



Dave Yost • Auditor of State



**WARRENSVILLE HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

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WARRENSVILLE HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

Warrensville Heights City School District  
Cuyahoga County  
4500 Warrensville Center Road  
Warrensville Heights, Ohio 44128

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 Warrensville Heights City School District, Cuyahoga County, Ohio (the District), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

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

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

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

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Warrensville Heights City School District, Cuyahoga County, Ohio, as of June 30, 2017, and the respective changes in financial position 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.

*Supplementary and Other Information*

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

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2018, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

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

March 27, 2018

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## Warrensville Heights City School District

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2017*

*Unaudited*

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The discussion and analysis of the Warrensville Heights City School District's (the School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2017. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the School District's financial performance.

### **Financial Highlights**

Key financial highlights for fiscal year 2017 are as follows:

- ❑ Capital assets decreased from fiscal year 2016 due to annual depreciation exceeding current year additions. Capital asset additions included three steamers and a new school bus in fiscal year 2017.
- ❑ Expenses increased from the prior fiscal year mainly due to an increase in the pension expenses related to the net pension liability. General revenues decreased from fiscal year 2016 due to fewer property tax revenues collected in fiscal year 2017. This decrease is a result of the decrease in assessed property tax values from fiscal year 2016.
- ❑ Cash and cash equivalents increased in fiscal year 2017 mainly due to cash revenues continuing to exceed cash expenditures.
- ❑ Total liabilities increased from fiscal year 2016 due to an increase in the net pension liability, which was partially offset by annual debt payments.

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

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

The *Statement of Net Position* and *Statement of Activities* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term and what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other non-major funds presented in total in one column. In the case of Warrensville Heights City School District, the general fund and the bond retirement debt service fund are considered to be major funds.

## Warrensville Heights City School District

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2017*

*Unaudited*

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### Reporting the School District as a Whole

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

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

These two statements report the School District's net position and changes in the net position. This change in net position is important because it tells the reader that, for the School District as a whole, the *financial position* of the School District has improved or diminished. The causes of this change may be the result of many financial or non-financial factors. Non-financial factors include the School District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the *Statement of Net Position* and the *Statement of Activities*, all of the School District's activities are classified as governmental. The School District's programs and services reported here include instruction, support services, operation of non-instructional services, extracurricular activities and interest and fiscal charges.

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

#### *Fund Financial Statements*

The analysis of the School District's major funds begins on page 13. 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 upon the School District's most significant funds. The School District's major governmental funds are the general fund and the bond retirement debt service fund.

**Governmental Funds** Most of the School District's activities are reported in governmental funds, which focus on how cash flows into and out of those funds and the balances remaining 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 the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the *Statement of Net Position* and the *Statement of Activities*) and governmental *funds* is reconciled in the financial statements.

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

# Warrensville Heights City School District

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2017

Unaudited

## The School District as a Whole

You may 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 current fiscal year compared to the prior fiscal year:

(Table 1)  
Net Position  
Governmental Activities

	2017	2016	Change
<b>Assets</b>			
Current and Other Assets	\$54,841,376	\$51,239,854	\$3,601,522
Capital Assets	15,025,086	16,001,549	(976,463)
<i>Total Assets</i>	<u>69,866,462</u>	<u>67,241,403</u>	<u>2,625,059</u>
<b>Deferred Outflows of Resources</b>			
Deferred Charges on Refunding	128,144	211,550	(83,406)
Pension	7,956,582	3,609,854	4,346,728
<i>Total Deferred Outflows of Resources</i>	<u>8,084,726</u>	<u>3,821,404</u>	<u>4,263,322</u>
<b>Liabilities</b>			
Current Liabilities	2,564,733	2,583,998	19,265
Long-Term Liabilities:			
Due Within One Year	1,716,795	1,289,910	(426,885)
Due in More Than One Year:			
Net Pension Liability	43,094,464	36,170,607	(6,923,857)
Other Amounts	12,715,514	14,644,186	1,928,672
<i>Total Liabilities</i>	<u>60,091,506</u>	<u>54,688,701</u>	<u>(5,402,805)</u>
<b>Deferred Inflows of Resources</b>			
Property Taxes	16,640,105	13,934,925	(2,705,180)
Payments in Lieu of Taxes	2,289,462	1,805,233	(484,229)
Pension	2,051,329	3,689,741	1,638,412
<i>Total Deferred Inflows of Resources</i>	<u>20,980,896</u>	<u>19,429,899</u>	<u>(1,550,997)</u>
<b>Net Position</b>			
Net Investment in Capital Assets	1,478,230	2,270,348	(792,118)
Restricted for:			
Capital Projects	545,773	699,322	(153,549)
Debt Service	4,583,976	4,664,250	(80,274)
Other Purposes	1,592,367	1,879,062	(286,695)
Unrestricted (Deficit)	(11,321,560)	(12,568,775)	1,247,215
<i>Total Net Position</i>	<u>(\$3,121,214)</u>	<u>(\$3,055,793)</u>	<u>(\$65,421)</u>

## Warrensville Heights City School District

### *Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2017*

*Unaudited*

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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 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.

**Warrensville Heights City School District**

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2017*

*Unaudited*

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 School District continues to provide the services that the School District citizens expect while maintaining the costs of providing those services during the current economic recession. The most dramatic changes were to cash and cash equivalents, to deferred outflows of resources and to long-term liabilities. Cash and cash equivalents increased from fiscal year 2016 mainly due to cash revenues continuing to exceed cash expenditures during fiscal year 2017. The increase in the deferred outflows of resources related to pension largely offset the increase in the net pension liability. Long-term liabilities increased due to the increase in the net pension liability, which was offset by the paying down of debt.

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 fiscal years 2017 and 2016.

(Table 2)  
Changes in Net Position  
Governmental Activities

	2017	2016	Change
<i>Program Revenues</i>			
Charges for Services	\$541,130	\$281,095	\$260,035
Operating Grants and Contributions	4,312,026	4,340,274	(28,248)
Capital Grants and Contributions	104,368	87,205	17,163
<b>Total Program Revenues</b>	<b>4,957,524</b>	<b>4,708,574</b>	<b>248,950</b>
<i>General Revenues</i>			
Property Taxes	16,429,992	17,996,633	(1,566,641)
Grants and Entitlements	12,541,934	13,681,409	(1,139,475)
Unrestricted Contributions	1,969	6,746	(4,777)
Investment Earnings	129,691	9,177	120,514
Payment in Lieu of Taxes	2,430,735	1,960,641	470,094
Miscellaneous	213,196	112,089	101,107
<b>Total General Revenues</b>	<b>31,747,517</b>	<b>33,766,695</b>	<b>(2,019,178)</b>
<b>Total Revenues</b>	<b>36,705,041</b>	<b>38,475,269</b>	<b>(1,770,228)</b>
<i>Program Expenses</i>			
Instruction	20,614,862	19,980,398	(634,464)
Support Services			
Pupil	1,339,809	957,525	(382,284)
Instructional Staff	938,122	828,531	(109,591)
Board of Education	97,352	103,946	6,594
Administration	3,487,612	2,458,310	(1,029,302)
Fiscal	1,303,743	1,271,203	(32,540)

*(continued)*

**Warrensville Heights City School District**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2017  
Unaudited*

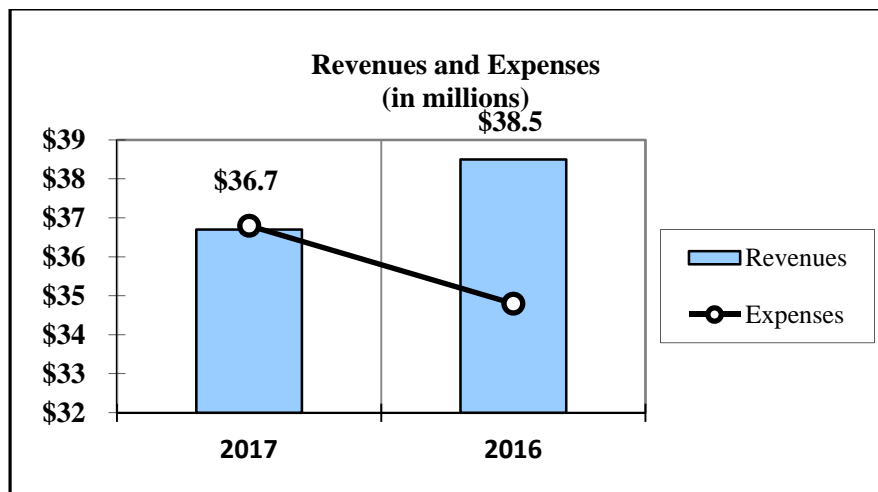
(Table 2)  
Changes in Net Position (continued)  
Governmental Activities

