are classified as either enterprise or internal service. The School District only has an internal service fund.

***Internal Service Fund*** The internal service fund accounts for and reports the financing of services provided by one fund, department or agency to other departments or agencies of the School District on a cost reimbursement basis. The School District's only internal service fund is a self insurance fund that accounts for run off claims for dental and vision insurance of School District Employees dated prior to October 1, 2013.

***Fiduciary Funds*** Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's trust funds are private purpose trust funds which account for and report college scholarship programs for students. The School District has two agency funds which account for and report resources that belong to the School District agency services and the student bodies of the various schools.

#### ***Measurement Focus***

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

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

Like the government-wide statements, the internal service fund is accounted for on a flow of economic resources measurement focus. All assets and deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of this fund are included on the statement of fund net position. The statement of changes in fund net position presents increases (e.g., revenues) and decreases (e.g., expenses) in net total position. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its internal service fund.

The private purpose trust fund is reported using the economic resources measurement focus.

**Cuyahoga Heights Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2018*

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***Basis of Accounting***

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

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

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

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

***Deferred Outflows/Inflows of Resources*** In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School District, deferred outflows of resources are reported on the government-wide statement of net position for pension and OPEB plans. The deferred outflows of resources related to pension and OPEB plans are explained in Notes 22 and 23.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the School District, deferred inflows of resources include property taxes, payments in lieu of taxes, pension, OPEB plans and unavailable revenue. Property taxes and payments in lieu of taxes represent amounts for which there is an enforceable legal claim as of June 30, 2018, but which were levied to finance fiscal year 2019 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the School District unavailable revenue includes delinquent property taxes and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. The details of these unavailable revenues are identified on the Reconciliation of the Total

## Cuyahoga Heights Local School District

### *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2018*

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Governmental Fund Balances to Net Position of Governmental Activities found on page 18. Deferred inflows of resources related to pension and OPEB plans are reported on the government-wide statement of net position (See Notes 22 and 23).

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

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

#### ***Budgetary Data***

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of budgetary control has been established by the Board of Education at the fund level for all funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

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

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

#### ***Cash and Cash Equivalents***

To improve cash management, all cash received by the School District is pooled. Monies for all funds are maintained in this pool. Interest in the pool is presented as "equity in pooled cash and cash equivalents" on the financial statements.

During fiscal year 2018, investments were limited to STAR Ohio, a money market account, US treasury bills and commercial paper. Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investments contracts, such as nonnegotiable certificates of deposit, are reported at cost. The School District's commercial paper is measured at amortized cost as it is a highly liquid debt instrument with a remaining maturity at the time of purchase of less than one year.

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

**Cuyahoga Heights Local School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2018*

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Pools and Pool Participants.” The School District measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For fiscal year 2018, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, twenty-four hours advance notice is appreciated for deposits and withdrawals of \$25 million or more. STAR Ohio reserves the right to limit the transactions 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 of Education has, by resolution, identified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2018 amounted to \$182,733, which includes \$40,816 assigned from other School District funds.

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

***Prepays***

Payments made to vendors for services that will benefit periods beyond June 30, 2018, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which the services are consumed.

***Inventory***

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

***Capital Assets***

All of the School District’s capital assets are general capital assets. General capital assets are those assets related to activities reported in the governmental funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements.

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

**Cuyahoga Heights Local School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2018*

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

Description	Estimated Lives
Land Improvements	10 - 40 years
Buildings and Improvements	5 - 50 years
Furniture and Equipment	5 - 20 years
Vehicles	4 - 10 years

***Interfund Balances***

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

***Compensated Absences***

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

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive severance benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy. The School District records a liability for accumulated unused sick leave after twenty years of current service with the School District or at least 50 years of age.

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

For governmental funds, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured compensated absences payable" in the fund from which the employees who have been resigned or retired will be paid. The non-current portion of the liability is not reported.

***Operating Revenues and Expenses***

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

**Cuyahoga Heights Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2018*

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***Accrued Liabilities and Long-term Obligations***

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements and all payables, accrued liabilities and long-term obligations payable from the proprietary fund are reported on the proprietary fund financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds; however, compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year. Net pension/OPEB liabilities should be recognized in the governmental funds to the extent that benefit payments are due and payable and the pension/OPEB plans' fiduciary net position is not sufficient for payment of those benefits.

***Fund Balance***

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

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

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

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

***Assigned*** Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. These amounts are assigned by the School District Board of Education. In the general fund, assigned amounts represent intended uses established by policies of the School District Board of Education or a School District official delegated that authority by resolution by State statute. State statute authorizes the Treasurer to assign fund balance for purchases on order provided such amounts have been lawfully appropriated. The School District Board of Education has assigned fund balance for uniform school supplies and public school support and to cover a gap between revenue and appropriations in the fiscal year 2019 budget.

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

## **Cuyahoga Heights Local School District**

### *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2018*

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

#### ***Net Position***

Net Position represents the difference between all other elements in a statement of financial position. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position restricted for other purposes include resources restricted for the operation of food service, regular and special instruction, and pupil support services.

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

#### ***Pensions/Other Postemployment Benefits (OPEB)***

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

#### ***Internal Activity***

Transfers between governmental activities are eliminated on the government-wide financial statements. Internal events that are allocations of overhead expenses from one function to another or within the same function are eliminated on the statement of activities. Interfund payments for services provided and used are not eliminated.

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

#### ***Extraordinary and Special Items***

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. In fiscal year 2018, the School District received \$8,783 in an ongoing fraud litigation. See Note 11.

**Cuyahoga Heights Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2018*

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**Estimates**

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

**Note 3 – Changes in Accounting Principles and Restatement of Net Position**

For fiscal year 2018, the School District implemented Governmental Accounting Standards Board (GASB) Statement No. 85, *Omnibus 2017*, Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, and related guidance from (GASB) Implementation Guide No. 2017-3, *Accounting and Financial Reporting for Postemployment Benefits other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)*.

For fiscal year 2018, the School District also implemented the Governmental Accounting Standards Board's (GASB) *Implementation Guide No. 2017-1*. These changes were incorporated in the School District's fiscal year 2018 financial statements; however, there was no effect on beginning net position/fund balance.

GASB 85 addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits (OPEB)). These changes were incorporated in the School District's fiscal year 2018 financial statements; however, there was no effect on beginning net position/fund balance.

GASB 75 established standards for measuring and recognizing Postemployment benefit liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditure. The implementation of this pronouncement had the following effect on net position as reported June 30, 2017:

Net Position June 30, 2017	\$1,054,983
Adjustments:	
Net OPEB Liability	(4,605,069)
Deferred Outflow - Payments Subsequent to Measurement Date	39,011
Restated Net Position June 30, 2017	(\$3,511,075)

Other than employer contributions subsequent to the measurement date, the School District made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.

**Note 4 – Accountability**

At June 30, 2018, the improving teacher quality special revenue fund had deficit fund balance of \$18,711. The deficit in this fund resulted from an interfund payable. The general fund provides money to operate the program until grants and other monies are received and the advance can be repaid.



