



Dave Yost • Auditor of State



**CUYAHOGA ARTS & CULTURE  
CUYAHOGA COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

Cuyahoga Arts and Culture  
Cuyahoga County  
1501 Euclid Avenue, Suite 407  
Cleveland, Ohio 44115

To the Board of Trustees:

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

We have audited the accompanying financial statements of the governmental activities and the general fund of Cuyahoga Arts and Culture, Cuyahoga County, Ohio (the CAC), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the CAC'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 CAC'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 CAC'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 and the general fund of Cuyahoga Arts and Culture, Cuyahoga County, Ohio, as of December 31, 2017, and the respective changes in financial position thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*

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

*Supplementary and Other Information*

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

The Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual presents additional analysis and is not a required part of the basic financial statements.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 17, 2018, on our consideration of the CAC'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 CAC's internal control over financial reporting and compliance.

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

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

May 17, 2018

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## **Cuyahoga Arts & Culture, Cuyahoga County**

*Management's Discussion and Analysis*

*For the Year Ended December 31, 2017*

*Unaudited*

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The discussion and analysis of Cuyahoga Arts & Culture (CAC) financial performance provides an overall review of CAC's financial activities for the year ended December 31, 2017. The intent of this discussion and analysis is to look at CAC's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of CAC's financial performance.

### **Financial Highlights**

Key Financial highlights for 2017 are as follows:

- Cuyahoga Arts & Culture has completed its eleventh year of operations with a decrease in net position from the prior year. This decrease was planned for in the Board approved budget. Cigarette tax collections decreased again in 2017.
- Investment revenues increased significantly over 2016 as the investment portfolio matured and interest rates increased in 2017.

### **Using this Annual Financial Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are prepared and organized so the reader can understand CAC as a financial whole or as an entire operating entity. The statements then proceed to provide an increasingly detailed look at our specific financial conditions.

The Statement of Net Position and Statement of Activities provide information about the activities of CAC, presenting both an aggregate and a longer-term view of those finances. The Statement of Activities shows a net (expense) revenue and changes to net position related to each department of CAC. Fund financial statements tell how services were financed in the short-term as well as what dollars remain for future spending.

### **Reporting on the Cuyahoga Arts & Culture as a Whole**

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

The Statement of Net Position and Statement of Activities include all assets and deferred outflows of resources and all liabilities and deferred inflows of resources using the accrual basis of accounting similar to the accounting method used by the private sector. The basis for this accounting takes into account all of the current year's revenues and expenses regardless of when the cash was received or paid.

These two statements report CAC's net position and the changes in that position. The change in net position is important because it tells the reader whether, for CAC as a whole, the financial position of CAC has improved or diminished.

All of CAC's programs and services are reported as Governmental Activities in the Statement of Net Position and the Statement of Activities. Governmental Activities consist of functions that are principally supported by excise tax revenues. Activities include arts and cultural grantmaking and administration.

## Cuyahoga Arts & Culture, Cuyahoga County

Management's Discussion and Analysis

For the Year Ended December 31, 2017

Unaudited

### Reporting on the Most Significant Fund

#### Governmental Fund

The presentation for CAC's only fund, the general fund, focuses on how resources flow into and out of it and the balance that is left at year end and available for spending in future periods. The general fund is reported using modified accrual accounting which measures cash and all other financial assets that are expected to be readily converted to cash. The governmental fund statements provide a detailed short-term view of CAC's general operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future on services provided to our users. The relationship (or difference) between governmental activities (reported on the Statement of Net Position and the Statement of Activities) and the general fund is reconciled in the financial statements.

### Cuyahoga Arts & Culture as a Whole

Recall that the Statement of Net Position looks at CAC as a whole. Table 1 provides a summary of CAC's net position for 2017 as compared to 2016.

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

	2017	2016	Change
<b>Assets</b>			
Current and Other Assets	\$20,800,775	\$22,327,235	(\$1,526,460)
Depreciable Capital Assets, Net	5,746	7,021	(1,275)
<i>Total Assets</i>	<u>20,806,521</u>	<u>22,334,256</u>	<u>(1,527,735)</u>
<b>Deferred Outflows of Resources</b>			
Pension	108,480	84,366	24,114
<b>Liabilities</b>			
Current and Other Liabilities	1,806,158	1,733,019	(73,139)
Long-Term Liabilities:			
Due Within One Year	1,655	2,095	440
Due in More than One Year			
Net Pension Liability	271,927	223,097	(48,830)
Other Amounts	10,741	13,154	2,413
<i>Total Liabilities</i>	<u>2,090,481</u>	<u>1,971,365</u>	<u>(119,116)</u>
<b>Deferred Inflows of Resources</b>			
Pension	6,659	5,346	(1,313)
<b>Net Position</b>			
Investment in Capital Assets	5,746	7,021	(1,275)
Unrestricted	18,812,115	20,434,890	(1,622,775)
<i>Net Position</i>	<u>\$18,817,861</u>	<u>\$20,441,911</u>	<u>(\$1,624,050)</u>

## Cuyahoga Arts & Culture, Cuyahoga County

*Management's Discussion and Analysis*

*For the Year Ended December 31, 2017*

*Unaudited*

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The net pension liability (NPL) is the largest single liability reported by the CAC at December 31, 2017 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27." For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the CAC's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

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

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

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

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

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

**Cuyahoga Arts & Culture, Cuyahoga County**

*Management's Discussion and Analysis*

*For the Year Ended December 31, 2017*

*Unaudited*

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

Unrestricted net position is primarily attributed to the collection of the County levied cigarette tax on the sale of cigarettes. At the election held on November 7, 2006, the electors in the County approved the levy of a tax on the sale of cigarettes at wholesale at the rate of 15 mills per cigarette (amounting to 1-1/2 cents per cigarette) for a period of ten years beginning February 1, 2007. The tax is collected at the wholesale level by the Excise and Motor Fuel Tax Division of the Ohio Department of Taxation. The levy was renewed, at the same millage, for an additional ten years by the electors of Cuyahoga Count on November 3, 2015. Tax collections will continue through January 31, 2027. Tax revenues are remitted monthly to CAC.

Total assets decreased primarily due to a planned decrease in cash on hand and a decrease in expected tax collections.

