



Dave Yost • Auditor of State

**CUYAHOGA HEIGHTS LOCAL SCHOOL DISTRICT
CUYAHOGA COUNTY
JUNE 30, 2016**

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**CUYAHOGA HEIGHTS LOCAL SCHOOL DISTRICT
CUYAHOGA COUNTY
JUNE 30, 2016**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Cuyahoga Heights Local School District
Cuyahoga County
4820 East 71st Street
Cuyahoga Heights, Ohio 44125

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Cuyahoga Heights Local School District, Cuyahoga County, Ohio (the District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Cuyahoga Heights Local School District, Cuyahoga County, Ohio, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 9, 2017, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

August 9, 2017

Cuyahoga Heights Local School District

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2016

Unaudited

The discussion and analysis of the Cuyahoga Heights Local School District's (the School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2016. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

School District Highlights

Highlights for fiscal year 2016 are as follows:

- Tax valuation of the School District decreased by \$3,363,580 for calendar year 2015.
- Tangible personal property tax loss reimbursement, in the amount of \$3,296,763, was received from the State during the fiscal year. This was a decrease of just over \$90,000 compared to the prior year.
- The School District actively pursues grants and controls expenses while still maintaining the high academic standards the residents expect of the School District.
- Top 8 percent Best High Schools in America, as ranked by the *U.S. News and World Report*
- Best Communities for Music awarded by the National Association of Music Merchants (NAMM) Foundation.
- Ohio's State Board of Education has recognized Cuyahoga Heights High School as one of its first annual "All A Award" winners.

Using this Financial Report

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

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

Reporting the School District as a Whole

Statement of Net Position and the Statement of Activities

While these statements contain information about the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all

Cuyahoga Heights Local School District

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited*

financial transactions and asks the question, "How did we do financially during fiscal year 2016?" The statement of net position and the statement of activities answer this question. These statements include all non-fiduciary assets and deferred outflows of resources and liabilities and deferred inflows of resources using the accrual basis of accounting, similar to the accounting used by most private-sector companies. These bases of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

Reporting the School District's Most Significant Funds

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

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

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

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

Cuyahoga Heights Local School District

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2016

Unaudited

The School District as a Whole

Recall that the statement of net position provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net position for the fiscal year 2016 compared to fiscal year 2015:

Table 1
Net Position
Governmental Activities

	2016	Restated 2015	Change
Assets			
Current and Other Assets	\$21,424,903	\$18,722,175	\$2,702,728
Capital Assets, Net of Depreciation	5,749,658	6,033,510	(283,852)
Total Assets	27,174,561	24,755,685	2,418,876
Deferred Outflows of Resources			
Pension	1,735,978	1,131,102	(604,876)
Liabilities			
Current and Other Liabilities	1,325,939	1,389,554	63,615
Long-Term Liabilities:			
Due Within One Year	588,792	508,916	(79,876)
Due in More Than One Year:			
Net Pension Liability	17,160,982	15,489,957	(1,671,025)
Other Amounts	944,720	1,210,349	265,629
Total Liabilities	20,020,433	18,598,776	(1,421,657)
Deferred Inflows of Resources			
Property Taxes	7,209,846	7,248,694	38,848
Pension	1,471,835	2,785,387	1,313,552
Total Deferred Inflows of Resources	8,681,681	10,034,081	1,352,400
Net Position			
Net Investment in Capital Assets	5,103,125	5,231,135	(128,010)
Restricted for:			
Capital Projects	2,884,961	2,035,449	849,512
Other Purposes	574,265	381,571	192,694
Unrestricted (Deficit)	(8,353,926)	(10,394,225)	2,040,299
Total Net Position	\$208,425	(\$2,746,070)	\$2,954,495

The net pension liability (NPL) is the largest single liability reported by the School District at June 30, 2016 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27." For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the School District's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When

Cuyahoga Heights Local School District

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited*

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 School District's proportionate share of each plan's collective:

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

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

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

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

The increase in net position is attributable to an increase in cash as a result of the receipt of a funds recovered related to the theft loss in prior years. Management continues to diligently plan expenses, staying carefully within the School District's revenues in an effort to extend the durations between its levy requests.

Cuyahoga Heights Local School District

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2016

Unaudited

In order to further understand what makes up the changes in net position for the current year, the following table gives readers further details regarding the results of activities for the current fiscal year. Table 2 shows total revenues, expenses and changes in net position for the fiscal years 2016 and 2015.

Table 2
Governmental Activities

	2016	2015	Change
Program Revenues			
Charges for Services and Sales	\$789,522	\$953,268	(\$163,746)
Operating Grants and Contributions	356,464	281,161	75,303
Capital Grants and Interest	409,741	807,244	(397,503)
<i>Total Program Revenues</i>	1,555,727	2,041,673	(485,946)
General Revenues			
Property Taxes	9,853,542	10,218,896	(365,354)
Grants and Entitlements	4,337,197	4,424,472	(87,275)
Payment in Lieu of Taxes	360,980	240,643	120,337
Investment Earnings	24,251	3,722	20,529
Gain on Sale of Capital Assets	0	8,988	(8,988)
Miscellaneous	82,356	53,703	28,653
<i>Total General Revenues</i>	14,658,326	14,950,424	(292,098)
<i>Total Revenues</i>	16,214,053	16,992,097	(778,044)
Program Expenses			
Instruction			
Regular	5,709,685	5,457,291	(252,394)
Special	1,563,498	1,488,155	(75,343)
Vocational	9,726	3,654	(6,072)
Support Services			
Pupil	554,718	568,457	13,739
Instructional Staff	540,389	431,214	(109,175)
Board of Education	79,785	37,159	(42,626)
Administration	1,561,747	1,266,991	(294,756)
Fiscal	326,262	465,985	139,723
Business	46,655	59,085	12,430
Operation and Maintenance of Plant	1,463,804	1,658,957	195,153
Pupil Transportation	733,772	1,045,677	311,905
Central	440,894	381,941	(58,953)
Operation of Food Service	309,303	309,824	521
Operation of Non-Instructional Services	38,570	50,792	12,222
Extracurricular Activities	794,581	773,373	(21,208)
Interest and Fiscal Charges	29,119	37,399	8,280
<i>Total Program Expenses</i>	14,202,508	14,035,954	(166,554)
<i>Special Item - Settlement</i>	942,950	43,249	899,701
<i>Change in Net Position</i>	2,954,495	2,999,392	(44,897)
<i>Net Position Beginning of Year</i>	(2,746,070)	(5,745,462)	2,999,392
<i>Net Position End of Year</i>	\$208,425	(\$2,746,070)	\$2,954,495

Cuyahoga Heights Local School District

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2016

Unaudited

Governmental Activities

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

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

Overall instructional expenses decreased from the prior fiscal year. Supporting services including instructional staff, board of education, fiscal, central, and extracurricular activities expenses decreased due to the constant efforts of management to implement cost cutting measures that are part of the School District's continued commitment to fiscal responsibility.

The School District actively pursues grants and controls expenses while still maintaining the high academic standards the residents expect of the School District. Revenue from property taxes decreased in fiscal year 2016 due to the decrease in assessed valuations and collections.