**Cuyahoga Heights Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2018*

**Note 5 – 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 as follows:

Fund Balances	General	Other Governmental Funds	Total
<u>Nonspendable:</u>			
Prepaid Items	\$22,122	\$0	\$22,122
Materials and Supplies Inventory	13,940	396	14,336
<i>Total Nonspendable</i>	<u>36,062</u>	<u>396</u>	<u>36,458</u>
<u>Restricted for:</u>			
Capital Projects	0	2,547,957	2,547,957
Music and Athletics	0	645,101	645,101
Other Purposes	0	21,973	21,973
<i>Total Restricted</i>	<u>0</u>	<u>3,215,031</u>	<u>3,215,031</u>
<u>Assigned to:</u>			
Uniform School Supplies	896	0	896
Support Services	47,265	0	47,265
Fiscal Year 2019 Appropriations	34,838	0	34,838
Purchases on Order:			
Instruction	19,806	0	19,806
Support Services	41,278	0	41,278
Non-Instructional	933	0	933
Music and Athletics	3,317	0	3,317
<i>Total Assigned</i>	<u>148,333</u>	<u>0</u>	<u>148,333</u>
Unassigned (Deficit)	<u>12,213,342</u>	<u>(18,711)</u>	<u>12,194,631</u>
<b>Total Fund Balances</b>	<u><u>\$12,397,737</u></u>	<u><u>\$3,196,716</u></u>	<u><u>\$15,594,453</u></u>

**Note 6 – Budgetary Basis of Accounting**

While the School District is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The statement of revenues, expenditures and changes in fund balance – budget (non-GAAP basis) and actual presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

**Cuyahoga Heights Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2018*

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The major differences between the budget basis and GAAP basis are as follows:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Investments are reported at cost (budget basis) rather than fair value (GAAP basis).
4. Advances In and Advances Out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).
5. Budgetary revenues and expenditures of the uniform school supplies, adult education and public school support fund are reclassified to the general fund for GAAP reporting.
6. Encumbrances are treated as expenditures (budget basis) rather than as a restricted, committed, or assigned fund balance (GAAP basis).

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

Net Change in Fund Balance	
GAAP Basis	\$1,971,683
Net Adjustment for Revenue Accruals	288,066
Net Adjustment for Expenditure Accruals	59,878
Beginning Fair Value Adjustment for Investments	15,401
Ending Fair Value Adjustment for Investments	(18,006)
Advances In	284,100
Advances Out	(15,090)
Perspective Differences:	
Uniform School Supplies	(50)
Adult Education	698
Public School Support	(3,171)
Adjustments for Encumbrances	(173,969)
Budget Basis	<u><u>\$2,409,540</u></u>

**Note 7 – Deposits and Investments**

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

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

## **Cuyahoga Heights Local School District**

### *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2018*

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above 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 bonds and other obligations of political subdivisions of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio); and
8. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty 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. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity.

## Cuyahoga Heights Local School District

### Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

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.

#### Deposits

**Custodial Credit Risk** Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year-end, \$870,794 of the School District's bank balance of \$2,356,102 was exposed to custodial credit risk because those deposits were uninsured and uncollateralized. The School District's one financial institution participates in the Ohio Pooled Collateral System (OPCS) and was approved for a reduced collateral floor of 50 percent resulting in the uninsured and uncollateralized balance.

The School 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 percent 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 percent of the deposits being secured or a rate set by the Treasurer of State.

#### Investments

Investments are reported at fair value. As of June 30, 2018, the School District had the following investments:

Measurement/Investment	Measurement Amount	Maturity	Standard & Poor's Rating	Percentage of Total Investments
Net Asset Value Per Share:				
STAR Ohio	\$9,665,675	Average 48.9 Days		70.34 %
Fair Value - Level One Inputs:				
Money Market Mutual Fund	13,629	Less than One Year	A-1+	0.10
Fair Value - Level Two Inputs:				
US Treasury Bills	1,161,376	Less than One Year	A-1+	8.45
US Treasury Bills	575,482	Less than One Year	A-1	4.19
Commercial Paper	1,679,163	Less than One Year	A-1	12.22
Commercial Paper	645,203	Less than One Year	A-1+	4.70
Total Investments	<u>\$13,740,528</u>			<u>100.00 %</u>

## Cuyahoga Heights Local School District

### *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2018*

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The School District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The preceding chart identifies the School District's recurring fair value measurements as of June 30, 2018. The Money Market Fund is measured at fair value and is valued using quoted market prices (Level 1 inputs). The School District's remaining investments are measured at fair value and are valued using methodologies that incorporate market inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data including market research publications. Market indicators and industry and economic events are also monitored, which could require the need to acquire further market data. (Level 2 inputs).

***Interest Rate Risk*** The School District has no investment policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and that an investment must be purchased with the expectation that it will be held to maturity. Repurchase agreements shall not exceed thirty days.

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

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

### **Note 8 – Property Taxes**

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

Property taxes include amounts levied against all real and public utility located in the School District. Real property tax revenue received in calendar year 2018 represents collections of calendar year 2017 taxes. Real property taxes received in calendar year 2018 were levied after April 1, 2017, on the assessed value listed as of January 1, 2017, the lien date. Assessed values for real property taxes are established by State statute at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in calendar year 2018 represent the collections of calendar year 2017 taxes. Public utility real taxes received in calendar year 2018 became a lien December 31, 2016, were levied after April 1, 2017 and are collected in calendar year 2018 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

The School District receives property taxes from Cuyahoga County. The County Fiscal Officer periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2018, are available to finance fiscal year 2018 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

**Cuyahoga Heights Local School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2018*

Accrued property taxes receivable represents the real property and public utility property taxes which were measurable as of June 30, 2018, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 were levied to finance current fiscal year operations and are reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred inflows of resources – property taxes.

The amount available as an advance at June 30, 2018, was \$1,236,054 in the general fund. The amount available as an advance at June 30, 2017, was \$1,427,662 in the general fund.

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

The assessed values upon which the fiscal year 2018 taxes were collected are:

	2017 Second Half Collections		2018 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$290,056,190	83.32 %	\$291,991,600	81.25 %
Public Utility	58,068,810	16.68	67,396,410	18.75
Total	<u>\$348,125,000</u>	<u>100.00 %</u>	<u>\$359,388,010</u>	<u>100.00 %</u>
Full Tax rate per \$1,000 of assessed valuation		\$35.70		\$35.70

**Note 9 - Tax Abatements**

The School District’s property taxes were reduced by \$147,433 under an Enterprise Zone Tax Exemption agreement entered into by the Village of Cuyahoga Heights.

Pursuant to Section 5709.82 of the Ohio Revised Code, the Village of Cuyahoga Heights and the Cuyahoga Heights Local School District created an Enterprise Zone Tax Exemption (EZA) Compensation Agreement. This agreement requires revenue sharing payments to be made to the School District, in the amount of two percent of the taxable payroll collected for the City from the taxpayer. During fiscal year 2018, the City paid the School District \$201,696.

**Note 10 – Receivables**

Receivables at June 30, 2018, consisted of taxes, revenues in lieu of taxes, interfund, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. All receivables, except delinquent property taxes, are expected to be collected within one year. Property taxes, although ultimately collectible, include some portion of delinquents that will not be collected in one year.