The significant increase in total deferred outflow of resources in 2017 was due to an increase in the difference between projected and actual earnings on investments related to the CAC's net pension liability for OPERS.

Current liabilities increased slightly during 2017 due to an increase in grants payables as a result of increased grant disbursements owed at the end of the year. The net pension liability increase represents the CAC's proportionate share of the OPERS traditional plan's unfunded benefits.

Table 2 shows the changes in net position for the years ended December 31, 2017 as compared to 2016.

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

	2017	2016	Change
<b>Revenues</b>			
General Revenue			
Cigarette Tax	\$14,533,031	\$14,767,137	(\$234,106)
Intergovernmental Revenue	74,901	0	74,901
Investment Earnings	211,374	98,494	112,880
<i>Total Revenues</i>	<u>14,819,306</u>	<u>14,865,631</u>	<u>(46,325)</u>
<b>Program Expenses</b>			
Arts and Culture Grantmaking	15,644,127	15,536,366	(107,761)
General Government	799,229	699,246	(99,983)
<i>Total Program Expenses</i>	<u>16,443,356</u>	<u>16,235,612</u>	<u>(207,744)</u>
<i>Change in Net Position</i>	(1,624,050)	(1,369,981)	(254,069)
<i>Net Position Beginning of Year</i>	<u>20,441,911</u>	<u>21,811,892</u>	<u>(1,369,981)</u>
<i>Net Position End of Year</i>	<u><u>\$18,817,861</u></u>	<u><u>\$20,441,911</u></u>	<u><u>(\$1,624,050)</u></u>

## Cuyahoga Arts & Culture, Cuyahoga County

*Management's Discussion and Analysis*

*For the Year Ended December 31, 2017*

*Unaudited*

The main revenue source for CAC is the collection of the County levied cigarette tax. Collections have declined fairly consistently since the creation of CAC. The voters passed a ten year extension of the current levy on November 3, 2015. The passage of this levy will result in an additional ten years of funding from the 30 cents per pack levied on cigarettes in Cuyahoga County. The purpose of the cigarette tax is to support the operating or capital needs of arts or cultural organizations located in the County. During 2017 cigarette tax revenue decreased by \$234,106 from 2016.

Expenses are primarily for the operations associated with the making of grants to area arts or cultural organizations. Expenses for arts and culture grantmaking increased as a result of planned expenses by the Board.

### **Cuyahoga Arts & Culture Fund**

Information about CAC's governmental fund begins on page 12. This fund is accounted for using the modified accrual basis of accounting. CAC had governmental revenues of \$14,819,306 and expenditures of \$16,418,905. Revenues are primarily attributable to levied County cigarette tax dollars which are tax revenues to Cuyahoga Arts & Culture. The decrease in fund balance is due to a purposeful allocation of expenses, which are primarily grants, in excess of projected revenues in order to use a portion of the cash reserve that is on hand in accordance with the Board adopted policies related to annual allocation of funds and the use of CAC's cash reserve.

### **Budgeting Highlights**

Although CAC is not legally required to file a budget, the Board of Trustees does appropriate funds annually. The general fund is monitored closely looking for possible revenue shortfalls or any over spending.

Actual revenues for the general fund were lower than original and final budgeted revenues due to a conservative estimate for the cigarette tax collections. Actual expenditures were less than the original and final budget expenditures as CAC continues to maintain and improve the services the County residents expect while still maintaining the costs of those services.

### **Capital Assets**

Table 3 shows the changes in capital assets for the year ended December 31, 2017 and 2016.

**Table 3**  
**Capital Assets at December 31**  
**(Net of Depreciation)**

	2017	2016	Change
Furniture and Equipment	\$4,479	\$4,581	(\$102)
Software	1,267	2,440	(1,173)
<i>Totals</i>	<u>\$5,746</u>	<u>\$7,021</u>	<u>(\$1,275)</u>

Capital assets decreased due to annual depreciation expenses offset partially by a capital asset addition. See Note 7 of the basic financial statements for additional information on capital assets.

**Cuyahoga Arts & Culture, Cuyahoga County**

*Management's Discussion and Analysis*

*For the Year Ended December 31, 2017*

*Unaudited*

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**Current Financial Related Activities**

CAC is governed by a five member Board of Trustees, which is appointed by the Cuyahoga County Executive.

**Contacting the Cuyahoga Arts & Culture Fiscal Office**

This financial report is designed to provide our citizenry with the general overview of CAC's finances and show CAC's accountability for all money it receives, spends or invests. If you have any questions about this report or need financial information, contact Karen Gahl-Mills, CEO and Executive Director, Cuyahoga Arts & Culture, 1501 Euclid Avenue, Suite 407, Cleveland, Ohio 44115.

**Cuyahoga Arts & Culture, Cuyahoga County**

*Statement of Net Position*

*December 31, 2017*

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash and Investments	\$19,707,198
Accrued Interest Receivable	37,667
Accounts Receivable	50,000
Cigarette Tax Receivable	995,231
Prepaid Items	10,679
Capital Assets, Net of Accumulated Depreciation	<u>5,746</u>
<i>Total Assets</i>	<u>20,806,521</u>
<b>Deferred Outflows of Resources</b>	
Pension	<u>108,480</u>
<b>Liabilities</b>	
Accounts Payable	32,353
Accrued Wages and Benefits	10,882
Intergovernmental Payable	1,999
Grants Payable	1,760,924
Long-Term Liabilities:	
Due Within One Year	1,655
Due In More Than One Year:	
Net Pension Liability (See Note 9)	271,927
Other Amounts Due in More than One Year	<u>10,741</u>
<i>Total Liabilities</i>	<u>2,090,481</u>
<b>Deferred Inflows of Resources</b>	
Pension	<u>6,659</u>
<b>Net Position</b>	
Investment in Capital Assets	5,746
Unrestricted	<u>18,812,115</u>
<i>Total Net Position</i>	<u><u>\$18,817,861</u></u>