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

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

Cuyahoga Heights Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited

Table 3
 Total and Net Cost of Program Services
 Governmental Activities

	2016		2015	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Instruction:				
Regular	\$5,709,685	\$5,510,941	\$5,457,291	\$5,227,180
Special	1,563,498	1,330,872	1,488,155	1,292,831
Vocational	9,726	9,390	3,654	3,400
Support Services:				
Pupil	554,718	528,215	568,457	455,802
Instructional Staff	540,389	486,218	431,214	399,506
Board of Education	79,785	77,022	37,159	35,644
Administration	1,561,747	1,305,914	1,266,991	1,130,847
Fiscal	326,262	314,944	465,985	446,021
Business	46,655	45,197	59,085	57,140
Operation and Maintenance of Plant	1,463,804	1,387,131	1,658,957	1,287,817
Pupil Transportation	733,772	652,652	1,045,677	762,221
Central	440,894	263,148	381,941	(93,173)
Operation of Food Service	309,303	78,218	309,824	72,914
Operation of Non-Instructional Services	38,570	37,427	50,792	48,872
Extracurricular Activities	794,581	590,373	773,373	530,926
Interest and Fiscal Charges	29,119	29,119	37,399	37,399
Total	<u>\$14,202,508</u>	<u>\$12,646,781</u>	<u>\$14,035,954</u>	<u>\$11,695,347</u>

The dependence upon general revenues for governmental activities is apparent. 90.41 percent of total expenses are supported through taxes and other general revenues. Program revenues support 9.59 percent of expenses.

The School District's Funds

Information regarding the School District's major funds begins on page 14. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$16,432,319 and expenditures of \$14,352,209. The general fund had an increase in fund balance mainly due to revenues exceeding expenditures. As one can see from the statement of revenues, expenditures and changes in fund balances – governmental funds, property taxes comprise the School District's largest revenue source, accounting for 61.78 percent of total governmental revenue.

General Fund Budgeting Highlights

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

During the course of fiscal year 2016, the School District amended its general fund budget several times. The School District uses an operational unit budget process and has in place systems that are designed to tightly control expenses but provide flexibility for program based decision and management.

Cuyahoga Heights Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited

The general fund's actual revenues were \$40,054 lower than final budget basis revenues due to lower than expected intergovernmental receipts and property taxes. The general fund's actual expenditures were \$1,263,549 lower than the final budget basis expenditures. This is due in large part to the School District's continued commitment to provide a quality education while still controlling the costs of that quality education.

Capital Assets and Debt Administration

Capital Assets

Table 4 shows fiscal year 2016 balances compared to fiscal year 2015:

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

	2016	Restated 2015
Land	\$798,600	\$798,600
Land Improvements	878,534	912,208
Buildings and Improvements	3,328,618	3,487,280
Furniture and Equipment	551,109	653,158
Vehicles	192,797	182,264
<i>Total Capital Assets</i>	\$5,749,658	\$6,033,510

All capital assets, except land, are reported net of depreciation. The decrease in capital assets was primarily due to depreciation outpacing capital outlay during the fiscal year. See Note 12 for additional capital asset information.

Debt

At June 30, 2016, the School District had \$646,533 outstanding in capital leases. The School District has entered into capital leases for various improvements to School District buildings and printers. See Note 16 to the basic financial statements for additional information on the School District's long-term obligations.

School District Outlook

The School District relies heavily on its local property taxpayers. The School District has been affected by declining tax base, changes in the personal property tax structure, commercial business uncertainties, and rising costs of goods and services. The overall tax valuation decreased from \$522,191,973 in 2002 to \$339,586,450 in 2014. The tax valuation showed a slight decrease to \$336,222,870 in 2015. Although House Bill 66 of the 126th General Assembly provided for the phase-out of tangible personal property taxes on general business, the law provided for school districts to be held harmless by the State for their local tax revenue losses. The hold-harmless period was to be

Cuyahoga Heights Local School District

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2016

Unaudited

followed by a period of phasing out the hold-harmless guarantee. House Bill 1 of the 128th General Assembly has postponed the starting of the phase-out period. House Bill 64 of the 131st General Assembly reinstated the phase-out of tangible personal property taxes with a hold-harmless in the first year of the budget only. As a result of a history of changing legislation, the School District is cautious to count on hold-harmless dollars as a future revenue source. The State's biennial budget bill has been the vehicle for legislative changes in the past. The School District, with the help of the State associations we support, will keep apprised of changes at the State level working with our legislators to retain the hold-harmless reimbursement.

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

Possibly the most critical piece of funding is the uncertainty of the replacement dollars for tangible personal property tax. Over \$3.0 million was received from the State of Ohio in fiscal year 2016 to offset the loss of tangible personal property tax. The new State budget reflects changes in our hold-harmless reimbursement. The reduction of this stream of revenue over time will be financially devastating. All scenarios require management to plan carefully and prudently to provide the resources to meet student needs over the next several years. The due diligence of the Board of Education, Administration, Treasurer, Superintendent, community and Finance Committee contributes to the financial success of the School District and prudent financial decisions for the School District.

Contacting the School District's Financial Management

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

Cuyahoga Heights Local School District

Statement of Net Position

June 30, 2016

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$11,207,171
Intergovernmental Receivable	144,450
Materials and Supplies Inventory	12,254
Inventory Held for Resale	3,163
Property Taxes Receivable	9,966,727
Payments in Lieu of Taxes Receivable	91,138
Non-depreciable Capital Assets	798,600
Depreciable Capital Assets, Net	4,951,058
<i>Total Assets</i>	<u>27,174,561</u>
Deferred Outflows of Resources	
Pension	<u>1,735,978</u>
Liabilities	
Accounts Payable	10,404
Contracts Payable	19,655
Accrued Wages and Benefits	1,073,099
Intergovernmental Payable	221,153
Accrued Interest Payable	1,628
Long-Term Liabilities:	
Due Within One Year	588,792
Due In More Than One Year:	
Net Pension Liability (See Note 21)	17,160,982
Other Amounts Due in More Than One Year	944,720
<i>Total Liabilities</i>	<u>20,020,433</u>
Deferred Inflows of Resources	
Property Taxes	7,209,846
Pension	<u>1,471,835</u>
<i>Total Deferred Inflows of Resources</i>	<u>8,681,681</u>
Net Position	
Net Investment in Capital Assets	5,103,125
Restricted for:	
Capital Projects	2,884,961
Music and Athletics	437,062
Other Purposes	137,203
Unrestricted (Deficit)	<u>(8,353,926)</u>
<i>Total Net Position</i>	<u>\$208,425</u>

See accompanying notes to the basic financial statements

Cuyahoga Heights Local School District

Statement of Activities

For the Fiscal Year Ended June 30, 2016

	Program Revenues			Net (Expense)
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Revenue and Changes in Net Position
			Capital Grants and Contributions	Governmental Activities
Governmental Activities				
Instruction:				
Regular	\$5,709,685	\$198,744	\$0	(\$5,510,941)
Special	1,563,498	51,825	180,801	(1,330,872)
Vocational	9,726	336	0	(9,390)
Support Services:				
Pupil	554,718	19,311	7,192	(528,215)
Instructional Staff	540,389	17,819	36,352	(486,218)
Board of Education	79,785	2,763	0	(77,022)
Administration	1,561,747	41,327	981	(1,305,914)
Fiscal	326,262	11,318	0	(314,944)
Business	46,655	1,458	0	(45,197)
Operation and Maintenance of Plant	1,463,804	46,980	0	(1,387,131)
Pupil Transportation	733,772	25,943	55,177	(652,652)
Central	440,894	5,823	5,400	(263,148)
Operation of Non-Instructional Services:				
Food Service Operations	309,303	163,527	67,558	(78,218)
Other Non-Instructional Services	38,570	1,143	0	(37,427)
Extracurricular Activities	794,581	201,205	3,003	(590,373)
Interest and Fiscal Charges	29,119	0	0	(29,119)
Totals	\$14,202,508	\$789,522	\$356,464	\$409,741
				(12,646,781)