	2017	2016	Change
<i>Program Expenses (Continued)</i>			
Support Services			
Business	\$1,102,465	\$1,039,456	(\$63,009)
Operation and Maintenance of Plant	4,213,438	4,421,605	208,167
Pupil Transportation	1,451,612	1,401,468	(50,144)
Central	145,021	251,731	106,710
Operation of Non-Instructional Services:			
Food Service Operations	870,752	738,419	(132,333)
Other Non-Instructional Services	176,955	160,370	(16,585)
Extracurricular Activities	360,243	286,746	(73,497)
Interest and Fiscal Charges	668,476	943,913	275,437
<b>Total Program Expenses</b>	<b>36,770,462</b>	<b>34,843,621</b>	<b>(1,926,841)</b>
Increase (Decrease) in Net Position	(65,421)	3,631,648	(3,697,069)
<i>Net Position Beginning of Year</i>	<i>(3,055,793)</i>	<i>(6,687,441)</i>	<i>3,631,648</i>
<i>Net Position End of Year</i>	<i>(\$3,121,214)</i>	<i>(\$3,055,793)</i>	<i>(\$65,421)</i>

**Governmental Activities**

**Graph 1**  
Revenues and Expenses  
(In Millions)

	2017	2016
Revenues	\$36.7	\$38.5
Expenses	36.8	34.8



## Warrensville Heights City School District

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2017*

*Unaudited*

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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 \$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 District's dependence upon property taxes is hampered by a lack of revenue growth so it must regularly return to the voters to maintain a constant level of service. Property taxes and grants and entitlements made up the majority of revenues for governmental activities for Warrensville Heights City School District in fiscal year 2017.

The School District actively pursues grants and controls expenses while still maintaining the high academic standards the residents expect of the School District.

Instruction expenses make up more than half of the governmental program expenses. Building operations, administration, pupil support, staff support, food service, extracurricular activities and interest and fiscal charges make up the remainder of the governmental program expenses. The Board believes that the main focus of the School District should be to provide the best instruction to its pupils as possible. Therefore, a majority of the expenses of the School District are in the area of instruction, which increased from fiscal year 2016, mainly due to an increase in the pension expense related to the net pension liability.

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

**Warrensville Heights City School District**

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2017*

*Unaudited*

(Table 3)

Total and Net Cost of Program Services  
Governmental Activities

	Total Cost of Services 2017	Net Cost of Services 2017	Total Cost of Services 2016	Net Cost of Services 2016
Instruction	\$20,614,862	\$17,499,821	\$19,980,398	\$17,127,527
Support Services:				
Pupil and Instructional Staff	2,277,931	1,739,171	1,786,056	1,179,734
Board of Education and Administration	3,584,964	3,520,293	2,562,256	2,530,779
Fiscal and Business	2,406,208	2,406,208	2,310,659	2,310,659
Operation and Maintenance of Plant	4,213,438	4,045,948	4,421,605	4,269,514
Pupil Transportation	1,451,612	1,353,418	1,401,468	1,285,347
Central	145,021	137,821	251,731	244,531
Operation of Food Service	870,752	15,886	738,419	(74,141)
Operation of Non-Instructional Services	176,955	127,133	160,370	101,394
Extracurricular Activities	360,243	298,763	286,746	215,790
Interest and Fiscal Charges	668,476	668,476	943,913	943,913
<i>Total Expenses</i>	<u>\$36,770,462</u>	<u>\$31,812,938</u>	<u>\$34,843,621</u>	<u>\$30,135,047</u>

Instruction expenses include activities directly dealing with the teaching of pupils and the interaction between teacher and pupil. Pupils and instructional staff include the activities involved with assisting staff with the content and process of teaching students.

Board of education, administration, fiscal and business includes expenses associated with administrative and financial supervision of the School District.

Operation and maintenance of plant activities involve keeping the School District grounds, buildings, and equipment in an effective working condition.

Pupil transportation includes activities involved with the conveyance of students to and from school, as well as to and from school activities, as provided by State law.

Central includes expenses related to planning, research, development and evaluation of support services, as well as the reporting of this information internally and to the public.

Operation of food service includes the preparation, delivery, and servicing of lunches, snacks and other incidental meals to students and school staff in connection with school activities.

Extracurricular activities include expenses related to student activities provided by the School District which are designed to provide opportunities for pupils to participate in school events, public events, or a combination of these for the purposes of motivation, enjoyment and skill improvement.

Interest and fiscal charges involves the transactions associated with the payment of interest and other related charges to debt of the School District.



**Warrensville Heights City School District**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2017  
Unaudited*

The dependence upon general revenues for governmental activities is apparent as local property tax and grants and entitlements account for the majority of the total revenues in fiscal year 2017.

**The School District's Funds**

Information regarding the School District's major funds starts with the balance sheet. These funds are accounted for using the modified accrual basis of accounting. For fiscal year 2017, the School District had two major funds, the general fund and the bond retirement debt service fund. In the general fund, revenues continued to exceed expenditures during fiscal year 2017, resulting in an increase in fund balance. The bond retirement fund's decrease in revenues was coupled with a slight increase in expenditures from the prior fiscal year. Expenditures exceeded revenues during fiscal year 2017, resulting in a decrease in fund balance in the bond retirement fund.

**General Fund Budgeting Highlights**

Information about the School District's budget is prepared in accordance with Ohio Law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the main operating fund of the School District, the general fund. The School District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

During the course of fiscal year 2017, the School District amended its general fund budget several times by the end of the fiscal year. For the general fund, the final budget basis revenue was \$33,208,558, an increase of \$2,393,527 from the original budget. Actual revenue came in higher than the final budget basis revenue mainly because of an increase in interest revenue as the School District's investments earned a greater return than what was expected. Actual expenditures were less than final appropriations due mainly to the diligence of management to keep costs low while still providing the services the School District citizens expect.

**Capital Assets**

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

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

	2017	2016	Change
Land	\$414,153	\$414,153	\$0
Land Improvements	54,546	66,669	(12,123)
Buildings and Improvements	14,067,508	14,612,634	(545,126)
Furniture and Fixtures	242,554	637,816	(395,262)
Vehicles	246,325	270,277	(23,952)
Total	<u>\$15,025,086</u>	<u>\$16,001,549</u>	<u>(\$976,463)</u>

## Warrensville Heights City School District

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2017

Unaudited

Capital assets decreased from fiscal year 2016. This decrease was due to an additional year of depreciation exceeding current year additions. Current year additions included three steamers and a new school bus. See Note 10 to the basic financial statements for additional information on the School District's capital assets.

### Long-Term Obligations

Table 5 summarizes the long-term obligations outstanding:

(Table 5)  
Outstanding Long-Term Obligations at June 30  
Governmental Activities

	2017	2016	Change
2007 School Improvement Refunding Bonds	\$0	\$1,242,587	(1,242,587)
2015 School Improvement Refunding Bonds	13,675,000	13,750,000	(75,000)
Net Pension Liability	43,094,464	36,170,607	6,923,857
Compensated Absences	757,309	941,509	(184,200)
<i>Totals</i>	<u>\$57,526,773</u>	<u>\$52,104,703</u>	<u>\$5,422,070</u>

The School District's overall legal debt margin decreased to \$19 million. This is the additional amount of debt the School District could issue. The debt margin decreased from fiscal year 2016 mainly due to a decrease in the assessed property values of the School District. Additional information concerning debt issuances can be found in Note 17 to the basic financial statements.

### Current Financial Related Activities

The Warrensville Heights City School District is financially sound for the current and next four years in regards to the five year forecast and projections of the general fund of the School District. The School District completed seven years of cash basis current year expenditures within current year resources in fiscal year 2017. In other words, School District spending has been less than current revenue resources for the last eight fiscal years on the cash basis. The Board of Education, administration, staff and community are committed to the financial condition of the School District. The School District has to strike a balance of providing the best services to the School District community, while also being fiscally responsible.

The financial horizon for the School District is favorable with substantial economic development in projects that were initiated near the end of the fiscal year. Although two major projects are tax abated, the unabated additions to tax valuation are substantial at \$22 million in new assessed valuation for the School District. The School District also negotiated revenue sharing agreements through effective partnerships with the local governments.