See accompanying notes to the basic financial statements

# Cuyahoga Arts & Culture, Cuyahoga County

## Statement of Activities

For the Year Ended December 31, 2017

	<u>Governmental Activities</u>
<b>Expenses:</b>	
Arts & Culture Grantmaking:	
Personal Services	\$425,087
Contractual Services	15,216,194
Depreciation	2,846
	<u>15,644,127</u>
Total Arts & Culture Grantmaking	<u>15,644,127</u>
General Government:	
Personal Services	388,093
Materials and Supplies	148,598
Contractual Services	261,589
Depreciation	949
	<u>799,229</u>
Total General Government	<u>799,229</u>
<i>Total Program Expenses</i>	<u>16,443,356</u>
<b>General Revenue:</b>	
Cigarette Tax	14,533,031
Intergovernmental Revenue	74,901
Interest	211,374
	<u>14,819,306</u>
<i>Total General Revenues</i>	<u>14,819,306</u>
<i>Change in Net Position</i>	(1,624,050)
<i>Net Position Beginning of Year</i>	<u>20,441,911</u>
<i>Net Position End of Year</i>	<u>\$18,817,861</u>

See accompanying notes to the basic financial statements



**Cuyahoga Arts & Culture, Cuyahoga County**

*Balance Sheet*

*Governmental Fund*

*December 31, 2017*

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	<u>General Fund</u>
<b>Assets</b>	
Cash and Investments	\$19,707,198
Accrued Interest Receivable	37,667
Accounts Receivable	50,000
Cigarette Tax Receivable	995,231
Prepaid Items	<u>10,679</u>
<i>Total Assets</i>	<u><u>\$20,800,775</u></u>
<b>Liabilities</b>	
Accounts Payable	\$32,353
Accrued Wages	10,882
Intergovernmental Payable	1,999
Grants Payable	<u>1,760,924</u>
<i>Total Liabilities</i>	<u>1,806,158</u>
<b>Fund Balance</b>	
Nonspendable	10,679
Unassigned	<u>18,983,938</u>
<i>Total Fund Balances</i>	<u>18,994,617</u>
<i>Total Liabilities and Fund Balance</i>	<u><u>\$20,800,775</u></u>

See accompanying notes to the basic financial statements

**Cuyahoga Arts & Culture, Cuyahoga County**  
*Reconciliation of Total Governmental Fund Balance to  
 Net Position of Governmental Activities  
 December 31, 2017*

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<b>Total Governmental Fund Balance</b>	<b>\$18,994,617</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.	5,746
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The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in the funds:

Deferred Outflows - Pension	108,480	
Deferred Inflows - Pension	(6,659)	
Net Pension Liability	(271,927)	
Totals		(170,106)

Long-term liabilities, such as compensated absences, are not due and payable in the current period and therefore are not reported in the funds.	(12,396)
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<i>Net Position of Governmental Activities</i>	<u><u>\$18,817,861</u></u>
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See accompanying notes to the basic financial statements

**Cuyahoga Arts & Culture, Cuyahoga County**  
*Statement of Revenues, Expenditures and Changes*  
*in Governmental Fund Balance*  
*For the Year Ended December 31, 2017*

	General Fund
<b>Revenues</b>	
Cigarette Tax	\$14,533,031
Intergovernmental Revenue	74,901
Interest	211,374
<i>Total Revenues</i>	14,819,306
<b>Expenditures</b>	
Current:	
Arts & Culture Grantmaking:	
Personal Services	413,539
Contractual Services	15,216,194
Total Arts & Culture Grantmaking	15,629,733
General Government:	
Personal Services	376,465
Materials and Supplies	148,598
Contractual Services	261,589
Capital Outlay	2,520
Total General Government	789,172
<i>Total Expenditures</i>	16,418,905
<i>Net Change in Fund Balance</i>	(1,599,599)
<i>Fund Balance Beginning of Year</i>	20,594,216
<i>Fund Balance End of Year</i>	\$18,994,617

See accompanying notes to the basic financial statements

**Cuyahoga Arts & Culture, Cuyahoga County**  
*Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Governmental Fund Balance to the Statement of Activities  
For the Year Ended December 31, 2017*

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**Net Change in Fund Balances - Total Governmental Fund** (\$1,599,599)

*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	2,520	
Depreciation	(3,795)	
Total		(1,275)

Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows. 23,536

Except for amounts reported as deferred inflows/outflows, changes in net pension liability are reported as pension expense in the statement of activities. (49,565)

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. 2,853

*Change in Net Position of Governmental Activities* (\$1,624,050)

See accompanying notes to the basic financial statements

## **Cuyahoga Arts & Culture, Cuyahoga County**

*Notes To The Basic Financial Statements*

*For The Year Ended December 31, 2017*

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### **Note 1 - Reporting Entity and Basis of Presentation**

Cuyahoga Arts & Culture (CAC) is a political subdivision of the State and a body corporate, established June 16, 2005, by the Cuyahoga County Commissioners, under the authority of Section 3381.04, Ohio Revised Code.

CAC's governing body is a five member Board of Trustees (the Trustees), who are appointed by the Cuyahoga County Executive. Trustees serve staggered three year terms. Trustees serve on staggered terms from the date of their appointment by the Cuyahoga County Executive and until their replacement has been appointed. CAC is classified as a related organization of Cuyahoga County.

CAC is dedicated to making grants to support the operating or capital expenses of arts and culture organizations located within the County, or acquiring, constructing, equipping, furnishing, repairing, remodeling, renovating, enlarging, improving, or administering artistic or cultural facilities. These activities are directly controlled by the Trustees through the budgetary process and are included within this report.

In evaluating how to define CAC for financial reporting purposes, management has considered all agencies, departments and organizations making up Cuyahoga Arts & Culture and its potential component units consistent with GASB Statement No. 14 "The Financial Reporting Entity" and GASB Statement 61 "The Financial Reporting Entity: Omnibus an amendment to GASB Statements No. 14 and No. 34"

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

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

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

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

CAC'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 CAC as a whole.

## **Cuyahoga Arts & Culture, Cuyahoga County**

*Notes To The Basic Financial Statements*

*For The Year Ended December 31, 2017*

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The statement of net position presents the financial condition of the governmental activities of CAC at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of CAC'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 CAC, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program is self-financing or draws from the general revenues of CAC.

### Fund Financial Statements

During the year, CAC accounts for its financial activities in a single governmental fund. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. Governmental funds are those through which most governmental functions are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. The difference between governmental fund assets and liabilities is reported as fund balance. CAC's only governmental fund is the general fund which accounts for all financial resources. The general fund balance is available to CAC for any purpose provided it is expended according to the general laws of Ohio.