General Revenues

Property Taxes Levied for General Purposes	9,853,542
Grants and Entitlements not Restricted to Specific Programs	4,337,197
Payment in Lieu of Taxes	360,980
Investment Earnings	24,251
Miscellaneous	82,356
Total General Revenues	14,658,326
Special Item - Settlement	942,950
Total General Revenues and Special Item	15,601,276
Change in Net Position	2,954,495
<i>Net Position Beginning of Year - Restated (See Note 3)</i>	<i>(2,746,070)</i>
Net Position End of Year	\$208,425

See accompanying notes to the basic financial statements

Cuyahoga Heights Local School District

Balance Sheet

Governmental Funds

June 30, 2016

	General	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$7,687,843	\$2,817,089	\$656,497	\$11,161,429
Intergovernmental Receivable	0	0	144,450	144,450
Materials and Supplies Inventory	11,493	0	761	12,254
Inventory Held for Resale	0	0	3,163	3,163
Interfund Receivable	299,989	0	0	299,989
Property Taxes Receivable	9,966,727	0	0	9,966,727
Payments in Lieu of Taxes Receivable	0	91,138	0	91,138
<i>Total Assets</i>	<u>\$17,966,052</u>	<u>\$2,908,227</u>	<u>\$804,871</u>	<u>\$21,679,150</u>
Liabilities				
Accounts Payable	\$9,905	\$0	\$499	\$10,404
Contracts Payable	19,655	0	0	19,655
Accrued Wages and Benefits	1,066,743	0	6,356	1,073,099
Intergovernmental Payable	217,787	0	3,366	221,153
Interfund Payable	0	23,266	276,723	299,989
<i>Total Liabilities</i>	<u>1,314,090</u>	<u>23,266</u>	<u>286,944</u>	<u>1,624,300</u>
Deferred Inflows of Resources				
Unavailable Revenue	523,154	91,138	82,023	696,315
Property Taxes	7,209,846	0	0	7,209,846
<i>Total Deferred Inflows of Resources</i>	<u>7,733,000</u>	<u>91,138</u>	<u>82,023</u>	<u>7,906,161</u>
Fund Balances				
Nonspendable	11,493	0	761	12,254
Restricted	0	2,793,823	514,127	3,307,950
Assigned	431,799	0	0	431,799
Unassigned (Deficit)	8,475,670	0	(78,984)	8,396,686
<i>Total Fund Balances</i>	<u>8,918,962</u>	<u>2,793,823</u>	<u>435,904</u>	<u>12,148,689</u>
<i>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</i>	<u>\$17,966,052</u>	<u>\$2,908,227</u>	<u>\$804,871</u>	<u>\$21,679,150</u>

See accompanying notes to the basic financial statements

Cuyahoga Heights Local School District
*Reconciliation of Total Governmental Fund Balances to
 Net Position of Governmental Activities
 June 30, 2016*

Total Governmental Fund Balances	\$12,148,689
 <i>Amounts reported for governmental activities in the statement of net position are different because:</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	5,749,658
Other long-term assets are not available to pay for current-period expenditures and therefore are reported as unavailable in the funds.	
Delinquent Property Taxes	523,154
Payment in Lieu of Taxes	91,138
Intergovernmental	82,023
Total	696,315
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.	45,742
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(1,628)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	
Capital Leases	(646,533)
Compensated Absences	(886,979)
Total	(1,533,512)
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds:	
Deferred Outflows - Pension	1,735,978
Net Pension Liability	(17,160,982)
Deferred Inflows - Pension	(1,471,835)
Total	(16,896,839)
 <i>Net Position of Governmental Activities</i>	 \$208,425

See accompanying notes to the basic financial statements

Cuyahoga Heights Local School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2016

	General	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Revenues				
Property Taxes	\$10,152,269	\$0	\$0	\$10,152,269
Payment in Lieu of Taxes	0	360,980	0	360,980
Intergovernmental	4,435,138	409,741	171,638	5,016,517
Interest	24,251	0	0	24,251
Tuition and Fees	445,200	0	0	445,200
Extracurricular Activities	8,809	0	37,588	46,397
Contributions and Donations	3,013	0	3,003	6,016
Charges for Services	669	0	163,527	164,196
Rentals	3,415	799	130,000	134,214
Miscellaneous	72,209	0	10,070	82,279
<i>Total Revenues</i>	<u>15,144,973</u>	<u>771,520</u>	<u>515,826</u>	<u>16,432,319</u>
Expenditures				
Current:				
Instruction:				
Regular	5,547,393	0	2,400	5,549,793
Special	1,454,986	0	62,869	1,517,855
Vocational	9,440	0	0	9,440
Support Services:				
Pupil	553,094	0	380	553,474
Instructional Staff	497,140	0	29,538	526,678
Board of Education	77,575	0	0	77,575
Administration	1,192,437	378,247	0	1,570,684
Fiscal	325,214	0	0	325,214
Business	40,939	0	0	40,939
Operation and Maintenance of Plant	1,320,733	52,600	0	1,373,333
Pupil Transportation	748,732	0	0	748,732
Central	162,528	294,988	0	457,516
Operation of Non-Instructional Services:				
Food Service Operations	0	0	301,942	301,942
Other Non-Instructional Services	31,871	0	5,335	37,206
Extracurricular Activities	558,730	0	101,597	660,327
Capital Outlay	0	416,143	0	416,143
Debt Service:				
Principal Retirement	29,079	125,946	817	155,842
Interest and Fiscal Charges	2,679	26,762	75	29,516
<i>Total Expenditures</i>	<u>12,552,570</u>	<u>1,294,686</u>	<u>504,953</u>	<u>14,352,209</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>2,592,403</u>	<u>(523,166)</u>	<u>10,873</u>	<u>2,080,110</u>
Other Financing Sources (Uses)				
Transfers In	0	429,728	67,000	496,728
Transfers Out	(496,728)	0	0	(496,728)
<i>Total Other Financing Sources (Uses)</i>	<u>(496,728)</u>	<u>429,728</u>	<u>67,000</u>	<u>0</u>
Special Item - Settlement	0	942,950	0	942,950
<i>Net Change in Fund Balances</i>	2,095,675	849,512	77,873	3,023,060
<i>Fund Balances Beginning of Year</i>	<u>6,823,287</u>	<u>1,944,311</u>	<u>358,031</u>	<u>9,125,629</u>
<i>Fund Balances End of Year</i>	<u>\$8,918,962</u>	<u>\$2,793,823</u>	<u>\$435,904</u>	<u>\$12,148,689</u>

See accompanying notes to the basic financial statements

Cuyahoga Heights Local School District
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2016*

Net Change in Fund Balances - Total Governmental Funds	\$3,023,060
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Amounts reported for governmental activities in the statement of activities are different because :

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

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

Capital Asset Additions	154,387
Current Year Depreciation	<u>(438,239)</u>

Total	(283,852)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Delinquent Property Taxes	(298,727)
Intergovernmental	80,869
Tuition and Fees	<u>(485)</u>

Total	(218,343)
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Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	155,842
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Some expenses reported in the statement of activities, such as accrued interest, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	397
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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.	29,911
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The internal service fund used by management to charge the costs of insurance to individual funds are not reported in the district-wide statements of activities. Governmental fund expenditures and related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.	77
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Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows.	1,019,025
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Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.	<u>(771,622)</u>
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<i>Change in Net Position of Governmental Activities</i>	<u><u>\$2,954,495</u></u>
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See accompanying notes to the basic financial statements

Cuyahoga Heights Local School District
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2016