## **Warrensville Heights City School District**

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2017*

*Unaudited*

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The School District continues to maximize the carryover balance of the general fund through prudent investment of funds and long term planning to address deficit spending. Deficit spending can drastically exhaust the carryover balance along with other issues such as real estate tax delinquencies, economic downturns and increases in the cost of operations. While the School District is currently experiencing favorable increases in resources as noted above, the tangible personal property tax reimbursement will be exhausted by fiscal year 2021 along with reimbursements for utility tax reimbursement by fiscal year 2022. Personnel and benefits costs continue to be the major expenditures for the School District along with purchased services. The majority of purchased services are direct reductions in State funding for community schools, the Ed Choice Scholarship Program and open enrollment. Enrollment is increasing as students return to the School District from community schools and other non-public schools creating an increase in State funding and a decrease in purchased services for community schools.

Public education in Ohio continues to be a partnership of local tax funding and State funding. Ohio public school districts must plan accordingly for a long-term financial plan that is transparent to the School District community. The Ohio Department of Education recently reported that Warrensville Heights City School District has substantial and effective partnerships with local governments, businesses and stakeholders of the community. School District leadership is committed to the fiscal discipline necessary to provide the best programs within the resources of the School District; which is documented in the semi-annual five year forecast in October and May of each fiscal year. The School District is embarking on a Master Facility Plan that will provide for new facilities in the School District in the near future.

### **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 funds it receives. If you have any questions about this report or need additional financial information, please contact Michael A. Rock, Treasurer, at the Warrensville Heights City School District, 4500 Warrensville Center Road, Warrensville Heights, Ohio 44128, or [mike.rock@whcsd.org](mailto:mike.rock@whcsd.org).

**Warrensville Heights City School District**

*Statement of Net Position*

*June 30, 2017*

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$30,061,153
Accounts Receivable	24,886
Intergovernmental Receivable	1,549,410
Prepaid Items	88,947
Revenue in Lieu of Taxes Receivable	2,289,462
Taxes Receivable	20,827,518
Nondepreciable Capital Assets	414,153
Depreciable Capital Assets, Net	<u>14,610,933</u>
<i>Total Assets</i>	<u>69,866,462</u>
<b>Deferred Outflows of Resources</b>	
Deferred Charge on Refunding	128,144
Pension	<u>7,956,582</u>
<i>Total Deferred Outflows of Resources</i>	<u>8,084,726</u>
<b>Liabilities</b>	
Accounts Payable	251,206
Contracts Payable	89,989
Accrued Wages and Benefits	1,423,005
Intergovernmental Payable	704,002
Accrued Interest Payable	28,490
Matured Compensated Absences Payable	44,041
Special Termination Benefits Payable	24,000
Long-Term Liabilities:	
Due Within One Year	1,716,795
Due in More Than One Year:	
Net Pension Liability (See Note 11)	43,094,464
Other Amounts	<u>12,715,514</u>
<i>Total Liabilities</i>	<u>60,091,506</u>
<b>Deferred Inflows of Resources</b>	
Property Taxes	16,640,105
Payments in Lieu of Taxes	2,289,462
Pension	<u>2,051,329</u>
<i>Total Deferred Inflows of Resources</i>	<u>20,980,896</u>
<b>Net Position</b>	
Net Investment in Capital Assets	1,478,230
Restricted for:	
Capital Projects	545,773
Debt Service	4,583,976
Other Purposes	1,592,367
Unrestricted (Deficit)	<u>(11,321,560)</u>
<i>Total Net Position</i>	<u><u>(\$3,121,214)</u></u>

See accompanying notes to the basic financial statements

**Warrensville Heights City School District**

*Statement of Activities*

*For the Fiscal Year Ended June 30, 2017*

	Program Revenues			Governmental Activities	Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions		
<b>Governmental Activities</b>					
Instruction:					
Regular	\$16,259,450	\$297,508	\$1,164,671	\$0	(\$14,797,271)
Special	4,200,531	78,458	1,514,346	0	(2,607,727)
Vocational	154,881	3,078	56,980	0	(94,823)
Support Services:					
Pupil	1,339,809	0	26,576	0	(1,313,233)
Instructional Staff	938,122	0	512,184	0	(425,938)
Board of Education	97,352	0	0	0	(97,352)
Administration	3,487,612	0	64,671	0	(3,422,941)
Fiscal	1,303,743	0	0	0	(1,303,743)
Business	1,102,465	0	0	0	(1,102,465)
Operation and Maintenance of Plant	4,213,438	62,802	320	104,368	(4,045,948)
Pupil Transportation	1,451,612	0	98,194	0	(1,353,418)
Central	145,021	0	7,200	0	(137,821)
Operation of Non-Instructional Services:					
Food Service Operations	870,752	38,254	816,612	0	(15,886)
Other Non-Instructional Services	176,955	0	49,822	0	(127,133)
Extracurricular Activities	360,243	61,030	450	0	(298,763)
Interest and Fiscal Charges	668,476	0	0	0	(668,476)
<b>Total Governmental Activities</b>	<b>\$36,770,462</b>	<b>\$541,130</b>	<b>\$4,312,026</b>	<b>\$104,368</b>	<b>(31,812,938)</b>
<b>General Revenues</b>					
Property Taxes Levied for:					
General Purposes					14,409,239
Debt Service					1,683,990
Capital Projects					336,763
Grants and Entitlements not Restricted to Specific Programs					12,541,934
Unrestricted Contributions					1,969
Investment Earnings					129,691
Payments in Lieu of Taxes					2,430,735
Miscellaneous					213,196
<b>Total General Revenues</b>					<b>31,747,517</b>
Change in Net Position					(65,421)
<i>Net Position Beginning of Year (Restated - See Note 22)</i>					<u>(3,055,793)</u>
<i>Net Position End of Year</i>					<u><u>(\$3,121,214)</u></u>

See accompanying notes to the basic financial statements

**Warrensville Heights City School District**

*Balance Sheet  
Governmental Funds  
June 30, 2017*

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$23,595,150	\$4,159,103	\$2,306,900	\$30,061,153
Accounts Receivable	24,886	0	0	24,886
Intergovernmental Receivable	238,156	0	1,311,254	1,549,410
Prepaid items	80,669	0	8,278	88,947
Interfund Receivable	1,213,569	0	0	1,213,569
Revenue in Lieu of Taxes Receivable	2,289,462	0	0	2,289,462
Property Taxes Receivable	18,123,633	2,187,800	516,085	20,827,518
<i>Total Assets</i>	<u>\$45,565,525</u>	<u>\$6,346,903</u>	<u>\$4,142,517</u>	<u>\$56,054,945</u>
<b>Liabilities</b>				
Accounts Payable	\$121,879	\$0	\$129,327	\$251,206
Contracts Payable	89,989	0	0	89,989
Accrued Wages and Benefits	1,266,648	0	156,357	1,423,005
Intergovernmental Payable	651,737	0	52,265	704,002
Interfund Payable	0	0	1,213,569	1,213,569
Matured Compensated Absences Payable	44,041	0	0	44,041
<i>Total Liabilities</i>	<u>2,174,294</u>	<u>0</u>	<u>1,551,518</u>	<u>3,725,812</u>
<b>Deferred Inflows of Resources</b>				
Property Taxes	14,501,693	1,734,437	403,975	16,640,105
Payments in Lieu of Taxes	2,289,462	0	0	2,289,462
Unavailable Revenue	1,487,422	175,209	1,256,141	2,918,772
<i>Total Deferred Inflows of Resources</i>	<u>18,278,577</u>	<u>1,909,646</u>	<u>1,660,116</u>	<u>21,848,339</u>
<b>Fund Balances</b>				
Nonspendable	80,669	0	8,278	88,947
Restricted	8,770	4,437,257	1,451,474	5,897,501
Committed	495,866	0	0	495,866
Assigned	540,959	0	0	540,959
Unassigned (Deficit)	23,986,390	0	(528,869)	23,457,521
<i>Total Fund Balances</i>	<u>25,112,654</u>	<u>4,437,257</u>	<u>930,883</u>	<u>30,480,794</u>
<i>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</i>	<u>\$45,565,525</u>	<u>\$6,346,903</u>	<u>\$4,142,517</u>	<u>\$56,054,945</u>

See accompanying notes to the basic financial statements

**Warrensville Heights City School District**  
*Reconciliation of Total Governmental Fund Balances to*  
*Net Position of Governmental Activities*  
*June 30, 2017*