**Cuyahoga Heights Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2018*

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A summary of the principal items of intergovernmental receivable follows:

Governmental Activities	Amount
Foundation	\$106,157
Workers' Compensation Refund	36,842
Title II-A Grant	15,204
Student with Disabilities Grant	3,961
Title IV-A Grant	1,000
Title I-A Grant	458
STRS Refund	51
Total Governmental Activities	\$163,673

***Payments in Lieu of Taxes***

The School District is party to Tax Increment Financing (TIF) agreements. Municipalities, townships, and counties can enter into TIF agreements which lock in real property at its unimproved value for up to 30 years in a defined TIF district. Some TIF agreements also require the TIF government to allocate service payments to school districts and other governments to help offset the property taxes these governments would have received had the improvements to real property not been exempted. The service payments that the School District receives as part of TIF agreements are presented on the financial statements as Payments in Lieu of Taxes.

**Note 11 – Contingencies**

***Grants***

The School District received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2018, if applicable, cannot be determined at this time.

***School Foundation***

School District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end. As of the date of this report, ODE adjustments for fiscal year 2018 have been finalized. The impact of future FTE adjustments has been recorded as a receivable on the fiscal year 2018 financial statements.

***Litigation***

The School District is party to various legal proceedings. The outcomes of these proceedings are indeterminable at this time. Any negative settlement will be covered by insurance.

**Cuyahoga Heights Local School District**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended June 30, 2018

***Theft Loss***

In a report dated October 8, 2012, Auditor of State Dave Yost's Office issued findings for recovery for public money totaling \$4.2 million in favor of the School District. According to the findings, former IT Director Joseph Palazzo authorized 436 payments, totaling \$3,844,155, to seven companies in which the District received no goods or services. Ten findings for recovery were issued against various vendors and individuals in this amount. An additional 179 transactions, totaling \$336,495, were found to be made for goods or services that cannot be located by the School District. A finding for recovery was issued against Palazzo in this amount, with additional individuals held jointly and severally liable for portions of the amount. Additionally, a review of bank records revealed payments totaling \$1,308,194 made directly to Palazzo from four of the seven vendors after they received their payments from the School District. Legal action is being taken against all parties involved in the above findings for recovery. The School District anticipates funds will be recovered, but is unable to determine the actual amount. The School District recovered \$8,783 in fiscal year 2018.

**Note 12 – Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2018, was as follows:

	Balance 6/30/17	Additions	Deletions	Balance 6/30/18
<i>Capital Assets, not being depreciated:</i>				
Land	\$798,600	\$0	\$0	\$798,600
<i>Capital Assets, being depreciated:</i>				
Land Improvements	1,226,910	29,712	0	1,256,622
Buildings and Improvements	16,336,807	10,636	0	16,347,443
Furniture and Equipment	4,028,144	237,094	(453,228)	3,812,010
Vehicles	1,171,190	0	0	1,171,190
<i>Total Capital Assets, being depreciated</i>	<u>22,763,051</u>	<u>277,442</u>	<u>(453,228)</u>	<u>22,587,265</u>
Less Accumulated Depreciation:				
Land Improvements	(398,591)	(53,186)	0	(451,777)
Buildings and Improvements	(12,995,787)	(196,385)	0	(13,192,172)
Furniture and Equipment	(3,341,670)	(188,104)	453,228	(3,076,546)
Vehicles	(836,370)	(42,278)	0	(878,648)
<i>Total Accumulated Depreciation</i>	<u>(17,572,418)</u>	<u>(479,953) *</u>	<u>453,228</u>	<u>(17,599,143)</u>
<i>Total Capital Assets, being depreciated, net</i>	<u>5,190,633</u>	<u>(202,511)</u>	<u>0</u>	<u>4,988,122</u>
Governmental Activities Capital Assets, Net	<u>\$5,989,233</u>	<u>(\$202,511)</u>	<u>\$0</u>	<u>\$5,786,722</u>



**Cuyahoga Heights Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2018*

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

Instruction:	
Regular	\$187,471
Support Services:	
Pupil	384
Instructional Staff	240
Administration	2,352
Fiscal	479
Business	4,368
Operation and Maintenance of Plant	83,080
Pupil Transportation	41,755
Central	18,814
Non-Instructional Services	5,519
Extracurricular Activities	135,491
Total Depreciation Expense	<u><u>\$479,953</u></u>

### **Note 13 – Risk Management**

#### ***Workers' Compensation***

For fiscal year 2018, the School District participated in the Ohio Association of School Business Officials Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 20). The intent of the GRP is to achieve the benefits of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate of the GRP rather than its individual rate. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of CompManagement, Incorporated provides administrative, cost control and actuarial services to the GRP.

#### ***Employee Medical Benefits***

The School District participates in the Suburban Health Consortium, a shared risk pool (Note 20) to provide group health, dental, vision, life and prescription insurance coverage. Rates are set or determined by the Board of Directors. The School District pays a monthly contribution which is placed in a reserve fund from which the claims payments are made for all participating districts.

#### ***Property and Liability***

The School District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2018, the School District contracted for the following insurance coverage:

**Cuyahoga Heights Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2018*

Company	Type of Coverage	Coverage Amount
Todd Associates	Treasurer's Bond	\$100,000
	Superintendent's and Board President's Bonds	50,000
Schools of Ohio Risk Sharing Authority	Building and Business Property	64,940,678
	Flood and Earthquake	2,000,000
	Hazardous Substance	250,000
	Crime	1,000,000
	Arson Reward	5,000
	Automobile Physical Damage	933,750
	Sewer and Drain Backups	100,000
	Business Income	2,000,000
	Dependent Property	250,000
	Ordinance or Law	250,000
	Newly Acquired Locations	250,000
	Undescribed Premises	550,000
	Claim Data	125,000
	Claim Data Expense	25,000
	Covered Property in Transit	100,000
	Debris Removal	250,000
	Electronic Data Processing Equipment	2,250,000
	Extra Expense	2,000,000
	Fine Arts	250,000
	Miscellaneous Inland Marine	365,228
	Mobile Equipment	66,353
	Musical Instruments, Athletic Equipment or Band and Athletic Uniforms	1,000,000
	Newly Constructed or Acquired Property	5,000,000
	Loss to Undamaged Portion	1,000,000
	Outdoor Property Including Debris Removal	1,000,000
	Trees, Shrubs and Plants	1,000
	Lawn Limit	2,000
	Personal Effects (Except Theft):	
	Student	1,500
	Employee	3,000
	Aggregate, Pollution Cleanup and Removal, Theft Damage Repair to Non-Owned Buildings	100,000
	Preservation and Protection of Property	250,000
	Errors and Omissions and Valuable Papers	1,000,000
	Utility Services (Direct Damage)	500,000
General Liability	15,000,000	
General Aggregate	17,000,000	
Fire Legal Liability	500,000	
Medical Payments:		
Occurrence	10,000	
Aggregate	25,000	
Educators' Legal Liability	15,000,000	
Automobile Liability:		
Bodily Injury and Property Damage	15,000,000	
Uninsured	100,000	
Underinsured Motorist	100,000	
Automobile Physical Damage	Actual Cash Value	
Garagekeepers Physical Damage	Actual Cash Value	

**Cuyahoga Heights Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2018*

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

**Note 14 – Encumbrances**

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

General	\$173,969
Permanent Improvement	194,859
Other Governmental Funds	12,124
Total	\$380,952

**Note 15 – Interfund Transactions**

*Interfund Balances*

As of June 30, 2018, the School District had the following interfund balances:

	Interfund Receivable
Interfund Payable	General
Permanent Improvement	\$23,266
Food Service	50,000
Miscellaneous State Grants	1,000
Improving Teacher Quality	30,813
Total	\$105,079

The purpose of the interfund balances was to cover expenses in the funds pending the receipt of various revenues. All advances are payable to the general fund and are expected to be repaid in fiscal year 2019.