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Property Taxes	\$9,825,581	\$9,993,853	\$9,938,708	(\$55,145)
Intergovernmental	4,402,417	4,444,694	4,430,839	(13,855)
Interest	24,012	24,367	24,251	(116)
Tuition and Fees	445,033	451,618	449,460	(2,158)
Charges for Services	662	672	669	(3)
Rentals	3,381	3,431	3,415	(16)
Miscellaneous	40,371	40,970	72,209	31,239
<i>Total Revenues</i>	14,741,457	14,959,605	14,919,551	(40,054)
Expenditures				
Current:				
Instruction:				
Regular	6,163,426	6,008,654	5,581,506	427,148
Special	1,646,118	1,596,925	1,568,772	28,153
Vocational	9,754	9,440	9,440	0
Support Services:				
Pupil	665,917	676,276	548,309	127,967
Instructional Staff	485,498	486,394	486,394	0
Board of Education	72,971	81,146	81,146	0
Administration	1,365,543	1,349,030	1,335,261	13,769
Fiscal	514,188	487,892	341,220	146,672
Business	45,053	53,380	35,872	17,508
Operation and Maintenance of Plant	1,563,839	1,624,065	1,419,368	204,697
Pupil Transportation	804,601	878,854	761,056	117,798
Central	161,597	169,261	161,208	8,053
Operation of Non-Instructional Services	57,487	57,283	38,587	18,696
Extracurricular Activities	650,624	635,112	572,418	62,694
Capital Outlay	0	144,188	53,794	90,394
<i>Total Expenditures</i>	14,206,616	14,257,900	12,994,351	1,263,549
<i>Excess of Revenues Over Expenditures</i>	534,841	701,705	1,925,200	1,223,495
Other Financing Sources (Uses)				
Advances In	0	0	40,054	40,054
Transfers Out	(110,000)	(110,000)	(496,728)	(386,728)
Advances Out	(50,000)	(50,000)	(260,000)	(210,000)
<i>Total Other Financing Sources (Uses)</i>	(160,000)	(160,000)	(716,674)	(556,674)
<i>Net Change in Fund Balance</i>	374,841	541,705	1,208,526	666,821
<i>Fund Balance Beginning of Year</i>	5,954,169	5,954,169	5,954,169	0
Prior Year Encumbrances Appropriated	69,143	69,143	69,143	0
<i>Fund Balance End of Year</i>	\$6,398,153	\$6,565,017	\$7,231,838	\$666,821

See accompanying notes to the basic financial statements

Cuyahoga Heights Local School District

Statement of Fund Net Position

Internal Service Fund

June 30, 2016

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

See accompanying notes to the basic financial statements

Cuyahoga Heights Local School District
*Statement of Revenues,
 Expenses and Changes in Fund Net Position
 Internal Service Fund
 For the Year Ended June 30, 2016*

	Employee Benefit Self Insurance
Operating Revenues	
Miscellaneous	\$77
Operating Expenses	0
<i>Change in Net Position</i>	77
<i>Net Position Beginning of Year</i>	45,665
<i>Net Position End of Year</i>	\$45,742

See accompanying notes to the basic financial statements

Cuyahoga Heights Local School District

Statement of Cash Flows

Internal Service Fund

For the Year Ended June 30, 2016

	<u>Employee Benefit Self Insurance</u>
<i>Increase in Cash and Cash Equivalents</i>	
Cash Flows from Operating Activities	
Cash Received from Other Sources	\$77
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>45,665</u>
<i>Cash and Cash Equivalents End of Year</i>	<u><u>\$45,742</u></u>

See accompanying notes to the basic financial statements

Cuyahoga Heights Local School District

Statement of Fiduciary Net Position

Fiduciary Funds

June 30, 2016

	<u>Private Purpose Trust</u>	
	<u>Scholarship</u>	<u>Agency</u>
Assets		
Equity in Pooled Cash and Cash Equivalents	<u>\$90,351</u>	<u>\$100,692</u>
Liabilities		
Due to Students	<u>0</u>	<u>\$100,692</u>
Net Position		
Held in Trust for Scholarships	<u>\$90,351</u>	

See accompanying notes to the basic financial statements

Cuyahoga Heights Local School District
Statement of Changes in Fiduciary Net Position
Private Purpose Trust Funds
For the Fiscal Year Ended June 30, 2016

	Scholarship
Additions	
Contributions and Donations	\$2,050
Miscellaneous	500
<i>Total Additions</i>	2,550
Deductions	
Scholarships Awarded	8,550
<i>Change in Net Position</i>	(6,000)
<i>Net Position Beginning of Year</i>	96,351
<i>Net Position End of Year</i>	\$90,351

See accompanying notes to the basic financial statements

Cuyahoga Heights Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 1 – Description of the School District

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

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

The School District ranks as the 106th smallest by enrollment among the 610 public school districts in the State. It currently operates one elementary school, one middle school and one comprehensive high school. The School District employs 68 certified (including administrative) and 56 non-certified full-time and part-time employees to provide services to approximately 849 students from pre-school (age 4) to grade 12 and various community groups.

Reporting Entity

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

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

The School District participates in three jointly governed organizations and two public entity risk pools, the Northeast Ohio Network for Educational Technology, Ohio Schools Council, the Cuyahoga Valley Career Center and the Ohio Association of School Business Officials Workers' Compensation Group Rating Program and the Suburban Health Consortium. These organizations are presented in Notes 18 and 19 to the basic financial statements.

Cuyahoga Heights Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

Note 2 – Summary of Significant Accounting Policies

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

Basis of Presentation

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

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

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

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

Fund Accounting

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

Cuyahoga Heights Local School District

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2016

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

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

Permanent Improvement Fund The permanent improvement fund is used to account for and report restricted payments in lieu of taxes and intergovernmental revenue to be used for various capital improvements within the School District.

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

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

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

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

Measurement Focus

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

Cuyahoga Heights Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

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

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

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

Basis of Accounting

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

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

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

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

Cuyahoga Heights Local School District

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2016

Deferred Outflows/Inflows of Resources In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School District, deferred outflows of resources are reported on the government-wide statement of net position for pension. The deferred outflows of resources related to pension are explained in Note 21.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the School District, deferred inflows of resources include property taxes and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2016, but which were levied to finance fiscal year 2017 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the School District unavailable revenue includes delinquent property taxes, payments in lieu of taxes and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. The details of these unavailable revenues are identified on the Reconciliation of the Total Governmental Fund Balances to Net Position of Governmental Activities found on page 15. Deferred inflows of resources related to pension are reported on the government-wide statement of net position (See Note 21).

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

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

Budgetary Data

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

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

Cuyahoga Heights Local School District

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2016

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

Cash and Cash Equivalents

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

During fiscal year 2016, investments were limited to a repurchase agreement and STAR Ohio. Repurchase agreements are reported at cost. STAR Ohio (the State Treasury Asset Reserve of Ohio), is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants." The School District measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For the fiscal year 2016, 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.

Following Ohio statutes, the Board of Education has, by resolution, identified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2016 amounted to \$24,251, which includes \$7,764 assigned from other School District funds.

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

Inventory

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

Capital Assets

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

Cuyahoga Heights Local School District

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2016

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

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

Description	Estimated Lives
Land Improvements	20 years
Buildings and Improvements	25 - 50 years
Furniture and Equipment	5 - 20 years
Vehicles	5 - 10 years

Interfund Balances

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

Compensated Absences

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

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

Operating Revenues and Expenses

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

Cuyahoga Heights Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements and all payables, accrued liabilities and long-term obligations payable from the proprietary fund are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, compensated absences 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 fiscal year.

Fund Balance

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

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

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

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

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

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

Cuyahoga Heights Local School District

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2016

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

Net Position

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

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

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.

Internal Activity

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

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

Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. In fiscal year 2016, the School District received \$942,950 in an ongoing fraud litigation. See Note 10.

Cuyahoga Heights Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Estimates

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

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

Changes in Accounting Principles

For fiscal year 2016, the School District implemented Governmental Accounting Standards Board (GASB) Statement No. 72, “Fair Value Measurement and Application,” GASB Statement No. 73 “Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68,” GASB Statement No. 76, “The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments,” GASB Statement No. 79, “Certain External Investment Pools and Pool Participants,” and GASB Statement No. 82, “Pension Issues an Amendment of GASB Statements No. 67, No. 68 and No. 73.”

GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurements. This Statement provides guidance for determining a fair value measurement for financial reporting purposes for applying fair value to certain investments and disclosures related to all fair value measurements. These changes were incorporated in the School District’s fiscal year 2016 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 73 establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68. The implementation of this GASB pronouncement did not result in any changes to the School District’s financial statements.

GASB Statement No. 76 identifies – in the context of the current governmental financial reporting environment – the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with generally accepted accounting principles (GAAP) and the framework for selecting those principles. The implementation of this GASB pronouncement did not result in any changes to the School District’s financial statements.

GASB Statement No. 79 establishes accounting and financial reporting standards for qualifying external investment pools that elect to measure for financial reporting purposes all of their investments at amortized cost. This Statement provides accounting and financial reporting guidance also establishes additional note disclosure requirements for governments that participate in those pools. The School Districts participates in STAR Ohio which implemented GASB Statement No. 79 for fiscal year 2016. The School District incorporated the corresponding GASB 79 guidance into their fiscal year 2016 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 82 improves consistency in the application of pension accounting. These changes were incorporated in the School District’s fiscal year 2016 financial statements; however, there was no effect on beginning net position/fund balance.

Cuyahoga Heights Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Restatement of Net Position

During fiscal year 2016, due to a reappraisal of the School District's capital assets, it was determined that depreciable capital assets were understated at June 30, 2015.

	Governmental Activities
Net Position June 30, 2015	(\$5,850,385)
Depreciable Capital Assets, Net	3,104,315
Restated Net Position June 30, 2015	(\$2,746,070)

Note 4 – Accountability

At June 30, 2016, the following funds had deficit fund balances:

Fund	Fund Balance
<i>Special Revenue Funds:</i>	
Food Service	\$16,186
Alternative Schools	882
Title I	28,113
Improving Teacher Quality	33,042

The deficits in the special revenue funds are due to adjustments for accrued liabilities. The general fund is liable for any deficit in these funds and provides transfers when cash is required, rather than when accruals occur.

Note 5 – Fund Balances

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

Fund Balances	General	Permanent Improvement	Other Governmental Funds	Total
<u>Nonspendable:</u>				
Inventory	\$11,493	\$0	\$761	\$12,254
<u>Restricted for:</u>				
Support Services	0	0	17,981	17,981
Music and Athletics	0	0	437,062	437,062
Data Communication	0	0	5,400	5,400
Student Instruction	0	0	53,684	53,684
Capital Improvements	0	2,793,823	0	2,793,823
<i>Total Restricted</i>	\$0	\$2,793,823	\$514,127	\$3,307,950

(continued)

Cuyahoga Heights Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Fund Balances	General	Permanent Improvement	Other Governmental Funds	Total
<i>Assigned to:</i>				
Support Services	\$45,266	\$0	\$0	\$45,266
<i>Purchases on Order:</i>				
Instruction	119,126	0	0	119,126
Support Services	211,055	0	0	211,055
Non-Instructional	2,376	0	0	2,376
Other	53,976	0	0	53,976
<i>Total Assigned</i>	<u>431,799</u>	<u>0</u>	<u>0</u>	<u>431,799</u>
Unassigned (Deficit)	8,475,670	0	(78,984)	8,396,686
Total Fund Balances	<u>\$8,918,962</u>	<u>\$2,793,823</u>	<u>\$435,904</u>	<u>\$12,148,689</u>

Note 6 – Budgetary Basis of Accounting

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

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

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

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

Cuyahoga Heights Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Net Change in Fund Balance

GAAP Basis	\$2,095,675
Net Adjustment for Revenue Accruals	(245,935)
Net Adjustment for Expenditure Accruals	(18,369)
Advances In	40,054
Advances Out	(260,000)
Perspective Difference:	
Public School Support	7,708
Adjustments for Encumbrances	(410,607)
Budget Basis	<u>\$1,208,526</u>

Note 7 – Deposits and Investments

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

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

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

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

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

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

Cuyahoga Heights Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (STAR Ohio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

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

Deposits

Custodial Credit Risk Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$854,643 of the School District's bank balance of \$1,104,643 was uninsured; however, it was collateralized with securities held by the pledging institution's trust department, not in the School District's name. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the School District to a successful claim by the FDIC.

The School District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Investments

As of June 30, 2016, the School District had \$9,226,213 invested in STAR Ohio, which had an average maturity of 48.6 days, and a repurchase agreement of \$1,245,000. STAR Ohio is measured at net asset value per share, while the repurchase agreement is reported at cost.

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

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

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

Note 8 – Property Taxes

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

Cuyahoga Heights Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

Property taxes include amounts levied against all real and public utility located in the School District. Real property tax revenue received in calendar year 2016 represents collections of calendar year 2015 taxes. Real property taxes received in calendar year 2016 were levied after April 1, 2015, on the assessed value listed as of January 1, 2015, the lien date. Assessed values for real property taxes are established by State statute at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in calendar year 2016 represent the collections of calendar year 2015 taxes. Public utility real taxes received in calendar year 2016 became a lien December 31, 2014, were levied after April 1, 2015 and are collected in calendar year 2016 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

The School District receives property taxes from Cuyahoga County. The County Fiscal Officer periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2016, are available to finance fiscal year 2016 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents the real property and public utility property taxes which were measurable as of June 30, 2016, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 were levied to finance current fiscal year operations and are reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred inflows of resources – property taxes.

The amount available as an advance at June 30, 2016, was \$2,233,727 in the general fund. The amount available as an advance at June 30, 2015, was \$2,020,166 in the general fund.

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

The assessed values upon which the fiscal year 2016 taxes were collected are:

	2015 Second Half Collections		2016 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$299,703,810	88.26 %	\$289,618,130	86.14 %
Public Utility	39,882,640	11.74	46,604,740	13.86
	<u>\$339,586,450</u>	<u>100.00 %</u>	<u>\$336,222,870</u>	<u>100.00 %</u>
Full Tax rate per \$1,000 of assessed valuation		\$35.70		\$35.70

Cuyahoga Heights Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 9 – Receivables

Receivables at June 30, 2016, consisted of taxes, revenues in lieu of taxes, interfund, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. All receivables, except delinquent property taxes, are expected to be collected within one year. Property taxes, although ultimately collectible, include some portion of delinquents that will not be collected in one year.

A summary of the principal items of intergovernmental receivable follows:

<u>Governmental Activities</u>	<u>Amount</u>
Student with Disabilities Grant	\$112,000
Title II-A Grant	21,003
Alternative Education Challenge Grant	<u>11,447</u>
Total Governmental Activities	<u><u>\$144,450</u></u>

Payments in Lieu of Taxes

According to State law, the School District has established several tax incremental financing districts within the School District under which the School District has granted property tax exemptions and agreed to construct certain infrastructure improvements. The property owners have agreed to make payments to the School District to help pay the costs of the infrastructure improvements. The amount of those payments generally reflects all or a portion of the property taxes which the property owners would have paid if the property had not been declared exempt. The property owners' contractual promise to make these payments in lieu of taxes generally continues until the costs of the improvement have been paid or the agreement expires, whichever occurs first. Future development by these owners or others may result in subsequent agreements to make payments in lieu of taxes and may therefore spread the costs of the improvements to a larger number of property owners.

Note 10 – Contingencies

Grants

The School District received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2016, if applicable, cannot be determined at this time.

School Foundation

School District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for fiscal year 2016, traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment

Cuyahoga Heights Local School District

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2016

information is updated by the School District, which can extend past the fiscal year-end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2016 Foundation funding for the School District; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or liability of the School District.