### *Measurement Focus*

#### Government-wide Financial Statements

The government-wide financial statements are prepared using 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 CAC 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

The general fund is accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and deferred outflows of resources and current liabilities and deferred inflows of resources generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balance 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 the general fund.

### *Basis of Accounting*

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. The general fund uses the modified accrual basis of accounting. Differences in the accrual and 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.

## **Cuyahoga Arts & Culture, Cuyahoga County**

*Notes To The Basic Financial Statements*

*For The Year Ended December 31, 2017*

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### Revenues - Exchange and Nonexchange 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 year in which the resources are measurable and become available. Available means that the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For CAC, available means expected to be received within sixty days of year-end.

Nonexchange transactions, in which CAC receives value without directly giving equal value in return, include grants. Revenue from grants, entitlements and donations is recognized in the 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 CAC must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to CAC on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue source is considered to be both measurable and available at year-end: cigarette tax.

### Deferred Outflows/Inflows of Resources

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For CAC, deferred outflows of resources are reported on the government-wide statement of net position for pension. The deferred outflows of resources related to pension are explained in Note 9.

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 CAC, deferred inflows of resources include pension. Deferred inflows of resources related to pension are reported on the government-wide statement of net position. (See Note 9)

### Expenses/Expenditures

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.

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

During 2017, CAC's investments were limited to federal farm credit bank notes, federal home loan bank notes, federal national mortgage association notes, commercial paper, money market governmental obligations and STAR Ohio.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. The fair value of the money market fund is determined by the fund's current share price.

**Cuyahoga Arts & Culture, Cuyahoga County**

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During 2017, CAC invested in STAR Ohio. STAR Ohio (the State Treasury Asset Reserve of Ohio), is an investment pool managed by the State Treasurer’s Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, “Certain External Investment Pools and Pool Participants.” CAC measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

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

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund amounted to \$211,374 during 2017.

***Prepaid Items***

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

***Capital Assets***

CAC’s only capital assets are general capital assets. General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in the general fund. General capital assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the financial statements of the general fund.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their acquisition value as of the date received. CAC maintains a capitalization threshold of two thousand dollars for furniture and equipment and software.

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Furniture and Equipment	5 - 7 years
Software	5 years

***Accrued Liabilities***

All payables and accrued liabilities are reported in the government-wide financial statements.



## Cuyahoga Arts & Culture, Cuyahoga County

Notes To The Basic Financial Statements

For The Year Ended December 31, 2017

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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 fund. However, compensated absences and net pension liability that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year.

### ***Compensated Absences***

Exempt and non-exempt staff are eligible for paid time off (PTO). Full-time and part-time staff are granted 25 days or more based on years of service, on a pro-rated basis, per year at the beginning of the calendar year. PTO accruals are pro-rated by the month of employment for people joining CAC during the fiscal year. In the event of separation, employees are paid their accrued PTO in their last paycheck, if they provide a written notice prior to separation. Current year accruals are paid out at the rate of 50 percent if employment terminates between January 1 and June 30 and at 100 percent thereafter.

If an employee does not use their PTO time in a given year, they may carry over the equivalent of ten days. Employees will be compensated for accrued time in excess of ten days in an amount not to exceed ten additional days. Alternately, the Executive Director may approve this additional time to be carried over for use in the next fiscal year. Any unused time in excess of 20 days will be forfeited by the employee.

Full and part-time staff are granted three sick days per year. Sick days may not be carried over, accrued or paid out if unused within the calendar year.

### ***Pensions***

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

### ***Fund Balance***

Fund balance is divided into five classifications based primarily on the extent to which CAC 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 formal action of CAC. Those committed amounts cannot be used for any other purpose unless CAC removes or changes the specified use by taking the same type of action 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.

## Cuyahoga Arts & Culture, Cuyahoga County

*Notes To The Basic Financial Statements*

*For The Year Ended December 31, 2017*

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**Assigned** Amounts in the assigned fund balance classification are intended to be used by CAC for specific purposes but do not meet the criteria to be classified as restricted or committed. In the general fund, assigned amounts represent intended uses established by CAC Trustees or a CAC official delegated that authority by formal action, or by State Statute.

**Unassigned** Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications.

CAC 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 their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

### ***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 these estimates.

### **Note 3 - Fund Balances**

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which CAC is bound to observe constraints imposed upon the use of the resources in the government funds. At year end, \$10,679 was nonspendable to prepaid assets in the general fund and the remaining of \$18,983,938 was unassigned for a total general fund balance of \$18,994,617.

### **Note 4 - Deposits and Investments**

CAC has chosen to follow State statutes and classify monies held by CAC into two categories, active and inactive. Active monies are public monies determined to be necessary to meet current demand. Active monies must be maintained either as cash in the treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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

## **Cuyahoga Arts & Culture, Cuyahoga County**

*Notes To The Basic Financial Statements*

*For The Year Ended December 31, 2017*

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Monies held by CAC which are not considered active are classified as inactive. Inactive monies may be deposited or invested with certain limitations in the following securities provided CAC has filed a written investment policy with the Ohio Auditor of State:

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, or any book entry, zero coupon United States Treasury security that is a direct obligation of the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation 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 that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bond and other obligations of the State of Ohio or its political subdivisions, provided that such political subdivisions are located wholly or partly within the County;
5. Time certificates of deposits 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 (1) or (2) above and repurchase agreements secured by such obligations, provided that these investments are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);
8. Securities lending agreements in which CAC lends securities and the eligible institution agrees to simultaneously exchange similar securities or cash, equal value for equal value;
9. Up to twenty-five percent of CAC's average portfolio in either of the following:
  - a. commercial paper notes in entities incorporated under the laws of Ohio or any other State that have assets exceeding five hundred million dollars rated at the time of purchase, which are rated in the highest qualification established by two nationally recognized standard rating services, which do not exceed ten percent of the value of the outstanding commercial paper of the issuing corporation and which mature within 270 days after purchase;
  - b. bankers acceptances eligible for purchase by the federal reserve system and which mature within 180 days after purchase.
10. Fifteen percent of CAC's average portfolio in notes issued by U.S. corporations or by depository institutions that are doing business under authority granted by the U.S. provided that the notes are rated in the second highest or higher category by at least two nationally recognized standard rating services at the time of purchase and the notes mature within two years from the date of purchase.