<b>Total Governmental Fund Balances</b>	<b>\$30,480,794</b>
 <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.	15,025,086
Other long-term assets are not available to pay for current-period expenditures and therefore are reported as unavailable revenue in the funds:	
Delinquent Property Taxes	1,697,267
Grants	1,213,570
Tuition and Fees	7,935
Total	2,918,772
In the statement of activities, interest is accrued on outstanding loans, whereas in governmental fund, an interest expenditure is reported when due.	(28,490)
Special termination benefits payable is not expected to be paid with expendable available resources and therefore is not reported in the funds.	(24,000)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
General Obligation Bonds	(13,675,000)
Compensated Absences	(757,309)
Deferred Charge on Refunding	128,144
Total	(14,304,165)
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	7,956,582
Deferred Inflows	(2,051,329)
Net Pension Liability	(43,094,464)
Total	(37,189,211)
<i>Net Position of Governmental Activities</i>	<b>(\$3,121,214)</b>

See accompanying notes to the basic financial statements

**Warrensville Heights City School District**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2017*

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Taxes	\$15,001,992	\$1,758,785	\$354,510	\$17,115,287
Intergovernmental	13,579,494	138,393	3,445,817	17,163,704
Interest	129,691	0	0	129,691
Tuition and Fees	371,109	0	0	371,109
Extracurricular Activities	718	0	60,312	61,030
Contributions and Donations	1,969	0	450	2,419
Charges for Services	0	0	38,254	38,254
Rentals	62,802	0	0	62,802
Payments in Lieu of Taxes	2,430,735	0	0	2,430,735
Miscellaneous	141,029	0	72,167	213,196
<i>Total Revenues</i>	<u>31,719,539</u>	<u>1,897,178</u>	<u>3,971,510</u>	<u>37,588,227</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	14,066,760	0	1,330,328	15,397,088
Special	3,704,002	0	393,845	4,097,847
Vocational	144,128	0	3,635	147,763
Support Services:				
Pupil	1,290,994	0	28,512	1,319,506
Instructional Staff	295,783	0	579,444	875,227
Board of Education	94,802	0	0	94,802
Administration	3,201,580	0	60,045	3,261,625
Fiscal	1,240,755	0	0	1,240,755
Business	1,029,873	0	3,000	1,032,873
Operation and Maintenance of Plant	3,505,538	0	436,355	3,941,893
Pupil Transportation	1,297,406	0	16,392	1,313,798
Central	148,120	0	0	148,120
Operation of Non-Instructional Services:				
Food Service Operations	0	0	830,441	830,441
Other Non-Instructional Services	21,383	0	143,513	164,896
Extracurricular Activities	74,262	0	266,912	341,174
Capital Outlay	0	0	139,198	139,198
Debt Service:				
Principal Retirement	0	185,558	0	185,558
Interest and Fiscal Charges	0	342,813	0	342,813
Capital Appreciation Bond Accretion	0	1,374,442	0	1,374,442
<i>Total Expenditures</i>	<u>30,115,386</u>	<u>1,902,813</u>	<u>4,231,620</u>	<u>36,249,819</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>1,604,153</u>	<u>(5,635)</u>	<u>(260,110)</u>	<u>1,338,408</u>
<b>Other Financing Sources (Uses)</b>				
Transfers In	0	0	23,000	23,000
Transfers Out	(23,000)	0	0	(23,000)
<i>Total Other Financing Sources (Uses)</i>	<u>(23,000)</u>	<u>0</u>	<u>23,000</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	1,581,153	(5,635)	(237,110)	1,338,408
<i>Fund Balances Beginning of Year</i>	<u>23,531,501</u>	<u>4,442,892</u>	<u>1,167,993</u>	<u>29,142,386</u>
<i>Fund Balances End of Year</i>	<u>\$25,112,654</u>	<u>\$4,437,257</u>	<u>\$930,883</u>	<u>\$30,480,794</u>

See accompanying notes to the basic financial statements



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

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**Net Change in Fund Balances - Total Governmental Funds** \$1,338,408

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

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

Capital Asset Additions	106,338	
Current Year Depreciation	(736,000)	
Total		(629,662)

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (346,801)

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

Delinquent Property Taxes	(685,295)	
Intergovernmental	(205,826)	
Tuition and Fees	7,935	
Total		(883,186)

Repayment of long-term obligations is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net position:

Principal Retirement	185,558	
Capital Appreciation Bond Accretion	1,374,442	
Total		1,560,000

In the statement of activities, interest is accrued on outstanding bonds, and bond premium and deferred accounting loss are amortized over the terms of the bonds whereas in governmental funds the expenditure is reported when bonds are issued:

Accrued Interest on Bonds	156	
Amortization of Deferred Charge on Refunding	(83,406)	
Amortization of Bond Premium	82,193	
Annual Accretion	(324,606)	
Total		(325,663)

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

Compensated Absences	184,200	
Special Termination Benefits	(24,000)	
Total		160,200

Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows. 2,051,248

Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities. (2,989,965)

*Change in Net Position of Governmental Activities* (\$65,421)

See accompanying notes to the basic financial statements

**Warrensville Heights City School District**  
*Statement of Revenues, Expenditures and Changes*  
*in Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*General Fund*  
For the Fiscal Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Taxes	\$15,366,356	\$16,559,923	\$16,559,923	\$0
Intergovernmental	12,744,028	13,733,908	13,733,908	0
Interest	129,425	139,478	157,921	18,443
Tuition and Fees	135,632	146,167	147,142	975
Contributions and Donations	797	859	859	0
Rentals	59,203	63,802	63,802	0
Payments in Lieu of Taxes	2,255,538	2,430,735	2,430,735	0
Miscellaneous	124,052	133,686	133,712	26
<i>Total Revenues</i>	<u>30,815,031</u>	<u>33,208,558</u>	<u>33,228,002</u>	<u>19,444</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	14,386,354	15,160,260	14,503,720	656,540
Special	3,754,606	4,167,983	4,167,983	0
Vocational	144,602	154,085	151,377	2,708
Support Services:				
Pupil	1,303,026	1,388,474	1,320,362	68,112
Instructional Staff	302,738	322,591	301,579	21,012
Board of Education	95,995	102,290	101,721	569
Administration	3,206,010	3,416,250	3,249,681	166,569
Fiscal	1,253,523	1,335,725	1,252,006	83,719
Business	1,045,233	1,113,776	1,064,343	49,433
Operation and Maintenance of Plant	3,590,578	3,826,037	3,638,624	187,413
Pupil Transportation	1,316,001	1,402,300	1,399,652	2,648
Central	158,522	171,260	171,260	0
Operation of Non-Instructional Services:				
Other Non-Instructional Services	22,711	24,201	22,520	1,681
Extracurricular Activities	56,038	59,713	55,497	4,216
<i>Total Expenditures</i>	<u>30,635,937</u>	<u>32,644,945</u>	<u>31,400,325</u>	<u>1,244,620</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>179,094</u>	<u>563,613</u>	<u>1,827,677</u>	<u>1,264,064</u>
<b>Other Financing Sources (Uses)</b>				
Transfers Out	(23,000)	(23,000)	(23,000)	0
Advances In	2,054,000	2,054,000	2,054,000	0
Advances Out	(1,213,569)	(1,213,569)	(1,213,569)	0
<i>Total Other Financing Sources (Uses)</i>	<u>817,431</u>	<u>817,431</u>	<u>817,431</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	996,525	1,381,044	2,645,108	1,264,064
<i>Fund Balance Beginning of Year</i>	17,306,624	17,306,624	17,306,624	0
Prior Year Encumbrances Appropriated	2,568,979	2,568,979	2,568,979	0
<i>Fund Balance End of Year</i>	<u>\$20,872,128</u>	<u>\$21,256,647</u>	<u>\$22,520,711</u>	<u>\$1,264,064</u>

See accompanying notes to the basic financial statements

**Warrensville Heights City School District**

*Statement of Fiduciary Assets and Liabilities*

*Agency Funds*

*June 30, 2017*

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<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$73,480</u>
<b>Liabilities</b>	
Undistributed Monies	\$39,426
Due to Students	<u>34,054</u>
<i>Total Liabilities</i>	<u>\$73,480</u>

See accompanying notes to the basic financial statements

## Warrensville Heights City School District

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2017*

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### **Note 1 – Description of the School District and Reporting Entity**

The Warrensville Heights City School District (School District) is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally-elected Board form of government consisting of five-members elected at-large for staggered four year terms. The School District provides educational services as authorized and mandated by State statute and federal guidelines. The Board controls the School District's 4 instructional facilities, staffed by 96 classified employees, 136 certificated full-time teaching personnel, 8 exempt employees and 23 administrators who provide services to students and other community members.