*Interfund Transfers*

During fiscal year 2018, the general fund transferred \$100,000 to the food service special revenue fund and \$135,000 to the district managed student activity special revenue fund. These transfers were to move unrestricted balances to support programs and projects accounted for in those funds.

**Cuyahoga Heights Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2018*

**Note 16 – Employee Benefits**

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws.

**Classified Employees** Classified employees earn ten to twenty five days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment. Classified employees earn sick leave at the rate of one and one-quarter day per month to a maximum of fifteen days in any one year. The accumulation of unused sick leave is unlimited. Eligibility for severance pay shall be defined as qualifying for retirement benefits from the School Employees Retirement System providing the employee has eight or more consecutive years of service in the employment of the Cuyahoga Heights Local School District. When eligibility for severance pay has been established, the employee will be paid 30 percent of accumulated sick leave to his/her credit as of his/her last day of service, to a maximum severance pay of seventy-six days. Payment will be made within one hundred and twenty days from their last month of service, within the calendar year of retirement.

**Certified Employees** Teachers do not earn vacation time. Teachers earn sick leave at the rate of one and one-quarter day per month to a maximum of fifteen days in any one year. The accumulation of unused sick leave is unlimited. Eligibility for severance pay shall be defined as qualifying for retirement benefits from the State Teachers Retirement System providing the teacher has had five years of consecutive teaching experience in the Cuyahoga Heights Local School District. When eligibility for severance pay has been established, the teacher will be paid 30 percent of accumulated sick leave to his/her credit as of his/her last day of service, to a maximum severance pay of seventy-six days. Payment will be computed on the teacher's daily rate of pay in the last year of service, exclusive of supplemental pay. Payment will be made within one hundred and twenty days from their last month of service, within the calendar year of retirement.

**Note 17 – Long-Term Obligations**

The changes in the School District's long-term obligations during the year consist of the following:

	Amount Outstanding 6/30/17	Additions	Reductions	Amount Outstanding 6/30/18	Amount Due in One Year
Capital Leases	\$484,603	\$0	(\$162,804)	\$321,799	\$74,253
Compensated Absences	918,803	558,474	(508,451)	968,826	525,998
Net Pension Liability:					
SERS	5,102,656	0	(798,875)	4,303,781	0
STRS	16,275,022	0	(4,603,192)	11,671,830	0
Total Net Pension Liability	21,377,678	0	(5,402,067)	15,975,611	0
Net OPEB Liability:					
SERS	2,004,788	0	(47,372)	1,957,416	0
STRS	2,600,281	0	(683,263)	1,917,018	0
Total Net OPEB Liability	4,605,069	0	(730,635)	3,874,434	0
<i>Total Long-Term Obligations</i>	<u>\$27,386,153</u>	<u>\$558,474</u>	<u>(\$6,803,957)</u>	<u>\$21,140,670</u>	<u>\$600,251</u>

Capital leases are being paid from the general fund, the permanent improvement capital project fund and the district managed student activities special revenue fund. Compensated absences will be paid from the general fund and the food service special revenue fund. There is no repayment schedule for the net

**Cuyahoga Heights Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2018*

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pension liability or the net OPEB liability; however, employer pension and OPEB plan contributions are made from the general fund and the food service special revenue fund. For additional information related to the net pension liability and the net OPEB liability see Notes 22 and 23.

The School District's overall debt margin was \$32,344,921 with an unvoted debt margin of \$359,388 at June 30, 2018.

**Note 18 – Capital Leases**

In previous years, the School District entered into capitalized lease obligations for various improvements to School District buildings and phone system and printers. The leases meet the criteria for capital leases and have been recorded on the government-wide statements. The original amounts capitalized for the capital leases and their book values as of June 30, 2018 are as follows:

	Amounts
Assets:	
Buildings and Improvements	\$1,518,230
Less: Accumulated Depreciation	(403,764)
Current Book Value	\$1,114,466

The following is a schedule of the future minimum leases payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2018.

	Amounts
2019	\$86,180
2020	86,180
2021	82,473
2022	89,887
Total Minimum Lease Payments	344,720
Less: Amount Representing Interest	(22,921)
Present Value of Minimum Lease Payments	\$321,799

**Note 19 – Jointly Governed Organizations**

*Northeast Ohio Network for Educational Technology*

The Northeast Ohio Network for Educational Technology (NEONET) is the computer service organization or Information Technology Center (ITC) used by the School District. NEONET is an association of public school districts in a geographic area determined by the Ohio Department of Education. The Summit County Educational Service Center acts as the fiscal agent for the consortium. The purpose of the consortium is to develop and employ a computer system efficiently and effectively for the needs of the member Boards of Education. All members in the consortium are required to pay fees, charges, and assessments as charged. A board made up of superintendents from all of the participating members governs NEONET. The Board exercises total control over the operations of NEONET including budgeting, appropriating, contracting and designating management. Each member's degree of control is limited to its representation on the Board. An elected Executive Board consisting of five members of the governing board is the managerial body of the consortium and meets on a monthly basis.

## **Cuyahoga Heights Local School District**

### *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2018*

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Payments to NEONET are made from the general fund. The School District paid \$61,948 in contributions to NEONET in fiscal year 2018. Financial information can be obtained by contacting the Fiscal Officer at the Metropolitan Regional Service Council/Northeast Ohio Network for Educational Technology (NEOnet), at 700 Graham Road, Cuyahoga Falls, Ohio 44221.

#### ***Ohio Schools Council***

The Ohio Schools Council (Council) is a jointly governed organization among 241 members. The jointly governed organization was created by school districts for the purpose of saving money through volume purchases. Each district supports the Council by paying an annual participation fee. Each school district member's superintendent serves as a representative of the Assembly. The Assembly elects five of the Council's Board members and the remaining four are representatives of the Greater Cleveland School Superintendents' Association. The Assembly exercises total control over the operations of the Ohio Schools Council including budgeting, appropriating, contracting and designating management. Each participant's degree of control is limited to its representation on the Assembly. The Council operates under a nine-member Board of Directors (the Board). The Board is the policy making authority of the Council. The Board meets monthly September to June. The Board appoints an Executive Director who is responsible for receiving and disbursing funds, investing available funds, preparing financial reports for the Board and Assembly and carrying out such other responsibilities as designated by the Board. In fiscal year 2018, the School District paid \$4,998 to the Council. Financial information can be obtained by contacting Dr. William Zelei, the Executive Director at the Ohio Schools Council at 6393 Oak Tree Boulevard, Independence, Ohio 44131.

The School District participates in the natural gas purchase program. This program allows the School District to purchase natural gas at reduced rates. Compass Energy/Constellation Energy has been selected as the supplier and program manager for the period from July 1, 2017 through June 30, 2018. There are currently 157 participants in the program, including the North Royalton City School District. The participants make monthly payments based on estimated usage. Each September, these estimated payments are compared to their actual usage for the year (July to June). Districts that paid more in estimated billings than their actual billings are issued credits on future billings beginning in September until the credits are exhausted and districts that did not pay enough on estimated billings are invoiced for the difference on the September monthly estimated billing.