Litigation

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

Theft Loss

In a report dated October 8, 2012, Auditor of State Dave Yost's Office issued findings for recovery for public money totaling \$4.2 million in favor of the School District. According to the findings, former IT Director Joseph Palazzo authorized 436 payments, totaling \$3,844,155, to seven companies in which the District received no goods or services. Ten findings for recovery were issued against various vendors and individuals in this amount. An additional 179 transactions, totaling \$336,495, were found to be made for goods or services that cannot be located by the School District. A finding for recovery was issued against Palazzo in this amount, with additional individuals held jointly and severally liable for portions of the amount. Additionally, a review of bank records revealed payments totaling \$1,308,194 made directly to Palazzo from four of the seven vendors after they received their payments from the School District. Legal action is being taken against all parties involved in the above findings for recovery. The School District anticipates funds will be recovered, but is unable to determine the actual amount. The School District recovered \$942,950 in fiscal year 2016.

Note 11 – Risk Management

Workers' Compensation

For fiscal year 2016, the School District participated in the Ohio Association of School Business Officials Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 19). The intent of the GRP is to achieve the benefits of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate of the GRP rather than its individual rate. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of CompManagement, Incorporated provides administrative, cost control and actuarial services to the GRP.

Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2016, the School District contracted for the following insurance coverage:

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Notes to the Basic Financial Statements
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Company	Type of Coverage	Coverage Amount
Arenda Insurance	Treasurer's Bond	\$50,000
	Blanket Bond (per employee)	5,000
Todd Associates	Blanket Property	62,575,447
Liberty Mutual	Inland Marine	4,173,586
	General Liability:	
	Aggregate	2,000,000
	Limit	1,000,000
	Flood and Earthquake:	
	Flood Limit	1,000,000
	Earthquake Limit	1,000,000
	Employee Dishonesty	160,000
	Fleet, Combined Single Unit	1,000,000
	Uninsured Motorists	1,000,000
	Law Enforcement	1,000,000
	Umbrella	6,000,000
	Employee Benefits, Aggregate	3,000,000
	Employee Benefits Limit	1,000,000
	School Leaders Errors and Omissions:	
	Aggregate	1,000,000
	Limit	1,000,000
	Non-Monetary Relief	100,000
	Sexual Misconduct	1,000,000
Data Compromise:		
Response	50,000	
Defense	50,000	
Violent Event	300,000	

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

Employee Medical Benefits

The School District participates in the Suburban Health Consortium, a shared risk pool (Note 19) to provide group health, dental, vision, life and prescription insurance coverage. Rates are set or determined by the Board of Directors. The School District pays a monthly contribution which is placed in a reserve fund from which the claims payments are made for all participating districts.

Cuyahoga Heights Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 12 – Capital Assets

Capital asset activity for the fiscal year ended June 30, 2016, was as follows:

	Restated Balance 6/30/15	Additions	Deletions	Balance 6/30/16
<i>Capital Assets, not being depreciated:</i>				
Land	\$798,600	\$0	\$0	\$798,600
<i>Capital Assets, being depreciated:</i>				
Land Improvements	1,226,910	0	0	1,226,910
Buildings and Improvements	16,110,877	17,830	0	16,128,707
Furniture and Equipment	3,652,006	75,056	0	3,727,062
Vehicles	1,049,088	61,501	0	1,110,589
<i>Total Capital Assets, being depreciated</i>	<u>22,038,881</u>	<u>154,387</u>	<u>0</u>	<u>22,193,268</u>
Less Accumulated Depreciation:				
Land Improvements	(314,702)	(33,674)	0	(348,376)
Buildings and Improvements	(12,623,597)	(176,492)	0	(12,800,089)
Furniture and Equipment	(2,998,848)	(177,105)	0	(3,175,953)
Vehicles	(866,824)	(50,968)	0	(917,792)
<i>Total Accumulated Depreciation</i>	<u>(16,803,971)</u>	<u>(438,239) *</u>	<u>0</u>	<u>(17,242,210)</u>
<i>Total Capital Assets, being depreciated, net</i>	<u>5,234,910</u>	<u>(283,852)</u>	<u>0</u>	<u>4,951,058</u>
Governmental Activities Capital Assets, Net	<u>\$6,033,510</u>	<u>(\$283,852)</u>	<u>\$0</u>	<u>\$5,749,658</u>

* Depreciation expense was charged to governmental functions as follows:

	Amount
Instruction:	
Regular	\$149,179
Support Services:	
Pupil	397
Instructional Staff	180
Administration	2,548
Fiscal	751
Business	4,346
Operation and Maintenance of Plant	77,696
Pupil Transportation	51,235
Central	23,339
Non-Instructional Services	5,617
Extracurricular Activities	122,951
Total Depreciation Expense	<u><u>\$438,239</u></u>

Cuyahoga Heights Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 13 – Encumbrances

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

General	\$410,607
Permanent Improvement	297,891
Other Governmental Funds	<u>80,826</u>
Total	<u><u>\$789,324</u></u>

Note 14 – Interfund Transactions

Interfund Balances

As of June 30, 2016, the School District had the following interfund balances:

Interfund Payable	Interfund Receivable General Fund
Permanent Improvement	\$23,266
Food Service	50,000
Alternative Schools	12,000
Miscellaneous State Grants	111,000
Title I	29,000
Improving Teacher Quality	<u>74,723</u>
	<u><u>\$299,989</u></u>

The purpose of the interfund balances was to cover expenses in the funds pending the receipt of various revenues. All advances are payable to the general fund and are expected to be repaid in fiscal year 2017.

Interfund Transfers

During fiscal year 2016, the general fund transferred \$67,000 and \$429,728 to the food service special revenue and permanent improvement capital projects funds, respectively. These transfers were to move unrestricted balances to support programs and projects accounted for in other funds.

Cuyahoga Heights Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 15 – Employee Benefits

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

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

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

Note 16 – Long-Term Obligations

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

	Amount Outstanding 6/30/15	Additions	Reductions	Amount Outstanding 6/30/16	Amount Due in One Year
Long-Term Obligations:					
Capital Leases	\$802,375	\$0	(\$155,842)	\$646,533	\$161,930
Compensated Absences	916,890	323,163	(353,074)	886,979	426,862
Net Pension Liability:					
SERS	3,537,902	519,332	0	4,057,234	0
STRS	11,952,055	1,151,693	0	13,103,748	0
Total Long-Term Obligations	\$17,209,222	\$1,994,188	(\$508,916)	\$18,694,494	\$588,792

Compensated absences will be paid from the general fund and the food service special revenue fund. The School District pays obligations related to employee compensation from the fund benefitting from their service. See Note 21 for additional information related to the net pension liability.

The School District's overall debt margin was \$30,260,058 with an unvoted debt margin of \$336,223 at June 30, 2016.

Cuyahoga Heights Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 17 – Capital Leases

In previous years, the School District entered into capitalized lease obligations for the purchase of a new synthetic turf playing field, goal posts, various improvements to School District buildings, bus, phone system and printers. The leases meet the criteria for capital leases and have been recorded on the government-wide statements. The original amounts capitalized for the capital leases and their book values as of June 30, 2016 are as follows:

	Amounts
Assets:	
Buildings and Improvements	\$1,518,230
Equipments	150,896
Total Assets	1,669,126
Less: Accumulated Depreciation	(418,390)
Current Book Value	\$1,250,736

The following is a schedule of the future minimum leases payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2016.