The School District is located in Warrensville Heights, Ohio, Cuyahoga County. The enrollment for the School District during the 2017 fiscal year was 1,738. The School District operates two elementary schools (K-4), one middle school (5-8), and one high school (9-12).

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

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

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

The School District participates in two jointly governed organizations and one shared risk pool. These organizations are the Lake Geauga Computer Association, the Ohio Schools' Council, and the Suburban Health Consortium. These organizations are presented in Notes 14 and 15 of the basic financial statements.

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

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

## Warrensville Heights City School District

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2017*

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

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

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

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

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

### ***Fund Accounting***

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

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

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

## Warrensville Heights City School District

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2017*

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***Bond Retirement Fund*** The bond retirement fund is used to account for and report the accumulation of property tax revenues restricted for the payment of general obligation bonds issued for school improvements.

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

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

### ***Measurement Focus***

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

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

### ***Basis of Accounting***

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

## Warrensville Heights City School District

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2017*

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Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 7). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal 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 fiscal year-end: property taxes available as an advance, interest, tuition, grants, fees and rentals.

***Deferred Outflows/Inflows of Resources*** In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, 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 deferred charges on refunding and for pension. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred outflows of resources related to pension are explained in Note 11.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the School District, deferred inflows of resources include property taxes, payments in lieu of taxes, pension, and unavailable revenue. Property taxes and payments in lieu of taxes represent amounts for which there is an enforceable legal claim as of June 30, 2017, but which were levied to finance fiscal year 2018 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the School District unavailable revenue includes delinquent property taxes and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. The details of these unavailable revenues are identified on the Reconciliation of Total Governmental Fund Balance to Net Position of Governmental Activities found on page 19. Deferred inflows of resources related to pension are reported on the government-wide statement of net position (See Note 11).

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

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

### ***Pensions***

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the

## Warrensville Heights City School District

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2017*

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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.

### ***Budgetary Data***

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

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

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

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

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

During fiscal year 2017, investments were limited to a money market account and State Treasury Asset Reserve of Ohio (STAR Ohio). STAR Ohio (the State Treasury Asset Reserve of Ohio) is an investment pool managed by the State Treasurer's Office which allows the 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 fiscal year 2017, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.



## Warrensville Heights City School District

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

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Following Ohio statutes, the Board of Education has, by resolution, identified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2017 amounted to \$129,691 which includes \$28,144 assigned from other School District funds.

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

### ***Capital Assets***

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The School District was able to estimate the historical cost for the initial reporting of assets by backtrending (i.e., estimating the current replacement cost of the asset to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). Donated capital assets are recorded at their acquisition values as of the date received. The School District maintains a capitalization threshold of one thousand 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:

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	20 years
Buildings and Improvements	50 years
Furniture, Fixtures and Equipment	5-20 years
Vehicles	10 years

### ***Deferred Charge on Refunding***

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

### ***Interfund Balances***

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

## Warrensville Heights City School District

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2017*

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### ***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 School District will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for all classified employees.

Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the School District's past experience of making termination payments.

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

On the governmental fund financial statements, compensated absences are recognized as a liability and expenditure to the extent payments come due to each period upon the occurrence of employee resignations and retirements. These amounts are reported as "Matured Compensated Absences Payable" in the fund from which the employee has accumulated leave is paid.

### ***Accrued Liabilities and Long-Term Obligations***

All payables, accrued liabilities and long-term obligations are reported in the government-wide 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 the net pension liability that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for the payment during the current fiscal year. Bonds are recognized as a liability on the governmental fund financial statements when due.

### ***Net Position***

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

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

### ***Internal Activity***

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

## Warrensville Heights City School District

### *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2017*

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

#### ***Fund Balance***

Fund balance is divided into five classifications based primarily on the extent to which the School 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 a 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 includes the remaining amount that is not restricted or committed. These assigned balances are established 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 by State statute. State statute authorizes the Treasurer to assign fund balance for purchases on order, provided such amounts have been lawfully appropriated. The Board of Education assigned fund balance for administrative support and uniform school supplies.

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

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

**Warrensville Heights City School District**

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

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***Estimates***

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

**Note 3 – Accountability**

At June 30, 2017, the following funds had deficit fund balances:

	<u>Amount</u>
<b><i>Other Governmental Funds:</i></b>	
Title I	\$328,977
Public School Preschool	70,532
Title VI-B	68,965
Miscellaneous Federal Grants	52,640
Recreation	3,476
Class Size Reduction	2,896
Vocational Education Enhancement	1,383

The deficit balances resulted from adjustments for accrued liabilities. The general fund is liable for any deficits in these funds and provides transfers when cash is required, rather than when accruals occur.

**Note 4 – 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 Balances – Budget (Non-GAAP) and Actual for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

The major differences between the budget basis and GAAP basis are that:

- 1) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP).
- 2) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP).
- 3) Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP).
- 4) Budgetary revenues and expenditures of the public school support fund are reclassified to the general fund for GAAP reporting.

**Warrensville Heights City School District**

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

- 5) Encumbrances are treated as expenditures (budget basis) rather than as restricted, committed or assigned fund balance (GAAP).

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

<u>Net Change in Fund Balance</u>	
GAAP Basis	\$1,581,153
Net Adjustment for Revenue Accruals	1,521,478
Advances In	2,054,000
Net Adjustment for Expenditure Accruals	(241,136)
Advances Out	(1,213,569)
Perspective Differences:	
Public School Support	3,575
Adjustment for Encumbrances	<u>(1,060,393)</u>
Budget Basis	<u><u>\$2,645,108</u></u>

**Note 5 – Deposits and Investments**

The School District has chosen to follow State statutes and classify monies held by the School District into three categories.

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

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

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

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;

## Warrensville Heights City School District

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2017*

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2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (STAR Ohio); and,
8. Commercial paper and bankers' acceptances if training requirements have been met.

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

### **Deposits**

Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, \$9,288,810 of the School District's bank balance of \$18,680,810 was exposed to custodial credit risk because it was uninsured and uncollateralized. 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 Federal Deposit Insurance Corporation.

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. Effective July 1, 2017, the Ohio Pooled Collateral System (OPCS) was implemented by the Office of the Ohio Treasurer of State. Financial institutions can elect to participate in the OPCS and will collateralize at one hundred two percent or a rate set by the Treasurer of State. Financial institutions opting not to participate in OPCS will collateralize utilizing the specific pledge method at one hundred five percent.

## Warrensville Heights City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

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### Investments

As of June 30, 2017, the School District had the following investments:

<u>Measurement/Investment</u>	<u>Measurement Amount</u>	<u>Maturity</u>	<u>Standard &amp; Poor's Rating</u>	<u>Percent of Total Investments</u>
Net Asset Value Per Share				
STAR Ohio	12,080,787	45.5 days	AAAm	N/A
Fair Value - Level One Inputs				
PNC Money Market	<u>503</u>	Less than one year	AAAm	0.42%
Total Investments	<u><u>\$12,081,290</u></u>			

The School District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The above chart identifies the School District's recurring fair value measurements as of June 30, 2017. The PNC Money Market is measured at fair value and is valued using quoted market prices (Level 1 inputs).

**Interest Rate Risk** As a means of limiting its exposure to fair value losses caused by rising interest rates, the School District's investment policy requires that operating funds be invested primarily in short-term investments maturing within five years from the date of purchase and that the School District's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments. The stated intent of the policy is to avoid the need to sell securities prior to maturity.

**Custodial Credit Risk.** For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The PNC Money Market account is exposed to custodial credit risk in that it is uninsured, unregistered, and held by the counterparty. The School District has no investment policy dealing with the investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

### Note 6 – Receivables

Receivables at June 30, 2017, consisted of taxes, accounts (rent), payments in lieu of taxes, 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 are expected to be collected within one year except for delinquent property taxes. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

## Warrensville Heights City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

A summary of the intergovernmental receivables follows:

Governmental Activities	Amounts
Title I Grant	\$635,264
Title VI-B Grant	251,022
Foundation Adjustments	208,706
Public School Preschool Grant	167,553
21st Century Grant	111,667
Federal Lunch and Breakfast Subsidy	97,684
Improving Teacher Quality Grant	36,370
Medicaid Reimbursement	29,450
Preschool for the Handicapped Grant	8,460
Vocational Education Enhancement Grant	3,234
<i>Total Intergovernmental Receivables</i>	<u>\$1,549,410</u>

According to State law, the City of Warrensville Heights has established several tax incremental financing districts within the City under which the City has granted property tax exemptions and agreed to construct certain infrastructure improvements. The property owners have agreed to make payments to the City 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 improvements 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. The School District agrees to accept a portion of the service payments as compensation for the likely loss of future property tax increases.