## Cuyahoga Arts & Culture, Cuyahoga County

*Notes To The Basic Financial Statements*

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11. No-load money market mutual funds rated in the highest category at the time of purchase by at least one nationally recognized standard rating service consisting exclusively of obligations guaranteed by the United States, securities issued by a federal government agency or instrumentality, and/or highly rated commercial paper.
12. One percent of CAC's average portfolio in debt interests rated at the time of purchase in the three highest categories by two nationally recognized standard rating services and issued by foreign nations diplomatically recognized by the United States government.

Reverse repurchase agreements, investments in derivatives, and investments in stripped principal or interest obligations that are not issued or guaranteed by the United States are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. Other than corporate notes, commercial paper, and bankers acceptances, an investment must mature within five years from the date of settlement unless matched to a specific obligation or debt of CAC. Investments must be purchased with the expectation that they will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

### ***Deposits***

Custodial credit risk for deposits is the risk that in the event of bank failure, the CAC will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$74,239 of the CAC's bank balance of \$324,744 was exposed to custodial credit risk because those deposits were uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the CAC to a successful claim by the Federal Deposit Insurance Corporation.

The CAC 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 CAC 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.

The CAC's financial institution is in the process of joining OPCS; however, at December 31, 2017, the financial institution still maintained its own collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least 105 percent of the deposits being secured.

## Cuyahoga Arts & Culture, Cuyahoga County

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### **Investments**

Investments are reported at fair value. As of December 31, 2017, CAC had the following investments:

Measurement/Investment	Measurement Amount	Maturity	Standard & Poor's Rating	Percent of Total Investments
Net Asset Value (NAV) Per Share:				
Star Ohio	3,338,380	52.1 days	N/A	N/A
Amortized Cost:				
Commercial Paper	\$3,856,427	Less than one year	A-1 to A-1+	19.86%
Fair Value - Level One Inputs:				
Money Market Governmental Obligations	2,282	N/A	N/A	N/A
Fair Value - Level Two Inputs:				
Federal Farm Credit Bank Notes	1,432,992	Less than one year	AA+	7.38
Federal Home Loan Bank Notes	1,476,355	Less than two years	AA+	7.60
Federal National Mortgage Association Notes	<u>9,313,846</u>	Less than four years	AA+	47.96
Total Investments	<u>\$19,420,282</u>			

CAC categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The above chart identifies CAC's recurring fair value measurements as of December 31, 2017. The Money Market Governmental Obligation Fund is measured at fair value and is valued using quoted market prices (Level 1 inputs). CAC's remaining investments measured at fair value 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).

**Credit Risk.** All investments of CAC carry a rating of AA+ and A-1 by Standards & Poor's. CAC has no investment policy that addresses credit risk.

**Interest Rate Risk.** CAC 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 CAC, and that an investment must be purchased with the expectation that it will be held to maturity.

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

### **Note 5 – Public Funding**

At the election held on November 7, 2006, the electors in Cuyahoga County approved the levy of a tax on the sale of cigarettes at wholesale at the rate of 15 mills per cigarette (amounting to 1-1/2 cents per cigarette) for a period of ten years, beginning February 1, 2007, for the purpose of making grants to support the operating or capital expenses of arts and cultural organizations located in Cuyahoga County, to defray the costs of acquiring, constructing, equipping, furnishing, improving, enlarging, renovating, remodeling, or maintaining

## Cuyahoga Arts & Culture, Cuyahoga County

Notes To The Basic Financial Statements

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an artistic or cultural facility, and to meet the operating expenses of CAC. On November 3, 2015, subsequent to the initial approval of the levy, the electors of Cuyahoga County re-approved the levy for an additional ten years, through January 31, 2027. This is a County tax authorized by Section 5743.021, Ohio Revised Code. The expenditures of the collections from the tax are limited by Section 3381.17, Ohio Revised Code, as follows:

1. The tax must be expended for the purpose of making annual grants to support operating or capital expenses of arts or culture organizations located within the County as the Board of Trustees shall determine;
2. Not more than ten percent of the amount granted in any calendar year from the tax is permitted to be granted to arts or culture organizations that are not qualifying arts or cultural organizations;
3. Prior to making grants in any calendar year, the Board of Trustees shall afford an opportunity for the presentation, either in person or in writing, of the suggestions of the Area Arts Council;
4. Any grant to an arts and cultural organization shall be on such terms and conditions as the Board of Trustees considers advisable.

### Note 6 - Receivables

Receivables at December 31, 2017 consisted of a cigarette tax receivable of \$995,231 and an accounts receivable of \$50,000. The receivables are considered fully collectible and will be received within one year. The cigarette tax receivable represents the proceeds from the County excise tax on the sale of cigarettes. This money is collected and distributed to the County by the State and then to CAC.

### Note 7 - Capital Assets

A summary of changes in capital assets during 2017 follows:

	Balance 12/31/2016	Additions	Deletions	Balance 12/31/2017
<b>Governmental Activities</b>				
<b>Depreciable Capital Assets</b>				
Furniture and Equipment	\$61,493	\$2,520	\$0	\$64,013
Software	20,244	0	0	20,244
<i>Total Capital Assets, Being Depreciated</i>	<u>81,737</u>	<u>2,520</u>	<u>0</u>	<u>84,257</u>
Less Accumulated Depreciation				
Furniture and Equipment	(56,912)	(2,622)	0	(59,534)
Software	(17,804)	(1,173)	0	(18,977)
<i>Total Accumulated Depreciation</i>	<u>(74,716)</u>	<u>(3,795)</u>	<u>0</u>	<u>(78,511)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>\$7,021</u>	<u>(\$1,275)</u>	<u>\$0</u>	<u>\$5,746</u>

Additions to capital assets for 2017 consist of a phone system purchased during the year.

## Cuyahoga Arts & Culture, Cuyahoga County

Notes To The Basic Financial Statements

For The Year Ended December 31, 2017

Depreciation expense for 2017 was charged to arts and culture grantmaking in the amount of \$2,846 and general government in the amount of \$949.