	Amounts
2017	\$185,358
2018	179,916
2019	86,180
2020	86,180
2021	82,473
2022	89,887
Total Minimum Lease Payments	709,994
Less: Amount Representing Interest	(63,461)
Present Value of Minimum Lease Payments	\$646,533

Note 18 – Jointly Governed Organizations

Northeast Ohio Network for Educational Technology

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

Cuyahoga Heights Local School District

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2016

members of the governing board is the managerial body of the consortium and meets on a monthly basis. Payments to NEONET are made from the general fund. The School District paid \$59,223 in contributions to NEONET in fiscal year 2016. Financial information can be obtained by contacting the Treasurer at the Summit County Educational Service Center, who serves as the fiscal agent, at 700 Graham Road, Cuyahoga Falls, Ohio 44221.

Ohio Schools Council

The Ohio Schools Council (Council) is a jointly governed organization among 200 members. The jointly governed organization was created by school districts for the purpose of saving money through volume purchases. Each district supports the Council by paying an annual participation fee. Each school district member's superintendent serves as a representative of the Assembly. The Assembly elects five of the Council's Board members and the remaining four are representatives of the Greater Cleveland School Superintendents' Association. The Assembly exercises total control over the operations of the Ohio Schools Council including budgeting, appropriating, contracting and designating management. Each participant's degree of control is limited to its representation on the Assembly. The Council operates under a nine-member Board of Directors (the Board). The Board is the policy making authority of the Council. The Board meets monthly September to June. The Board appoints an Executive Director who is responsible for receiving and disbursing funds, investing available funds, preparing financial reports for the Board and Assembly and carrying out such other responsibilities as designated by the Board. In fiscal year 2016, the School District paid \$2,665 to the Council. Financial information can be obtained by contacting Dr. William Zelei, the Executive Director at the Ohio Schools Council at 6393 Oak Tree Boulevard, Independence, Ohio 44131.

The School District participates in the natural gas purchase program. This program allows the School District to purchase natural gas at reduced rates. Compass Energy has been selected as the supplier and program manager for the period from April 1, 2013 through March 31, 2016. There are currently 154 participants in the program, including the North Royalton City School District. The participants make monthly payments based on estimated usage. Each September, these estimated payments are compared to their actual usage for the year (July to June). Districts that paid more in estimated billings than their actual billings are issued credits on future billings beginning in September until the credits are exhausted and districts that did not pay enough on estimated billings are invoiced for the difference on the September monthly estimated billing.

The School District also participates in the Council's current electric purchase program. The Power 4 Schools Program provides a fixed price rate for electricity supplied by First Energy Solutions of \$0.0602 per kwh for the generation of electricity. There are currently 252 participants in the program including the School District. School districts are not charged a fee by OSC to participate in this program. School districts pay the utility (Ohio Edison, Toledo Edison or Cleveland Electric Illuminating Co.) directly and receive a discount for the fixed price of generation.

Cuyahoga Valley Career Center

The Cuyahoga Valley Career Center (a joint vocational school) is a district political subdivision of the State of Ohio operated under the direction of a Board, consisting of representatives appointed by each participating school district's elected board, which possess its own budgeting and taxing authority. The Board exercises total control over the operations of the Cuyahoga Valley Career Center including budgeting, appropriating, contracting and designating management. Each participant's degree of control is limited to its representation on the Board. Accordingly, the Cuyahoga Valley Career Center is not part of the School District and its operations are not included as part of the reporting entity. The School

Cuyahoga Heights Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

District made no contributions to the Cuyahoga Valley Career Center during fiscal year 2016. Financial information can be obtained by contacting the Treasurer at the Cuyahoga Valley Career Center, 8001 Brecksville Road, Brecksville, Ohio 44141.

Note 19 – Public Entity Risk Pools

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

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

Suburban Health Consortium

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

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

Cuyahoga Heights Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

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

Note 20 – Set-Asides

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

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

	<u>Capital Improvements</u>
Set-Aside Balance as of June 30, 2015	\$0
Current Year Set-Aside Requirement	140,453
Qualifying Disbursements	<u>(416,143)</u>
Totals	<u><u>(\$275,690)</u></u>
Set-Aside Balance Carried Forward to Future Fiscal Years	<u><u>\$0</u></u>
Set-Aside Balance as of June 30, 2016	<u><u>\$0</u></u>

Although the School District had qualifying disbursements during the fiscal year that reduced the capital acquisition set-aside amounts below zero, this amount will not be used to reduce the set-aside requirements in future years.

Cuyahoga Heights Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 21 – Defined Benefit Pension Plans

Net Pension Liability

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

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

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

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

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

Plan Description – School Employees Retirement System (SERS)

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

Cuyahoga Heights Local School District
Notes to the Basic Financial Statements
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Age and service requirements for retirement are as follows:

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

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

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, the allocation to pension, death benefits, and Medicare B was 14 percent. No allocation was made to the Health Care Fund.

The School District’s contractually required contribution to SERS was \$302,696 for fiscal year 2016. Of this amount \$12,780 is reported as an intergovernmental payable.

Plan Description – State Teachers Retirement System (STRS)

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

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

Cuyahoga Heights Local School District

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2016

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

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

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 11 percent of the 12 percent member rate goes to the DC Plan and 1 percent goes to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

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

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2016, plan members were required to contribute 13 percent of their annual covered salary. Effective July 1, 2016, the statutory maximum employee contribution rate was increased one percent to 14 percent. The School District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

The School District's contractually required contribution to STRS was \$716,329 for fiscal year 2016. Of this amount \$119,932 is reported as an intergovernmental payable.

Cuyahoga Heights Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

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

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School District's proportion of the net pension liability was based on the School District's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net Pension Liability			
Prior Measurement Date	0.06990600%	0.04913797%	
Proportion of the Net Pension Liability			
Current Measurement Date	<u>0.07110350%</u>	<u>0.04741366%</u>	
Change in Proportionate Share	<u>0.00119750%</u>	<u>-0.00172431%</u>	
Proportionate Share of the Net Pension Liability	\$4,057,234	\$13,103,748	\$17,160,982
Pension Expense	\$274,505	\$497,117	\$771,622

At June 30, 2016, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$65,329	\$597,366	\$662,695
Changes in proportionate Share and difference between School District contributions and proportionate share of contributions	54,258	0	54,258
School District contributions subsequent to the measurement date	<u>302,696</u>	<u>716,329</u>	<u>1,019,025</u>
Total Deferred Outflows of Resources	<u>\$422,283</u>	<u>\$1,313,695</u>	<u>\$1,735,978</u>
Deferred Inflows of Resources			
Net difference between projected and actual earnings on pension plan investments	\$134,429	\$942,407	\$1,076,836
Changes in Proportionate Share and Difference between School District contributions and proportionate share of contributions	<u>0</u>	<u>394,999</u>	<u>394,999</u>
Total Deferred Inflows of Resources	<u>\$134,429</u>	<u>\$1,337,406</u>	<u>\$1,471,835</u>

Cuyahoga Heights Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

\$1,019,025 reported as deferred outflows of resources related to pension resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2017	(\$31,483)	(\$311,420)	(\$342,903)
2018	(31,483)	(311,420)	(342,903)
2019	(31,792)	(311,420)	(343,212)
2020	<u>79,916</u>	<u>194,220</u>	<u>274,136</u>
Total	<u>(\$14,842)</u>	<u>(\$740,040)</u>	<u>(\$754,882)</u>

Actuarial Assumptions – SERS

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2015, are presented below:

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

Cuyahoga Heights Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

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

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

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating an arithmetic weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalanced uncorrelated asset classes.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	1.00 %	0.00 %
US Stocks	22.50	5.00
Non-US Stocks	22.50	5.50
Fixed Income	19.00	1.50
Private Equity	10.00	10.00
Real Assets	10.00	5.00
Multi-Asset Strategies	<u>15.00</u>	7.50
 Total	 <u><u>100.00 %</u></u>	

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

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$5,625,926	\$4,057,234	\$2,736,267

Cuyahoga Heights Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

Changes Between Measurement Date and Report Date – In April 2016, the SERS Board adopted certain assumption changes which impacted their annual actuarial valuation prepared as of June 30, 2016. The most significant change is a reduction in the discount rate from 7.75 percent to 7.5 percent. Although the exact amount of these changes is not known, the impact to the School District’s net pension liability is expected to be significant.