### Note 7 – Property Taxes

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

Property taxes include amounts levied against all real and public utility property located in the School District. Real property tax revenues received in calendar year 2017 represents collections of calendar year 2016 taxes. Real property taxes received in calendar year 2017 were levied after April 1, 2016, on the assessed value listed as of January 1, 2016, the lien date. Assessed values for real property are established by State law at thirty-five percent of appraised market value. Real property are payable annually or 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 2017 represents collections of calendar year 2016 taxes. Public utility real and tangible personal property taxes received in calendar year 2017 become a lien December 31, 2015, were levied after April 1, 2016, and are collected in 2017 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.



**Warrensville Heights City School District**

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

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

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

The amount available as an advance at June 30, 2017, was \$2,142,453 in the general fund, \$278,154 in the bond retirement debt service fund, and \$69,539 in the permanent improvement capital projects fund. The amount available as an advance at June 30, 2016, was \$3,700,384 in the general fund, \$479,612 in the bond retirement debt service fund, and \$121,502 in the permanent improvement capital projects fund. The difference is in the timing and collection by the County Fiscal Officer.

On an 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 2017 taxes were collected are:

	2016 Second Half Collections		2017 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$358,659,460	96.30 %	\$304,298,790	95.52 %
Public Utility	13,776,690	3.70	14,286,570	4.48
Total Assessed Value	<u>\$372,436,150</u>	<u>100.00 %</u>	<u>\$318,585,360</u>	<u>100.00 %</u>
Tax rate per \$1,000 of assessed valuation		\$91.70		\$92.40

**Note 8 – Tax Abatements**

School District property taxes were reduced as follows under community reinvestment area agreements entered into by overlapping governments:

Overlapping Government	Amount of Fiscal Year 2017 Taxes Abated
<i>Community Reinvestment Areas:</i> City of Warrensville Heights	\$5,365,520

## Warrensville Heights City School District

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2017*

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Pursuant to Section 5709.82 of the Ohio Revised Code, the City of Warrensville Heights and the Warrensville Heights City School District created various Community Reinvestment Area (CRA) Compensation Agreements. The School District received \$141,274 through various tax sharing agreements with the City.

### **Note 9 – Risk Management**

#### ***Insurance***

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. The School District contracted with Todd Associates Insurance for property insurance (which also includes inland marine, crime), general liability, umbrella and automobile coverage. The School District also contracted with Travelers Insurance for boiler/machinery.

<u>Company</u>	<u>Type of Coverage</u>	<u>Coverage</u>
Todd Associates Insurance	Property (\$10,000 Deductible)	\$85,820,029
	Inland Marine (\$250 Deductible)	1,921,645
	Crime (\$500 Deductible)	300,000
	General Liability:	
	In Aggregate	2,000,000
	Per Occurrence	1,000,000
	Automobile Liability - Single Limit	1,000,000
	Umbrella Coverage:	
	Each Occurrence Limit	10,000,000
	Aggregate Limit	10,000,000
	Self-Insured Retention	10,000
Travelers Insurance Company	Boiler/Machinery (\$1,000 Deductible)	100,000,000

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

#### ***Employee Health Benefits***

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

During fiscal year 2017, the School District provided full-time employees with 90 percent Board paid hospitalization, prescription drug, dental and vision.

#### ***Workers’ Compensation***

The School District pays the Workers’ Compensation system a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

**Warrensville Heights City School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2017*

**Note 10 – Capital Assets**

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

	Restated Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017
<b>Governmental Activities</b>				
<i>Capital Assets, not being depreciated:</i>				
Land	\$414,153	\$0	\$0	\$414,153
<i>Capital Assets, being depreciated:</i>				
Land Improvements	1,372,879	0	0	1,372,879
Buildings and Improvements	39,131,233	0	0	39,131,233
Furniture, Fixtures and Equipment	2,157,352	21,138	(559,191)	1,619,299
Vehicles	1,695,864	85,200	(141,807)	1,639,257
<i>Total Capital Assets, being depreciated</i>	<u>44,357,328</u>	<u>106,338</u>	<u>(700,998)</u>	<u>43,762,668</u>
<i>Less: Accumulated Depreciation</i>				
Land Improvements	(1,306,210)	(12,123)	0	(1,318,333)
Buildings and Improvements	(24,518,599)	(545,126)	0	(25,063,725)
Furniture, Fixtures and Equipment	(1,519,536)	(94,840)	237,631	(1,376,745)
Vehicles	(1,425,587)	(83,911)	116,566	(1,392,932)
<i>Total Accumulated Depreciation</i>	<u>(28,769,932)</u>	<u>(736,000)*</u>	<u>354,197</u>	<u>(29,151,735)</u>
<i>Total Capital Assets, being depreciated, Net</i>	<u>15,587,396</u>	<u>(629,662)</u>	<u>(346,801)</u>	<u>14,610,933</u>
<b>Governmental Activities Capital Assets, Net</b>	<u>\$16,001,549</u>	<u>(\$629,662)</u>	<u>(\$346,801)</u>	<u>\$15,025,086</u>

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

Regular Instruction	\$565,251
Support Services:	
Instructional Staff	46,315
Administration	6,391
Business	9,110
Operation and Maintenance of Plant	15,080
Pupil Transportation	80,016
Food Service Operations	7,254
Extracurricular Activities	6,583
<i>Total Depreciation Expense</i>	<u>\$736,000</u>

## Warrensville Heights City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

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### Note 11 – Defined Benefit Pension Plan

#### *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](http://www.ohsers.org) under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

**Warrensville Heights City School District**

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

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

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

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2017, the allocation to pension, death benefits, and Medicare B was 14 percent. No allocation was made to the Health Care Fund.

The School District's contractually required contribution to SERS was \$659,167 for fiscal year 2017. Of this amount \$85,844 is reported as an intergovernmental payable.

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

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

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

## Warrensville Heights City School District

### *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2017*

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The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation is 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

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

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12 percent of the 14 percent member rate goes to the DC Plan and the remaining 2 percent is applied to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

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

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2017, the employer rate was 14 percent and the plan members were also required to contribute 14 percent of covered salary. The statutory member contribution rate was increased one percent to 14 percent on July 1, 2016. The fiscal year 2017 contribution rates were equal to the statutory maximum rates.

The School District's contractually required contribution to STRS was \$1,392,081 for fiscal year 2017. Of this amount \$146,774 is reported as an intergovernmental payable.

**Warrensville Heights City School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2017*

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

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net Pension Liability Prior Measurement Date	0.15431310%	0.09901681%	
Proportion of the Net Pension Liability Current Measurement Date	<u>0.15536060%</u>	<u>0.09477336%</u>	
Change in Proportionate Share	<u>0.00104750%</u>	<u>-0.00424345%</u>	
Proportionate Share of the Net Pension Liability	\$11,370,962	\$31,723,502	\$43,094,464
Pension Expense	\$1,243,981	\$1,745,984	\$2,989,965

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<b>Deferred Outflows of Resources</b>			
Differences between expected and actual experience	\$153,368	\$1,281,782	\$1,435,150
Changes of assumptions	759,074	0	759,074
Net difference between projected and actual earnings on pension plan investments	937,939	2,633,903	3,571,842
Changes in proportionate Share and difference between School District contributions and proportionate share of contributions	139,268	0	139,268
School District contributions subsequent to the measurement date	<u>659,167</u>	<u>1,392,081</u>	<u>2,051,248</u>
Total Deferred Outflows of Resources	<u>\$2,648,816</u>	<u>\$5,307,766</u>	<u>\$7,956,582</u>
<b>Deferred Inflows of Resources</b>			
Changes in Proportionate Share and Difference between School District contributions and proportionate share of contributions	<u>\$0</u>	<u>\$2,051,329</u>	<u>\$2,051,329</u>

\$2,051,248 reported as deferred outflows of resources related to pension resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

## Warrensville Heights City School District

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2017*

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2018	\$523,930	\$17,770	\$541,700
2019	523,254	17,769	541,023
2020	672,847	1,028,472	1,701,319
2021	269,618	800,345	1,069,963
Total	\$1,989,649	\$1,864,356	\$3,854,005

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

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

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



## Warrensville Heights City School District

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

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

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

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

**Discount Rate** The total pension liability was calculated using the discount rate of 7.50 percent. A discount rate of 7.75 percent was used in the prior measurement period. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.50 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

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

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
School District's proportionate share of the net pension liability	\$15,054,446	\$11,370,962	\$8,287,734

### **Actuarial Assumptions – STRS**

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

**Warrensville Heights City School District**

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

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

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

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return *</u>
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
<b>Total</b>	<b>100.00 %</b>	<b>7.61 %</b>

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

**Discount Rate** The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions of future plan members, are excluded. Based on those assumptions, STRS’ fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2016. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2016.