The School District also participates in the Council's current electric purchase program. The Power 4 Schools Program provides a fixed price rate for electricity supplied by First Energy Solutions of \$0.0518 per kwh for the generation of electricity. There are currently 256 participants in the program including the School District. School districts are not charged a fee by OSC to participate in this program. School districts pay the utility (Ohio Edison, Toledo Edison or Cleveland Electric Illuminating Co.) directly and receive a discount for the fixed price of generation.

#### ***Cuyahoga Valley Career Center***

The Cuyahoga Valley Career Center (a joint vocational school) is a district political subdivision of the State of Ohio operated under the direction of a Board, consisting of representatives appointed by each participating school district's elected board, which possess its own budgeting and taxing authority. The Board exercises total control over the operations of the Cuyahoga Valley Career Center including budgeting, appropriating, contracting and designating management. Each participant's degree of control is limited to its representation on the Board. Accordingly, the Cuyahoga Valley Career Center is not part of the School District and its operations are not included as part of the reporting entity. The School District made no contributions to the Cuyahoga Valley Career Center during fiscal year 2018. Financial information can be obtained by contacting the Treasurer at the Cuyahoga Valley Career Center, 8001 Brecksville Road, Brecksville, Ohio 44141.

**Cuyahoga Heights Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2018*

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**Note 20 – Public Entity Risk Pools**

***Ohio Association of School Business Officials Workers’ Compensation Group Rating Program***

The School District participates in a group rating program for workers’ compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio Association of School Business Officials Workers’ Compensation Group Rating Program (GRP) was established through the Ohio Association of School Business Officials (OASBO) as a group purchasing pool. The Executive Director of the OASBO, or his designee, serves as coordinator of the GRP. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

***Suburban Health Consortium***

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

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

Any Consortium Member wishing to withdraw from participation in the Consortium or any benefit program shall notify the Fiscal Agent at least one hundred eighty (180) days prior to the effective date of withdrawal. Upon withdrawal of a Consortium Member, the Consortium shall pay the run out of all claims for such Consortium Member provided such Consortium Member has paid to the Consortium, prior to the effective date of withdrawal a withdrawal fee in the amount equal to two months’ premiums at the Consortium Member’s current rate. Payment of the withdrawal fee does not extend insurance coverage for two months. Upon automatic withdrawal, for non-payment of premiums required by the

**Cuyahoga Heights Local School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2018*

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Consortium Agreement, the Consortium shall pay the run out of all claims for such Consortium Member provided that the Consortium has received from such Consortium Member all outstanding and unpaid premiums and other amounts and the withdrawal fee equal to two months' premiums at the Consortium Member's current rates. Any Consortium Member which withdraws from the Consortium pursuant to the Consortium Agreement shall have no claim to the Consortium's assets. Financial information for the Consortium can be obtained from the Treasurer of the Orange City School District (the Fiscal Agent) at 32000 Chagrin Boulevard, Pepper Pike, Ohio 44124.

**Note 21 – Set-Asides**

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

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

	<u>Capital Improvements</u>
Set-Aside Balance as of June 30, 2017	\$0
Current Year Set-Aside Requirement	130,230
Offsets During the Fiscal Year	(575,935)
Totals	<u>(\$445,705)</u>
Set-Aside Balance Carried Forward to Future Fiscal Years	<u>\$0</u>
Set-Aside Balance as of June 30, 2018	<u>\$0</u>

Although the School District had offsets during the fiscal year that reduced the capital acquisition set-aside amounts below zero, these amounts will not be used to reduce the set-aside requirements of future years.

**Note 22 – Defined Benefit Pension Plans**

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

***Net Pension Liability/Net OPEB Liability***

The net pension liability and the net OPEB liability reported on the statement of net position represent liabilities to employees for pensions and OPEB, respectively. Pensions/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 obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.



# Cuyahoga Heights Local School District

## Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

The net pension/OPEB liabilities represent the School District's proportionate share of each pension/OPEB plans' collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension/OPEB plans' fiduciary net position. The net pension/OPEB liabilities 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 School District's obligation for this liability to annually required payments. The School District cannot control benefit terms or the manner in which pensions are financed; however, the School District does receive the benefit of employees' services in exchange for compensation including pension 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 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 liabilities. Resulting adjustments to the net pension/OPEB liabilities 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 proportionate share of each plan's unfunded benefits is presented as a long-term *net pension/OPEB liabilities* on the accrual basis of accounting. Any liability for the contractually-required pension/OPEB contributions outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting. The remainder of this note includes the required pension disclosures. See Note 23 for the required OPEB disclosures.

### **Plan Description – School Employees Retirement System (SERS)**

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

Age and service requirements for retirement are as follows:

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

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

## **Cuyahoga Heights Local School District**

### *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2018*

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2018, the allocation to pension, death benefits, and Medicare B was 13.5 percent. The remaining 0.5 percent was allocated to the Health Care Fund.

The School District's contractually required contribution to SERS was \$308,864 for fiscal year 2018. Of this amount \$10,864 is reported as an intergovernmental payable.

#### ***Plan Description – State Teachers Retirement System (STRS)***

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307.

The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation is 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. Effective July 1, 2017, the cost-of-living adjustment was reduced to zero. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

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

## Cuyahoga Heights Local School District

### *Notes to the Basic Financial Statements*

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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.

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, 2018, the employer rate was 14 percent and the plan members were also required to contribute 14 percent of covered salary. The fiscal year 2018 contribution rates were equal to the statutory maximum rates.

The School District's contractually required contribution to STRS was \$789,559 for fiscal year 2018. Of this amount \$128,109 is reported as an intergovernmental payable.

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

The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School District's proportion of the net pension liability was based on the School District's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net Pension Liability			
Prior Measurement Date	0.06971720%	0.04862132%	
Proportion of the Net Pension Liability			
Current Measurement Date	<u>0.07203250%</u>	<u>0.04913376%</u>	
Change in Proportionate Share	<u>0.00231530%</u>	<u>0.00051244%</u>	
Proportionate Share of the Net Pension Liability	\$4,303,781	\$11,671,830	\$15,975,611
Pension Expense	(\$134,788)	(\$4,510,246)	(\$4,645,034)

**Cuyahoga Heights Local School District**  
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At June 30, 2018, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	SERS	STRS	Total
<b>Deferred Outflows of Resources</b>			
Differences between Expected and Actual Experience	\$185,220	\$450,712	\$635,932
Changes of Assumptions	222,551	2,552,757	2,775,308
Changes in Proportionate Share and Difference between School District Contributions and Proportionate Share of Contributions	104,344	315,097	419,441
School District Contributions Subsequent to the Measurement Date	<u>308,864</u>	<u>789,559</u>	<u>1,098,423</u>
Total Deferred Outflows of Resources	<u>\$820,979</u>	<u>\$4,108,125</u>	<u>\$4,929,104</u>
<b>Deferred Inflows of Resources</b>			
Differences between Expected and Actual Experience	\$0	\$94,070	\$94,070
Net Difference between Projected and Actual Earnings on Pension Plan Investments	20,429	385,184	405,613
Changes in Proportionate Share and Difference between School District Contributions and Proportionate Share of Contributions	<u>37,922</u>	<u>197,498</u>	<u>235,420</u>
Total Deferred Inflows of Resources	<u>\$58,351</u>	<u>\$676,752</u>	<u>\$735,103</u>

\$1,098,423 reported as deferred outflows of resources related to pension resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2019	\$192,726	\$521,790	\$714,516
2020	273,308	1,045,774	1,319,082
2021	88,060	840,926	928,986
2022	<u>(100,330)</u>	<u>233,324</u>	<u>132,994</u>
Total	<u>\$453,764</u>	<u>\$2,641,814</u>	<u>\$3,095,578</u>

**Actuarial Assumptions – SERS**

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2017, are presented as follows:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	2.5 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

Prior to 2017, an assumption of 3 percent was used for COLA or Ad Hoc COLA.