### Note 8 - Risk Management

CAC 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 2017, CAC contracted with several companies for various types of insurance as follows:

<u>Company</u>	<u>Type</u>	<u>Coverage</u>
Hartford Fire and Casualty	General Liability	\$4,000,000
	Automobile Liability	2,000,000
	Employers Liability	500,000
	Accounts Receivable	25,000
	Property	20,000
	Computers and Media	15,000
Chubb Insurance	Directors and Officers	1,000,000
Ohio Casualty Insurance	Employee Dishonesty Bond	100,000

Settled claims have not exceeded this commercial coverage in any of the past three years. There have been no significant reductions in coverage from last year.

Workers' compensation coverage is provided by the State. CAC pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

### Note 9 - Defined Benefit Pension Plans

#### *Net Pension Liability*

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

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

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

## Cuyahoga Arts & Culture, Cuyahoga County

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

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

### ***Plan Description – Ohio Public Employees Retirement System (OPERS)***

Plan Description - CAC employees participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional pension plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan and the combined plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. While members (e.g. CAC employees) may elect the member-directed plan and the combined plan, substantially all employee members are in OPERS' traditional plan; therefore, the following disclosure focuses on the traditional pension plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional plan. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the traditional plan as per the reduced benefits adopted by SB 343 (see OPERS CAFR referenced above for additional information, including requirements for reduced and unreduced benefits):



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<b>Group A</b> Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	<b>Group B</b> 20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	<b>Group C</b> Members not in other Groups and members hired on or after January 7, 2013
State and Local	State and Local	State and Local
<b>Age and Service Requirements:</b> Age 60 with 60 months of service credit or Age 55 with 25 years of service credit  <b>Formula:</b> 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	<b>Age and Service Requirements:</b> Age 60 with 60 months of service credit or Age 55 with 25 years of service credit  <b>Formula:</b> 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	<b>Age and Service Requirements:</b> Age 57 with 25 years of service credit or Age 62 with 5 years of service credit  <b>Formula:</b> 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35

Final average Salary (FAS) represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career.

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

	State and Local
<b>2017 Statutory Maximum Contribution Rates</b>	
Employer	14.0 %
Employee	10.0 %
<b>2017 Actual Contribution Rates</b>	
Employer:	
Pension	13.0 %
Post-employment Health Care Benefits	1.0
Total Employer	14.0 %
Employee	10.0 %

\* This rate is determined by OPERS' Board and has no maximum rate established by ORC.

\*\* This rate is also determined by OPERS' Board, but is limited by ORC to not more than 2 percent greater than the Public Safety rate.

**Cuyahoga Arts & Culture, Cuyahoga County**

*Notes To The Basic Financial Statements*

*For The Year Ended December 31, 2017*

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. CAC's contractually required contribution was \$23,536 for 2017. Of this amount, \$1,841 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 for OPERS was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. OP&F's total pension liability was measured as of December 31, 2016, and was determined by rolling forward the total pension liability as of January 1, 2016, to December 31, 2016. CAC's proportion of the net pension liability was based on CAC'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>OPERS</u>
Proportion of the Net Pension Liability:	
Current Measurement Date	0.001211%
Prior Measurement Date	<u>0.001288%</u>
Change in Proportionate Share	<u>-0.0000770%</u>
Proportionate Share of the Net Pension Liability	\$271,927
Pension Expense	\$49,565

At December 31, 2017, CAC reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>OPERS</u>
<b>Deferred Outflows of Resources</b>	
Differences between expected and actual experience	\$373
Changes of assumptions	43,618
Net difference between projected and actual earnings on pension plan investments	40,953
CAC contributions subsequent to the measurement date	<u>23,536</u>
Total Deferred Outflows of Resources	<u>\$108,480</u>
<b>Deferred Inflows of Resources</b>	
Differences between expected and actual experience	\$1,637
Changes in proportion and differences between CAC contributions and proportionate share of contributions	<u>5,022</u>
Total Deferred Inflows of Resources	<u>\$6,659</u>

**Cuyahoga Arts & Culture, Cuyahoga County**

*Notes To The Basic Financial Statements*

*For The Year Ended December 31, 2017*

\$23,536 reported as deferred outflows of resources related to pension resulting from CAC contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year Ending December 31:	<u>OPERS</u>
2018	\$31,746
2019	33,366
2020	14,373
2021	<u>(1,200)</u>
Total	<u><u>\$78,285</u></u>

***Actuarial Assumptions - OPERS***

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification 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. The total pension liability was determined by an actuarial valuation as of December 31, 2016, using the following actuarial assumptions applied to all periods included in the measurement in accordance with the requirements of GASB 67. In 2016, the OPERS' actuarial consultants conducted an experience study for the period 2011 through 2015, comparing assumptions to actual results. The experience study incorporates both a historical review and forward-looking projections to determine the appropriate set of assumptions to keep the plan on a path toward full funding. Information from this study led to changes in both demographic and economic assumptions, with the most notable being a reduction in the actuarially assumed rate of return from 8.0 percent down to 7.5 percent, for the defined benefit investments. Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, prepared as of December 31, 2016, compared with December 31, 2015, are presented below.

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Wage Inflation	3.25 percent	3.75 percent
Future Salary Increases, including inflation	3.25 to 10.05 percent including wage inflation	4.25 to 10.05 percent including wage inflation
COLA or Ad Hoc COLA:		
Pre-January 7, 2013 Retirees	3 percent, simple	3 percent, simple
Post-January 7, 2013 Retirees	3 percent, simple through 2018, then 2.15 percent, simple	3 percent, simple through 2018, then 2.8 percent, simple
Investment Rate of Return	7.5 percent	8 percent
Actuarial Cost Method	Individual Entry Age	Individual Entry Age

## **Cuyahoga Arts & Culture, Cuyahoga County**

### *Notes To The Basic Financial Statements*

*For The Year Ended December 31, 2017*

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For 2016, mortality rates are based on the RP-2014 Healthy Annuitant mortality table. For males, Healthy Annuitant Mortality tables were used, adjusted for mortality improvement back to the observation period base of 2006 and then established the base year as 2015. For females, Healthy Annuitant Mortality tables were used, adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010. The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the above described tables.

For 2015, mortality rates were based on the RP-2000 Mortality Table projected 20 years using Projection Scale AA. For males, 105 percent of the combined healthy male mortality rates were used. For females, 100 percent of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based on the RP-2000 mortality table with no projections. For males 120 percent of the disabled female mortality rates were used set forward two years. For females, 100 percent of the disabled female mortality rates were used.