Actuarial Assumptions – STRS

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

Actuarial assumptions used in the June 30, 2015, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

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

Asset Class	Target Allocation	10 Year Expected Nominal Rate of Return *
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
 Total	 <u>100.00 %</u>	

* 10 year annualized geometric nominal returns include the real rate of return and inflation of 2.5 percent.

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2015. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan

Cuyahoga Heights Local School District

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2016

members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2015. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2015.

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$18,202,096	\$13,103,748	\$8,792,336

Note 22 – Postemployment Benefits

School Employees Retirement System

Health Care Plan Description - The School District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, no allocation of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-

Cuyahoga Heights Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

rated according to service credit earned. For fiscal year 2016, this amount was \$23,000. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2016, the School District's surcharge obligation was \$34,232.

The School District's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$34,232, \$57,544, and \$37,268, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

State Teachers Retirement System

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For the fiscal years ended June 30, 2016 and June 30, 2015, STRS Ohio did not allocate any employer contributions to post-employment health care. For the fiscal year ended June 30, 2014, one percent of covered payroll was allocated to post-employment health care. The School District's contributions for health care for the fiscal years ended June 30, 2016, 2015 and 2014 were \$0, \$0 and \$50,333, respectively. The full amount has been contributed for 2016, 2015 and 2014.

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

	2016	2015	2014
School District's Proportion of the Net Pension Liability	0.07110350%	0.06990600%	0.06990600%
School District's Proportionate Share of the Net Pension Liability	\$4,057,234	\$3,537,902	\$4,157,085
School District's Covered Payroll	\$2,158,061	\$2,040,084	\$2,125,137
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	188.00%	173.42%	195.61%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.16%	71.70%	65.52%

(1) Information prior to 2014 is not available.

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

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

	2016	2015	2014
School District's Proportion of the Net Pension Liability	0.04741366%	0.04913797%	0.04913797%
School District's Proportionate Share of the Net Pension Liability	\$13,103,748	\$11,952,055	\$14,237,210
School District's Covered Payroll	\$5,010,675	\$4,974,892	\$5,273,231
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	261.52%	240.25%	269.99%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.10%	74.70%	69.30%

(1) Information prior to 2014 is not available.

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

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

	2016	2015	2014	2013
Contractually Required Contribution	\$302,696	\$284,432	\$282,756	\$294,119
Contributions in Relation to the Contractually Required Contribution	(302,696)	(284,432)	(282,756)	(294,119)
Contribution Deficiency (Excess)	\$0	\$0	\$0	\$0
School District Covered Payroll	\$2,162,114	\$2,158,061	\$2,040,084	\$2,125,137
Contributions as a Percentage of Covered Payroll	14.00%	13.18%	13.86%	13.84%

2012	2011	2010	2009	2008	2007
\$318,754	\$311,065	\$326,004	\$235,361	\$223,053	\$235,526
(318,754)	(311,065)	(326,004)	(235,361)	(223,053)	(235,526)
\$0	\$0	\$0	\$0	\$0	\$0
\$2,369,921	\$2,474,666	\$2,407,707	\$2,391,881	\$2,271,419	\$2,205,300
13.45%	12.57%	13.54%	9.84%	9.82%	10.68%

Cuyahoga Heights Local School District

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$716,329	\$701,495	\$646,736	\$685,520
Contributions in Relation to the Contractually Required Contribution	<u>(716,329)</u>	<u>(701,495)</u>	<u>(646,736)</u>	<u>(685,520)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
School District Covered Payroll	\$5,116,636	\$5,010,675	\$4,974,892	\$5,273,231
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	13.00%	13.00%

2012	2011	2010	2009	2008	2007
\$763,828	\$775,999	\$800,368	\$774,581	\$755,064	\$747,089
(763,828)	(775,999)	(800,368)	(774,581)	(755,064)	(747,089)
\$0	\$0	\$0	\$0	\$0	\$0
\$5,875,600	\$5,969,223	\$6,156,677	\$5,958,315	\$5,808,185	\$5,746,838
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

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

Cuyahoga Heights Local School District
Cuyahoga County
4820 East 71st Street
Cuyahoga Heights, Ohio 44125

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Cuyahoga Heights Local School District, Cuyahoga County, (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated August 9, 2017.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a material weakness. We consider finding 2016-002 to be a material weakness.

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Phone: 216-787-3665 or 800-626-2297 Fax: 216-787-3361

www.ohioauditor.gov

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2016-001 and 2016-002.

District's Responses to Findings

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the District's responses and, accordingly, we express no opinion on them.

Purpose of this Report

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



Dave Yost
Auditor of State
Columbus, Ohio

August 9, 2017

**CUYAHOGA HEIGHTS LOCAL SCHOOL DISTRICT
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2016**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2016-001

Expenditures Plus Encumbrances in Excess of Appropriations – Noncompliance

Ohio Rev. Code § 5705.41(B) prohibits a subdivision or taxing unit from expending money unless it has been appropriated.

At June 30, 2016, expenditures plus encumbrances exceeded appropriations in the District's Permanent Improvement Fund by \$283,838. Failure to monitor budgetary expenditures and appropriations could result in unauthorized expenditures.

We recommend the District compare expenditures and encumbrances to appropriations in all funds which are legally required to be budgeted prior to making expenditure commitments, and make all necessary adjustments to the amounts appropriated to ensure compliance with the above requirements. This comparison, and amendment if necessary, should be completed on a monthly basis at a minimum.

Officials' Response: The Treasurer's office is aware that expenditures are not to exceed appropriations. If future expenditures exceed appropriations, an appropriations modification request will be presented to the Board of Education for approval.

FINDING NUMBER 2016-002

Accounting for Budgeted Revenues – Noncompliance and Material Weakness

Ohio Admin. Code § 117-2-02(A) provides that all local public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets (and liabilities, if generally accepted accounting principles apply), document compliance with finance-related legal and contractual requirements and prepare financial statements required by rule 117-2-03 of the Admin. Code.

Ohio Admin. Code § 117-2-02(C)(1) provides that all local public offices should integrate the budgetary accounts, at the legal level of control or lower, into the financial accounting system. This means designing an accounting system to provide ongoing and timely information on unrealized budgetary receipts and remaining uncommitted balances of appropriations.

The District failed to post budgeted revenues per the certificate of estimated resources to its accounting system. By not updating the accounting system, budgetary reports from the District's system are inaccurate and not reliable for the users making decisions based off the District's accounting records.

We recommend the District ensure its accounting system is continually updated with all budgetary data, in accordance with the above requirements.

Officials' Response: The budgeted revenues will be entered into the accounting system after approval by the Board and confirmation from the County for measurement purposes going forward.

**CUYAHOGA HEIGHTS LOCAL SCHOOL DISTRICT
CUYAHOGA COUNTY**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2016**

Finding Number	Finding Summary	Status	Additional Information
2015-001	Finding For Recovery – Excess Vacation Leave Usage and Payment	Finding no Longer Valid	Additional flex time was used in the current period that resulted in the same issue. However, the prior audit finding for recovery was not pursued by the Attorney General or County Prosecutor, so the finding will not be reissued.
2015-002	Capital Asset Management and Reporting	Fully Corrected	None
2015-003	Schedule of Prior Audit Findings	Fully Corrected	None
2015-004	Financial Reporting	Fully Corrected	None



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CUYAHOGA HEIGHTS LOCAL SCHOOL DISTRICT

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
AUGUST 24, 2017