For 2017, the 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.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
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	<u>100.00 %</u>	

**Discount Rate** The total pension liability was calculated using the discount rate of 7.50 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State

**Cuyahoga Heights Local School District**

*Notes to the Basic Financial Statements*

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statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.50 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

***Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*** Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the School District's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
School District's Proportionate Share of the Net Pension Liability	\$5,972,532	\$4,303,781	\$2,905,865

***Actuarial Assumptions – STRS***

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2017, actuarial valuation, compared with July 1, 2016 are presented as follows:

	July 1, 2017	July 1, 2016
Inflation	2.50 percent	2.75 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65	12.25 percent at age 20 to 2.75 percent at age 70
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation	7.75 percent, net of investment expenses, including inflation
Payroll Increases	3 percent	3.5 percent
Cost-of-Living Adjustments (COLA)	0.0 percent, effective July 1, 2017	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA commences on fifth anniversary of retirement date.

For the July 1, 2017, actuarial valuation, 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.

**Cuyahoga Heights Local School District**

*Notes to the Basic Financial Statements*

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For the July 1, 2016, actuarial valuation, mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022 – Scale AA) for Males and Females. Males’ ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89, and no set back from age 90 and above.

Actuarial assumptions used in the July 1 2017, valuation are based on the results of an actuarial experience study for the period July 1, 2011, through June 30, 2016. Actuarial assumptions used in the June 30, 2016, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

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

Asset Class	Target Allocation	Long-Term Expected Rate of Return *
Domestic Equity	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 percent 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 percent as of June 30, 2017. The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described previously. 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, 2017. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2017.

**Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** The following table presents the School District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.45 percent, as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.45 percent) or one percentage point higher (8.45 percent) than the current rate:

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*Notes to the Basic Financial Statements*  
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	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
School District's Proportionate Share of the Net Pension Liability	\$16,731,171	\$11,671,830	\$7,410,093

**Note 23 – Defined Benefit OPEB Plans**

See Note 22 for a description of the net OPEB liability.

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

Health Care Plan Description – The School District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 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. 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](http://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 2018, 0.5 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, prorated if less than a full year of service credit was earned. For fiscal year 2018, this amount was \$23,700. 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 2018, the School District's surcharge obligation was \$34,588.

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 School District's contractually required contribution to SERS was \$46,455 for fiscal year 2018. Of this amount \$34,990 is reported as an intergovernmental payable.



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**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](http://www.strsoh.org) or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board 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 the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for postemployment health care may be deducted from employer contributions, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2018, STRS did not allocate any employer contributions to postemployment health care.

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

The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The School District's proportion of the net OPEB liability was based on the School 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 and OPEB expense:

	SERS	STRS	Total
Proportion of the Net OPEB Liability			
Prior Measurement Date	0.07033430%	0.04862132%	
Proportion of the Net OPEB Liability			
Current Measurement Date	0.07293620%	0.04913376%	
Change in Proportionate Share	<u>0.00260190%</u>	<u>0.00051244%</u>	
Proportionate Share of the Net OPEB Liability	\$1,957,416	\$1,917,018	\$3,874,434
OPEB Expense	\$134,289	(\$581,055)	(\$446,766)

At June 30, 2018, the School District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	SERS	STRS	Total
<b>Deferred Outflows of Resources</b>			
Differences between Expected and Actual Experience	\$0	\$110,662	\$110,662
Changes in Proportionate Share and Difference between			
School District Contributions and Proportionate Share of Contributions	48,268	23,490	71,758
School District Contributions Subsequent to the Measurement Date	46,455	0	46,455
Total Deferred Outflows of Resources	<u>\$94,723</u>	<u>\$134,152</u>	<u>\$228,875</u>
<b>Deferred Inflows of Resources</b>			
Changes of Assumptions	\$185,749	\$154,422	\$340,171
Net Difference between Projected and Actual Earnings on OPEB Plan Investments	5,169	81,938	87,107
Total Deferred Inflows of Resources	<u>\$190,918</u>	<u>\$236,360</u>	<u>\$427,278</u>

**Cuyahoga Heights Local School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2018*

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\$46,455 reported as deferred outflows of resources related to OPEB resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2019	(\$51,105)	(\$23,863)	(\$74,968)
2020	(51,105)	(23,863)	(74,968)
2021	(39,148)	(23,863)	(63,011)
2022	(1,292)	(23,863)	(25,155)
2023	0	(3,378)	(3,378)
Thereafter	<u>0</u>	<u>(3,378)</u>	<u>(3,378)</u>
Total	<u>(\$142,650)</u>	<u>(\$102,208)</u>	<u>(\$244,858)</u>

***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.

## Cuyahoga Heights Local School District

### *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2018*

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Key methods and assumptions used in calculating the total OPEB liability in the latest actuarial valuation date of June 30, 2017, are presented as follows:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation
Municipal Bond Index Rate:	
Measurement Date	3.56 percent
Prior Measurement Date	2.92 percent
Single Equivalent Interest Rate, net of plan investment expense, including price inflation:	
Measurement Date	3.63 percent
Prior Measurement Date	2.98 percent
Medical Trend Assumption:	
Medicare	5.50 to 5.00 percent
Pre-Medicare	7.50 to 5.00 percent

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 SERS health care plan follows the same asset allocation and long-term expected real rate of return for each major asset class as the pension plan, see Note 22.

**Discount Rate** The discount rate used to measure the total OPEB liability at June 30, 2017, was 3.63 percent. The discount rate used to measure total OPEB liability prior to June 30, 2017, was 2.98 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, 2025. 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, 2024, and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.56 percent, as of June 30, 2017 (i.e.

**Cuyahoga Heights Local School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2018*

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 School District's 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 School District's proportionate share of the net OPEB liability of SERS and what the School District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.63 percent) and higher (4.63 percent) than the current discount rate (3.63 percent). Also shown is what the School District's proportionate share of the net OPEB liability would be based on health care cost trend rates that are one percentage point lower (6.5 percent decreasing to 4.0 percent) and higher (8.5 percent decreasing to 6.0 percent) than the current rate.