The most recent experience study was completed for the five year period ended December 31, 2015. The prior experience study was completed for the five year period ended December 31, 2010.

The long-term rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

During 2016, OPERS managed investments in four investment portfolios: the Defined Benefit portfolio, the 401(h) Health Care Trust portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The 401(h) Health Care Trust portfolio was closed as of June 30, 2016 and the net position transferred to the 115 Health Care Trust portfolio on July 1, 2016. The Defined Benefit portfolio contains the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan and the annuitized accounts of the Member-Directed Plan. The Defined Benefit portfolio historically included the assets of the Member-Directed retiree medical accounts funded through the VEBA Trust. However, the VEBA Trust was closed as of June 30, 2016 and the net position transferred to the 115 Health Care Trust portfolio on July 1, 2016. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Defined Benefit portfolio is 8.3 percent for 2016.

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2016 and the long-term expected real rates of return:

**Cuyahoga Arts & Culture, Cuyahoga County**

*Notes To The Basic Financial Statements*

*For The Year Ended December 31, 2017*

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	23.00 %	2.75 %
Domestic Equities	20.70	6.34
Real Estate	10.00	4.75
Private Equity	10.00	8.97
International Equities	18.30	7.95
Other investments	18.00	4.92
Total	100.00 %	5.66 %

**Discount Rate** The discount rate used to measure the total pension liability for 2016 was 7.5 percent. The discount rate for 2015 was 8 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

***Sensitivity of CAC's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate***

The following table presents CAC's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.5 percent, as well as what CAC's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.5 percent) or one-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
CAC's proportionate share of the net pension liability	\$420,120	\$271,927	\$154,063

**Note 10 - Postemployment Benefits**

***Ohio Public Employees Retirement System***

Plan Description - The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: the traditional pension plan, a cost-sharing, multiple-employer defined benefit pension plan; the member-directed plan, a defined contribution plan; and the combined plan, a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care trust, which funds multiple health care plans including medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both the traditional pension and the combined plans. This trust is also used to fund health care for member-directed plan participants, in the form of a Retiree Medical Account (RMA). At retirement or refund, member directed plan participants may be eligible for reimbursement of qualified medical expenses from their vested RMA balance.

## **Cuyahoga Arts & Culture, Cuyahoga County**

*Notes To The Basic Financial Statements*

*For The Year Ended December 31, 2017*

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In order to qualify for postemployment health care coverage, age and service retirees under the traditional pension and combined plans must have twenty or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45. See OPERS' CAFR referenced below for additional information.

The Ohio Revised Code permits, but does not require OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the Board in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/financial/reports.shtml>, by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or 800-222-7377.

Funding Policy - The Ohio Revised Code provides the statutory authority requiring public employers to fund postemployment health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2017, state and local employers contributed at a rate of 14.0 percent of earnable salary. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 1.0 percent during calendar year 2017.

As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2018 decreased to 0 percent for both plans. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited into the RMA for participants in the Member-Directed Plan for 2017 was 4.0 percent.

Substantially all of the CAC's contribution allocated to fund postemployment health care benefits relates to the cost-sharing, multiple employer trusts. The corresponding contribution for the years ended December 31, 2017, 2016, and 2015 was \$3,070, \$3,131, and \$3,207, respectively. For 2017, 92.86 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2016 and 2015.

### **Note 11 – Other Employee Benefits**

#### ***Compensated Absences***

The criteria for determining paid time off (PTO) liabilities are derived from the compensation policies set by the Board of Trustees. Full-time and part-time staff is granted 25 days or more based on years of service, on a pro-rated basis, per year at the beginning of the calendar year. PTO accruals are pro-rated by the month of employment for people joining CAC during the year. In the event of separation, employees are paid their accrued PTO in their last paycheck, if they provide written notice to CAC. Current year accruals are paid out at the rate of 50 percent if employment terminates between January 1 and June 30 and at 100 percent thereafter.

**Cuyahoga Arts & Culture, Cuyahoga County**

*Notes To The Basic Financial Statements*

*For The Year Ended December 31, 2017*

If an employee does not use their PTO time in a given year, they may carry over the equivalent of ten days. Employees will be compensated for accrued time in excess of ten days in an amount not to exceed ten additional days. Alternately, the Executive Director may approve this additional time to be carried over for use in the next year. Any unused time in excess of 20 days will be forfeited by the employee.

The table below list the amount of PTO based on years of service:

Full Years of Service	Paid Time Off Annual Accumulation
0 - 5 years	25 Days
6 - 15 years	30 Days
15 or more years	35 Days

Full-time and part-time staff are granted three paid sick days per year at the beginning of the calendar year. Sick days may not be carried over, accrued or paid out if unused within the calendar year.

***Medical, Prescription Drug and Dental Insurance***

CAC provides medical, prescription drug, vision and dental benefits to all full-time employees and to part-time employees working a minimum of 25 hours per week. Medical, prescription drug benefits and dental are provided through Medical Mutual and vision benefits through VSP Vision. Due to CAC's small group status, each employee and their dependents receives their own rating based on pre-specified age ranges. CAC's portion of the monthly medical and prescription drug premium ranges from \$175 to \$1,603 and \$32 to \$123 for the monthly dental premium. The vision premium, fully paid by CAC, is \$6.32 per member. CAC employees contribute a portion of the premium for the medical, prescription and dental plans.

**Note 12 – Long-Term Obligations**

A schedule of changes in bonds and other long-term obligations of CAC during 2017 follows:

	Balance 12/31/2016	Additions	Deletions	Balance 12/31/2017	Due in One Year
Compensated Absences	\$15,249	\$53,198	\$56,051	\$12,396	\$1,655
Net Pension Liability OPERS	223,097	48,830	0	271,927	0
<b>Total</b>	<b>\$238,346</b>	<b>\$102,028</b>	<b>\$56,051</b>	<b>\$284,323</b>	<b>\$1,655</b>

Compensated absences will paid from the general fund. CAC pays obligations related to employee compensation from the fund benefitting from their service.