**Warrensville Heights City School District**

*Notes to the Basic Financial Statements  
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***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	\$42,157,954	\$31,723,502	\$22,921,423

***Changes between Measurement Date and Report Date***

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

**Note 12 – Post Employment Benefits**

***School Employees Retirement System***

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

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2017, no allocation of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was

## Warrensville Heights City School District

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

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earned. For fiscal year 2017, this amount was \$23,500. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2017, the School District's surcharge obligation was \$73,605.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The School District's contributions for health care for the fiscal years ended June 30, 2017, 2016 and 2015 were \$73,605, \$47,345 and \$80,475, 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 partial reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which can be obtained by visiting [www.strsoh.org](http://www.strsoh.org) or by calling (888) 227-7877.

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

## **Note 13 – Other Employee Benefits**

### ***Compensated Absences***

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn up to twenty-seven days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators and classified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated with no maximum. Upon retirement, payment is made for one-fourth of the total sick leave accumulation, up to a maximum accumulation of 250 days for certified staff and a maximum accumulation of 205 days for classified employees.

## Warrensville Heights City School District

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2017*

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### ***Special Termination Benefits***

Per negotiated agreement, the School District offers a retirement notification incentive payment for eligible certified employees. An employee is eligible if the employee retires from the State Teachers Retirement System with 30 or more years of service. The incentive is \$5,000 per employee for up to 12 employees, if the Superintendent is notified, in writing, by April 30 of the retirement year. If notification is given to the Superintendent by February 28 of the retirement year, an additional bonus of \$3,000 will be paid. The incentive payment is made in one lump sum within sixty days of the following calendar year. Three employees were eligible for the retirement incentive in fiscal year 2017. As of June 30, 2017, the liability for this incentive plan was \$24,000.

### ***Life Insurance***

The School District provides life insurance and accidental death and dismemberment insurance to most employees from Anthem Life Insurance through the Suburban Health Insurance Consortium.

## **Note 14 – Jointly Governed Organizations**

### ***Lake Geauga Computer Association***

The Lake Geauga Computer Association (LGCA) is a jointly governed organization that was formed for the purpose of providing computer services for accounting, grading, scheduling, EMIS and other applications among its nineteen member school districts. Each of the school districts supports LGCA based on a per pupil charge. LGCA's Board exercises total control over the operations of the organization including budgeting, appropriating, contracting and designating management. The executive committee (governing board) consists of the superintendents and treasurers of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the governing board. LGCA's continued existence is not dependent on the School District's continued participation. LGCA is not accumulating significant financial resources or experiencing fiscal stress which would cause additional financial benefit or burden on the School District. In fiscal year 2017, the School District paid \$75,451 to LGCA. Financial information can be obtained from the Lake Geauga Computer Association, 8140 Auburn Road, Painesville, Ohio 44077.

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

The Ohio Schools Council (Council) is a jointly governed organization among 231 school districts. The jointly governed organization was created by school districts for the purpose of saving money through volume purchases. Each district supports the Council by paying an annual participation fee. Each school district member's superintendent serves as a representative of the Assembly. The Council's Board exercises total control over the operations of the organization including budgeting, appropriating, contracting and designating management. Each participant's degree of control is limited to its representation on the Board. The Assembly elects five of the Council's Board members and the remaining four are representatives of the Greater Cleveland School Superintendents' Association. The Council operates under a nine-member Board of Directors (the Board). The Board is the policy making authority of the Council. The Board meets monthly September to June. The Board appoints an Executive Director who is responsible for receiving and disbursing funds, investing available funds, preparing financial reports for the Board and Assembly and carrying out such other responsibilities as designated by the Board. In fiscal year 2017, the School District paid \$257,514 to the Council. Financial information can be obtained by contacting Dr. William Zelei, the Executive Director of the Ohio Schools Council at 6133 Rockside Road, Suite 10, Independence, Ohio 44131.

## Warrensville Heights City School District

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2017*

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

### **Note 15 – Shared Risk Pool**

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

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.

## Warrensville Heights City School District

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2017*

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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 16 – Contingencies**

#### ***Grants***

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

#### ***School Foundation***

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

#### ***Litigation***

The Warrensville Heights City School District is currently a party to legal proceedings seeking damages or injunctive relief generally incidental to its operations and pending projects. The School District management is of the opinion that ultimate disposition of these claims and legal proceedings will not have a material effect, if any, on the financial condition of the School District.

## Warrensville Heights City School District

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2017*

### Note 17 – Long-Term Obligations

The changes in the School District’s long-term obligations during fiscal year 2017 were as follows:

	Balance 6/30/2016	Additions	Deletions	Balance 6/30/2017	Amount Due in One Year
<b>Governmental Activities</b>					
2007 School Improvement Refunding Bonds:					
Capital Appreciation Bonds, 28.97%	\$110,558	\$0	(\$110,558)	\$0	\$0
Accretion on Capital Appreciation Bonds	1,049,836	324,606	(1,374,442)	0	0
Premium on Bonds	82,193	0	(82,193)	0	0
2015 School Improvement Refunding Bonds, 2.5%					
	13,750,000	0	(75,000)	13,675,000	1,560,000
Total General Obligation Bonds	14,992,587	324,606	(1,642,193)	13,675,000	1,560,000
Net Pension Liability					
SERS	8,805,256	2,565,706	0	11,370,962	0
STRS	27,365,351	4,358,151	0	31,723,502	0
Total Net Pension Liability	36,170,607	6,923,857	0	43,094,464	0
Compensated Absences	941,509	205,913	(390,113)	757,309	156,795
<i>Total Governmental Activities</i>	<u>\$52,104,703</u>	<u>\$7,454,376</u>	<u>(\$2,032,306)</u>	<u>\$57,526,773</u>	<u>\$1,716,795</u>

On March 12, 2015, the School District issued general obligation bonds, in the amount of \$13,790,000, to currently refund a portion of the 2007 school improvement refunding bonds in order to take advantage of lower interest rates. The bonds were issued with an interest rate of 2.5 percent. The bonds were issued for a ten year period with a final maturity at December 1, 2024. The bonds will be retired from the debt service fund.

There is no repayment schedule for the net pension liability. However, employer pension contributions are made from the following funds: the general fund and the food service, recreation, other grants, public preschool, title VI-B, title I, class size reduction and miscellaneous federal grant special revenue funds. For additional information related to the net pension liability see Note 11. Compensated absences will be paid from the general fund and the food service, recreation, other grants, public preschool, Title VI-B, Title I and class size reduction special revenue funds.

The overall debt margin of the School District as of June 30, 2017, was \$19,434,939 with an unvoted debt margin of \$318,585 at June 30, 2017. Principal and interest requirements for school improvement bonds outstanding at June 30, 2017, are as follows:

Fiscal Year	General Obligation Bonds	
	Serial	
	Principal	Interest
2018	\$1,560,000	\$322,375
2019	1,600,000	282,875
2020	1,635,000	242,438
2021	1,690,000	200,875
2022	1,735,000	158,063
2023-2025	5,455,000	206,436
Total	<u>\$13,675,000</u>	<u>\$1,413,062</u>



**Warrensville Heights City School District**

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

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**Note 18 – Interfund Transactions**

***Balances***

<u>Interfund Payable</u>	<u>Interfund Receivable</u>
	<u>General</u>
<b><i>Other Governmental Funds:</i></b>	
Title I	\$635,264
Title VI-B	251,022
Public Preschool	167,553
Miscellaneous Federal Grants	111,667
Improving Teacher Quality	36,369
Preschool for the Handicapped	8,460
Vocational Education Enhancement	<u>3,234</u>
Total	<u><u>\$1,213,569</u></u>

The interfund receivable and payables between the general fund and the other governmental funds are due to the timing of the receipt of grant monies received by the various funds and due to moving unrestricted balances to support programs accounted for in other funds. The general fund provides temporary funding of the program until the grant dollars are received.

***Transfers***

During fiscal year 2017, the School District made a transfer from the general fund to the recreation special revenue fund in the amount of \$23,000 to move unrestricted balances to support programs and projects accounted for in this fund.