	1% Decrease (2.63%)	Current Discount Rate (3.63%)	1% Increase (4.63%)
School District's Proportionate Share of the Net OPEB Liability	\$2,363,829	\$1,957,416	\$1,635,433

  

	1% Decrease (6.5% decreasing to 4.0%)	Current Trend Rate (7.5% decreasing to 5.0%)	1% Increase (8.5% decreasing to 6.0%)
School District's Proportionate Share of the Net OPEB Liability	\$1,588,296	\$1,957,416	\$2,445,952

***Actuarial Assumptions – STRS***

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the June 30, 2017, actuarial valuation are presented as follows:

Inflation	2.50 percent
Projected Salary Increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Payroll Increases	3 percent
Cost-of-Living Adjustments (COLA)	0.0 percent, effective July 1, 2017
Blended Discount Rate of Return	4.13 percent
Health Care Cost Trends	6 to 11 percent initial, 4.5 percent 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 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. For disabled retirees, 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.

## Cuyahoga Heights Local School District

### *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2018*

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Actuarial assumptions used in the June 30, 2017, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

Since the prior measurement date, the discount rate was increased from 3.26 percent to 4.13 percent based on the methodology defined under GASB *Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)* and the long term expected rate of return was reduced from 7.75 percent to 7.45 percent. Valuation year per capita health care costs were updated, and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

Also since the prior measurement date, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1 percent to 1.9 percent per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019. Subsequent to the current measurement date, the date for discontinuing remaining Medicare Part B premium reimbursements was extended to January 2020.

The STRS health care plan follows the same asset allocation and long-term expected real rate of return for each major asset class as the pension plan, see Note 22.

***Discount Rate*** The discount rate used to measure the total OPEB liability was 4.13 percent as of June 30, 2017. The projection of 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 not projected to be sufficient to make all projected future benefit payments of current plan members. The OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2037. Therefore, the long-term expected rate of return on OPEB plan assets was used to determine the present value of the projected benefit payments through the fiscal year ending June 30, 2036, and the Bond Buyer 20-year municipal bond rate of 3.58 percent as of June 30, 2017 (i.e. municipal bond rate), was used to determine the present value of 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 blended discount rate of 4.13 percent, which represents the long-term expected rate of return of 7.45 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 3.58 percent for the unfunded benefit payments, was used to measure the total OPEB liability as of June 30, 2017. A blended discount rate of 3.26 percent which represents the long term expected rate of return of 7.75 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 2.85 percent for the unfunded benefit payments was used to measure the total OPEB liability at June 30, 2016.

***Sensitivity of the School District's Proportionate Share of the Net OPEB Liability to Changes in the Discount and Health Care Cost Trend Rate*** The following table represents the School District's proportionate share of the net OPEB liability as of June 30, 2017, calculated using the current period discount rate assumption of 4.13 percent, as well as what the School District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (3.13 percent) or one percentage point higher (5.13 percent) than the current assumption. Also shown is the School District's proportionate share of the net OPEB liability 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.

**Cuyahoga Heights Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2018*

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	1% Decrease (3.13%)	Current Discount Rate (4.13%)	1% Increase (5.13%)
School District's Proportionate Share of the Net OPEB Liability	\$2,573,566	\$1,917,018	\$1,398,131

  

	1% Decrease	Current Trend Rate	1% Increase
School District's Proportionate Share of the Net OPEB Liability	\$1,331,862	\$1,917,018	\$2,687,152

**Note 24 – Endowments**

The School District's permanent funds include donor-restricted endowments. The Net Position-Non-Expendable amounts of \$74,671 represent the principal portion of the endowments. The Net Position – Expendable amount of \$7,000 represents the interest earnings on donor- restricted investments and is available for expenditure by the governing board, for purposes consistent with the endowment's intent. State law permits the governing board to appropriate, for purposes consistent with the endowment's intent, net appreciation, realized and unrealized, unless the endowment terms specify otherwise.

**Required Supplementary Information**

**Cuyahoga Heights Local School District**  
*Required Supplementary Information*  
*Schedule of the School District's Proportionate Share of the Net Pension Liability*  
*School Employees Retirement System of Ohio*  
*Last Five Fiscal Years (1) \**

	2018	2017	2016	2015	2014
School District's Proportion of the Net Pension Liability	0.07203250%	0.06971720%	0.07110350%	0.06990600%	0.06990600%
School District's Proportionate Share of the Net Pension Liability	\$4,303,781	\$5,102,656	\$4,057,234	\$3,537,902	\$4,157,085
School District's Covered Payroll	\$2,218,207	\$2,162,114	\$2,158,058	\$2,040,084	\$2,125,137
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	194.02%	236.00%	188.00%	173.42%	195.61%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.30%	62.98%	69.16%	71.70%	65.52%

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

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

See accompanying notes to the Required Supplementary Information



**Cuyahoga Heights Local School District**  
*Required Supplementary Information*  
*Schedule of the School District's Proportionate Share of the Net OPEB Liability*  
*School Employees Retirement System of Ohio*  
*Last Two Fiscal Years (1) \**

	2018	2017
School District's Proportion of the Net OPEB Liability	0.07293620%	0.07033430%
School District's Proportionate Share of the Net OPEB Liability	\$1,957,416	\$2,004,788
School District's Covered Payroll	\$2,218,207	\$2,162,114
School District's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	88.24%	92.72%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	47.10%	37.30%

(1) Although this schedule is intended to reflect information for ten years, information prior to fiscal year 2017 is not available. An additional column will be added each year.

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

See accompanying notes to the Required Supplementary Information

**Cuyahoga Heights Local School District**  
*Required Supplementary Information*  
*Schedule of the School District's Proportionate Share of the Net Pension Liability*  
*State Teachers Retirement System of Ohio*  
*Last Five Fiscal Years (1) \**

	2018	2017	2016	2015	2014
School District's Proportion of the Net Pension Liability	0.04913376%	0.04862132%	0.04741366%	0.04913797%	0.04913797%
School District's Proportionate Share of the Net Pension Liability	\$11,671,830	\$16,275,022	\$13,103,748	\$11,952,055	\$14,237,210
School District's Covered Payroll	\$5,420,957	\$5,116,636	\$5,010,679	\$4,974,892	\$5,273,231
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	215.31%	318.08%	261.52%	240.25%	269.99%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.50%	66.80%	72.10%	74.70%	69.30%

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

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

See accompanying notes to the Required Supplementary Information

**Cuyahoga Heights Local School District**  
*Required Supplementary Information*  
*Schedule of the School District's Proportionate Share of the Net OPEB Liability*  
*State Teachers Retirement System of Ohio*  
*Last Two Fiscal Years (1) \**

	2018	2017
School District's Proportion of the Net OPEB Liability	0.04913376%	0.04862132%
School District's Proportionate Share of the Net OPEB Liability	\$1,917,018	\$2,600,281
School District's Covered Payroll	\$5,420,957	\$5,116,636
School District's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	35.36%	50.82%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	12.46%	11.49%

(1) Although this schedule is intended to reflect information for ten years, information prior to fiscal year 2017 is not available. An additional column will be added each year.