**Note 13 – Change in Accounting Principle**

For 2017, the CAC implemented the Governmental Accounting Standards Board's (GASB) *Implementation Guide No. 2016-1*. These changes were incorporated in CAC's 2017 financial statements; however, there was no effect on beginning net position/fund balance.

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## Required Supplementary Information

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**Cuyahoga Arts & Culture, Cuyahoga County**  
*Required Supplementary Information*  
*Schedule of Cuyahoga Arts & Culture's Proportionate Share of the Net Pension Liability*  
*Ohio Public Employees Retirement System - Traditional Plan*  
*Last Four Years (1)*

	2017	2016	2015	2014
Cuyahoga Arts & Culture's Proportion of the Net Pension Liability	0.0012110%	0.0012880%	0.0013010%	0.0013010%
Cuyahoga Arts & Culture's Proportionate Share of the Net Pension Liability	\$271,927	\$223,097	\$156,915	\$153,371
Cuyahoga Arts & Culture's Covered Payroll	\$156,574	\$160,364	\$159,492	\$158,513
Cuyahoga Arts & Culture's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	173.67%	139.12%	98.38%	96.76%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	77.25%	81.08%	86.45%	86.36%

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

Amounts presented for each year were determined as of CAC's measurement date which is the prior year end.

**Cuyahoga Arts & Culture, Cuyahoga County**  
*Required Supplementary Information*  
*Schedule of Cuyahoga Arts & Culture Contributions*  
*Ohio Public Employees Retirement System - Traditional Plan*  
*Last Five Years (1)*

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$23,536	\$18,789	\$19,244	\$19,139	\$20,607
Contributions in Relation to the Contractually Required Contribution	<u>(23,536)</u>	<u>(18,789)</u>	<u>(19,244)</u>	<u>(19,139)</u>	<u>(20,607)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Cuyahoga Arts & Culture Covered Payroll	\$181,043	\$156,575	\$160,364	\$159,492	\$158,513
Contributions as a Percentage of Covered Payroll	13.00%	12.00%	12.00%	12.00%	13.00%

(1) Information prior to 2013 is not available.

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## Additional Supplementary Information

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**Additional Supplementary Information**

**Cuyahoga Arts & Culture, Cuyahoga County**  
*Schedule of Revenues, Expenditures and Changes in  
Fund Balance - Budget (Non-GAAP Basis) and Actual  
General Fund  
For the Year Ended December 31, 2017*

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>Revenues</b>				
Cigarette Tax	\$14,661,550	\$14,661,550	\$14,630,558	(\$30,992)
Intergovernmental Revenue	105,280	105,280	24,901	(80,379)
Interest	205,000	205,000	232,813	27,813
<i>Total Revenues</i>	<u>14,971,830</u>	<u>14,971,830</u>	<u>14,888,272</u>	<u>(83,558)</u>
<b>Expenditures</b>				
Current:				
Arts & Culture Grantmaking:				
Personal Services	468,975	468,975	413,071	55,904
Contractual Services	16,291,630	16,291,630	14,969,300	1,322,330
Total Arts & Culture Grantmaking	<u>16,760,605</u>	<u>16,760,605</u>	<u>15,382,371</u>	<u>1,378,234</u>
General Government:				
Personal Services	389,928	389,928	377,367	12,561
Materials and Supplies	148,598	148,598	148,598	0
Contractual Services	259,011	259,011	259,011	0
Total General Government	<u>797,537</u>	<u>797,537</u>	<u>784,976</u>	<u>12,561</u>
Capital Outlay	<u>2,520</u>	<u>2,520</u>	<u>2,520</u>	<u>0</u>
<i>Total Expenditures</i>	<u>17,560,662</u>	<u>17,560,662</u>	<u>16,169,867</u>	<u>1,390,795</u>
<i>Net Change in Fund Balance</i>	(2,588,832)	(2,588,832)	(1,281,595)	1,307,237
<i>Fund Balance Beginning of Year</i>	<u>21,160,953</u>	<u>21,160,953</u>	<u>21,160,953</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$18,572,121</u>	<u>\$18,572,121</u>	<u>\$19,879,358</u>	<u>\$1,307,237</u>

See accompanying notes to the additional supplementary information

**Cuyahoga Arts & Culture, Cuyahoga County**  
*Notes To The Additional Supplementary Information*  
*For The Year Ended December 31, 2017*

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**Note 1 – Budgetary Basis of Accounting**

***Budgetary Process***

CAC is not required under State statute to file budgetary information with the County Fiscal Officer. However, CAC does follow the budgetary process for control purposes. The Trustee’s set limits on expenditures plus encumbrances at the program level.

The Executive Director reviews the prior year’s revenues and factors in the wages expected to be charged and the intergovernmental revenue anticipated to be received in order to determine the estimated resources for the current year. The estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Executive Director. The amounts reported as the original budgeted amounts in the budgetary schedules reflect amounts of the estimated resources approved by the Trustees when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary schedules reflect the amounts of the estimated resources that were in effect at the time the final appropriations were passed by the Trustees.

***Budgetary Basis of Accounting***

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP basis), the budgetary basis is based upon accounting for 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, general fund, is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget and to demonstrate compliance with State statute. The major differences between the budget basis and the GAAP basis (generally accepted accounting principles) are:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Investments are reported at cost (budget) rather than fair value (GAAP).

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	(\$1,599,599)
Net Adjustment for Revenue Accruals	47,223
Beginning Fair Value Adjustment for Investments	(150,417)
Ending Fair Value Adjustment for Investments	172,160
Net Adjustment for Expenditure Accruals	249,038
Budget Basis	<u><u>(\$1,281,595)</u></u>

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# Dave Yost • Auditor of State

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

Cuyahoga Arts and Culture  
Cuyahoga County  
1501 Euclid Avenue, Suite 407  
Cleveland, Ohio 44115

To the Board of Trustees:

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 and the general fund of Cuyahoga Arts and Culture, Cuyahoga County, (the CAC) as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the CAC's basic financial statements and have issued our report thereon dated May 17, 2018.

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

As part of our financial statement audit, we considered the CAC's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the CAC'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 CAC'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 CAC'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 CAC's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the CAC's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

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

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

May 17, 2018





# Dave Yost • Auditor of State

**CUYAHOGA ARTS AND CULTURE**

**CUYAHOGA COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MAY 29, 2018**