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

See accompanying notes to the Required Supplementary Information

**Cuyahoga Heights Local School District**  
*Required Supplementary Information*  
*Schedule of School District Contributions*  
*School Employees Retirement System of Ohio*  
*Last Ten Fiscal Years*

	2018	2017	2016	2015
<b>Net Pension Liability:</b>				
Contractually Required Contribution	\$308,864	\$310,549	\$302,696	\$284,432
Contributions in Relation to the Contractually Required Contribution	<u>(308,864)</u>	<u>(310,549)</u>	<u>(302,696)</u>	<u>(284,432)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
School District Covered Payroll (1)	\$2,287,881	\$2,218,207	\$2,162,114	\$2,158,058
Pension Contributions as a Percentage of Covered Payroll	<u>13.50%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>13.18%</u>
<b>Net OPEB Liability:</b>				
Contractually Required Contribution (2)	\$46,455	\$39,011	\$34,232	\$57,817
Contributions in Relation to the Contractually Required Contribution	<u>(46,455)</u>	<u>(39,011)</u>	<u>(34,232)</u>	<u>(57,817)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
OPEB Contributions as a Percentage of Covered Payroll	<u>2.03%</u>	<u>1.76%</u>	<u>1.58%</u>	<u>2.68%</u>
Total Contributions as a Percentage of Covered Payroll (2)	<u>15.53%</u>	<u>15.76%</u>	<u>15.58%</u>	<u>15.86%</u>

(1) The School District's covered payroll is the same for Pension and OPEB.

(2) Includes Surcharge

See accompanying notes to the Required Supplementary Information

2014	2013	2012	2011	2010	2009
\$282,756	\$294,119	\$318,754	\$311,066	\$326,004	\$235,361
(282,756)	(294,119)	(318,754)	(311,066)	(326,004)	(235,361)
\$0	\$0	\$0	\$0	\$0	\$0
\$2,040,084	\$2,125,137	\$2,369,921	\$2,474,666	\$2,407,707	\$2,391,881
13.86%	13.84%	13.45%	12.57%	13.54%	9.84%
\$37,321	\$39,785	\$52,452	\$70,413	\$46,476	\$137,992
(37,321)	(39,785)	(52,452)	(70,413)	(46,476)	(137,992)
\$0	\$0	\$0	\$0	\$0	\$0
1.83%	1.87%	2.21%	2.85%	1.93%	5.77%
15.69%	15.71%	15.66%	15.42%	15.47%	15.61%

**Cuyahoga Heights Local School District**  
*Required Supplementary Information*  
*Schedule of School District Contributions*  
*State Teachers Retirement System of Ohio*  
*Last Ten Fiscal Years*

	2018	2017	2016	2015
<b>Net Pension Liability:</b>				
Contractually Required Contribution	\$789,559	\$758,934	\$716,329	\$701,495
Contributions in Relation to the Contractually Required Contribution	<u>(789,559)</u>	<u>(758,934)</u>	<u>(716,329)</u>	<u>(701,495)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
School District Covered Payroll (1)	\$5,639,707	\$5,420,957	\$5,116,636	\$5,010,679
Pension Contributions as a Percentage of Covered Payroll	<u>0.14000004</u>	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>
<b>Net OPEB Liability:</b>				
Contractually Required Contribution	\$0	\$0	\$0	\$0
Contributions in Relation to the Contractually Required Contribution	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
OPEB Contributions as a Percentage of Covered Payroll	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
Total Contributions as a Percentage of Covered Payroll	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>

(1) The School District's covered payroll is the same for Pension and OPEB.

See accompanying notes to the Required Supplementary Information

2014	2013	2012	2011	2010	2009
\$646,736	\$685,520	\$763,828	\$775,999	\$800,368	\$774,581
(646,736)	(685,520)	(763,828)	(775,999)	(800,368)	(774,581)
\$0	\$0	\$0	\$0	\$0	\$0
\$4,974,892	\$5,273,231	\$5,875,600	\$5,969,223	\$6,156,677	\$5,958,315
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%
\$49,749	\$52,732	\$58,756	\$59,692	\$61,567	\$59,583
(49,749)	(52,732)	(58,756)	(59,692)	(61,567)	(59,583)
\$0	\$0	\$0	\$0	\$0	\$0
1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
14.00%	14.00%	14.00%	14.00%	14.00%	14.00%

## Cuyahoga Heights Local School District, Ohio

*Notes to Required Supplementary Information*

*For the Fiscal Year Ended June 30, 2018*

### Net Pension Liability

#### Changes in Assumptions – SERS

For fiscal year 2018, an assumption of 2.5 percent was used for COLA or Ad Hoc Cola. Prior to 2018, an assumption of 3 percent was used.

Beginning with fiscal year 2017, amounts reported incorporate changes in assumptions used by SERS in calculating the total pension liability in the latest actuarial valuation. These new assumptions compared with those used in fiscal year 2016 and prior are presented as follows:

	Fiscal Year 2017	Fiscal Year 2016 and Prior
Wage Inflation	3.00 percent	3.25 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent	4.00 percent to 22.00 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation	7.75 percent net of investments expense, including inflation

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

#### Changes in Assumptions – STRS

Amounts reported for fiscal year 2018 incorporate changes in assumptions and changes in benefit terms used by STRS in calculating the total pension liability in the latest actuarial valuation. These new assumptions compared with those used in fiscal year 2017 and prior are presented as follows:

	Fiscal Year 2018	Fiscal Year 2017 and Prior
Inflation	2.50 percent	2.75 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65	12.25 percent at age 20 to 2.75 percent at age 70
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation	7.75 percent, net of investment expenses, including inflation
Payroll Increases	3 percent	3.5 percent
Cost-of-Living Adjustments (COLA)	0.0 percent, effective July 1, 2017	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA commences on fifth anniversary of retirement date.

For fiscal year 2018 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,



## Cuyahoga Heights Local School District, Ohio

Notes to Required Supplementary Information  
For the Fiscal Year Ended June 30, 2018

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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.

For fiscal year 2017 and prior actuarial valuation, mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022 – Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89, and no set back from age 90 and above.

### Net OPEB Liability

#### Changes in Assumptions – SERS

Amounts reported for fiscal year 2018 incorporate changes in key methods and assumptions used in calculating the total OPEB liability as presented as follows:

Municipal Bond Index Rate:	
Fiscal year 2018	3.56 percent
Fiscal year 2017	2.92 percent
Single Equivalent Interest Rate, net of plan investment expense, including price inflation:	
Fiscal year 2018	3.63 percent
Fiscal year 2017	2.98 percent

#### Changes in Assumptions – STRS

For fiscal year 2018, the discount rate was increased from 3.26 percent to 4.13 percent based on the methodology defined under GASB *Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)* and the long term expected rate of return was reduced from 7.75 percent to 7.45 percent. Valuation year per capita health care costs were updated, and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

Also for fiscal year 2018, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1 percent to 1.9 percent per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019.

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# OHIO AUDITOR OF STATE KEITH FABER



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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

Cuyahoga Heights Local School District  
Cuyahoga County  
4820 East 71<sup>st</sup> Street  
Cuyahoga Heights, Ohio 44125

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Cuyahoga Heights Local School District, Cuyahoga County, (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 6, 2019, wherein we noted the District adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*.

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

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

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

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

***Compliance and Other Matters***

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

***Purpose of this Report***

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



Keith Faber  
Auditor of State

Columbus, Ohio

November 6, 2019

# OHIO AUDITOR OF STATE KEITH FABER



**CUYAHOGA HEIGHTS LOCAL SCHOOL DISTRICT**

**FRANKLIN 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  
NOVEMBER 19, 2019**