**Note 19 – 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	\$1,060,393
Other Governmental Funds	<u>582,052</u>
Total	<u><u>\$1,642,445</u></u>

**Warrensville Heights City School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2017*

**Note 20 – 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 resources in the governmental funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

Fund Balances	General	Bond Retirement	Other Governmental Funds	Total
<b><i>Nonspendable</i></b>				
Prepays	\$80,669	\$0	\$8,278	\$88,947
<b><i>Restricted for:</i></b>				
Special Education	1,140	0	707	1,847
Continuous Improvement Programs	3,315	0	0	3,315
Poverty Aid Assistance	1,242	0	0	1,242
Professional Development	2,970	0	0	2,970
Improving Reading Proficiency	103	0	0	103
Food Service Operations	0	0	517,402	517,402
Scholarships	0	0	5,705	5,705
Athletics and Music	0	0	34,490	34,490
Data and Information Systems	0	0	61,001	61,001
Student Development	0	0	3,500	3,500
Drug Abuse Education	0	0	9,785	9,785
Preschool	0	0	4,276	4,276
Debt Service Payments	0	4,437,257	0	4,437,257
Capital Improvements	0	0	503,202	503,202
Other Purposes	0	0	311,406	311,406
<b><i>Total Restricted</i></b>	<b>8,770</b>	<b>4,437,257</b>	<b>1,451,474</b>	<b>5,897,501</b>
<b><i>Committed to:</i></b>				
Information Technology Services	14,250	0	0	14,250
Transportation Services	11,217	0	0	11,217
Educational Services	470,399	0	0	470,399
<b><i>Total Committed</i></b>	<b>495,866</b>	<b>0</b>	<b>0</b>	<b>495,866</b>
<b><i>Assigned to:</i></b>				
Purchases on Order:				
Instruction	281,993	0	0	281,993
Support Services	226,959	0	0	226,959
Other Non-Instructional Services	28	0	0	28
Administrative Support	30,974	0	0	30,974
Uniform School Supplies	1,005	0	0	1,005
<b><i>Total Assigned</i></b>	<b>540,959</b>	<b>0</b>	<b>0</b>	<b>540,959</b>
<b><i>Unassigned (Deficit)</i></b>	<b>23,986,390</b>	<b>0</b>	<b>(528,869)</b>	<b>23,457,521</b>
<b><i>Total Fund Balances</i></b>	<b>\$25,112,654</b>	<b>\$4,437,257</b>	<b>\$930,883</b>	<b>\$30,480,794</b>

**Warrensville Heights City School District**

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

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**Note 21 – Set-Aside Calculation**

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 fiscal year must be held in cash at fiscal year end and carried forward to be used for the same purposes in future fiscal 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, 2016	\$0
Add: Current Year Set-aside Requirement	259,677
Permanent Improvement Levy Offset During the Fiscal Year	(494,076)
Qualifying Disbursements	<u>(885,217)</u>
Total	<u>(\$1,119,616)</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>\$0</u>
Set-aside Balance as of June 30, 2017	<u>\$0</u>

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

**Note 22 – Change in Accounting Principle and Restatement of Net Position**

For fiscal year 2017, the School District implemented Governmental Accounting Standards Board (GASB) Statement No. 77, *Tax Abatement Disclosures*. GASB Statement No. 77 requires disclosure of information about the nature and magnitude of tax abatements. These changes were incorporated in the School District's 2017 financial statements; however, there was no effect on beginning net position/fund balance.

The School District also implemented GASB's *Implementation Guide No. 2016.1*. These changes were incorporated in the School District's fiscal year 2017 financial statements; however, there was no effect on beginning net position/fund balance.

**Warrensville Heights City School District**

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

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***Restatement of Net Position***

During fiscal year 2017, the School District’s appraisal company performed a complete re-evaluation of the School District’s capital asset information. This re-evaluation resulted in a change to the School District’s beginning balance which had the following effect on beginning net position:

Net Position June 30, 2016	(\$3,342,413)
Adjustments:	
Capital Asset Re-evaulation	<u>286,620</u>
Restated Net Position June 30, 2016	<u><u>(\$3,055,793)</u></u>

**Note 23 – Subsequent Event**

Subsequent to the close of fiscal year end June 30, 2017, Warrensville Heights City School District received communications from Beachwood City School District concerning a revenue sharing agreement from 1997, claiming particular sharing of tax revenues from particular properties that reside in the City of Beachwood but on the tax duplicate of Warrensville Heights City School District. The Beachwood City School District filed a “Complaint, Request for Declaratory and Injunctive Relief and Damages” in the Court of Common Pleas for Cuyahoga County, naming the Warrensville Heights Board of Education as defendant. In response, on July 14, 2017, the Warrensville Heights Board of Education has since filed an “Answer and Counterclaim” raising 17 affirmative defenses against the Beachwood City School District. The matter is scheduled for a final pretrial on November 20, 2017 and for trial on December 4, 2017. The ultimate disposition of the situation is unknown at this time; however, in the opinion of management, the ultimate disposition of these claims and legal proceedings will not have a material effect, if any, on the financial condition of the School District.

Due to substantial increases in enrollment, the School District has reopened Westwood Elementary School for fiscal year 2018.

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## Required Supplementary Information

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**Warrensville Heights City 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 Four Fiscal Years (1)\**

	2017	2016	2015	2014
School District's Proportion of the Net Pension Liability	0.15536060%	0.15431310%	0.15124500%	0.15124500%
School District's Proportionate Share of the Net Pension Liability	\$11,370,962	\$8,805,256	\$7,654,424	\$8,994,055
School District's Covered Payroll	\$4,842,700	\$4,697,481	\$4,397,536	\$4,258,153
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	234.81%	187.45%	174.06%	211.22%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	26.98%	69.16%	71.70%	65.52%

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

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

**Warrensville Heights City 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 Four Fiscal Years (1)\**

	2017	2016	2015	2014
School District's Proportion of the Net Pension Liability	0.09477336%	0.09901681%	0.10515902%	0.10515902%
School District's Proportionate Share of the Net Pension Liability	\$31,723,502	\$27,365,351	\$25,578,313	\$30,468,719
School District's Covered Payroll	\$10,019,057	\$10,251,643	\$10,722,650	\$11,462,500
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	316.63%	266.94%	238.54%	265.81%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.80%	72.10%	74.70%	69.30%

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

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

**Warrensville Heights City School District**  
*Required Supplementary Information*  
*Schedule of the School District's Contributions*  
*School Employees Retirement System of Ohio*  
*Last Ten Fiscal Years*

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$659,167	\$677,978	\$619,128	\$609,498
Contributions in Relation to the Contractually Required Contribution	<u>(659,167)</u>	<u>(677,978)</u>	<u>(619,128)</u>	<u>(609,498)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
School District Covered Payroll	\$4,708,336	\$4,842,700	\$4,697,481	\$4,397,536
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	13.18%	13.86%



2013	2012	2011	2010	2009	2008
\$589,328	\$555,337	\$518,535	\$542,730	\$467,076	\$493,798
(589,328)	(555,337)	(518,535)	(542,730)	(467,076)	(493,798)
\$0	\$0	\$0	\$0	\$0	\$0
\$4,258,153	\$4,128,898	\$4,125,182	\$4,008,349	\$4,746,711	\$5,028,493
13.84%	13.45%	12.57%	13.54%	9.84%	9.82%

**Warrensville Heights City School District**  
*Required Supplementary Information*  
*Schedule of the School District's Contributions*  
*State Teachers Retirement System of Ohio*  
*Last Ten Fiscal Years*

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$1,392,081	\$1,402,668	\$1,435,230	\$1,393,945
Contributions in Relation to the Contractually Required Contribution	<u>(1,392,081)</u>	<u>(1,402,668)</u>	<u>(1,435,230)</u>	<u>(1,393,945)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
School District Covered Payroll	\$9,943,436	\$10,019,057	\$10,251,643	\$10,722,650
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	14.00%	13.00%

<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
\$1,490,125	\$1,549,840	\$1,644,314	\$1,872,546	\$2,006,888	\$1,908,242
<u>(1,490,125)</u>	<u>(1,549,840)</u>	<u>(1,644,314)</u>	<u>(1,872,546)</u>	<u>(2,006,888)</u>	<u>(1,908,242)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$11,462,500	\$11,921,846	\$12,648,569	\$14,404,200	\$15,437,600	\$14,678,785
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

## Warrensville Heights City School District, Ohio

Notes to Required Supplementary Information

For the Fiscal Year Ended June 30, 2017

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### Changes in Assumptions - SERS

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

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

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

**WARRENSVILLE HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2017**

<b><u>FEDERAL GRANTOR</u></b> <i>Pass Through Grantor</i>		Federal CFDA Number	Expenditures	Non-Cash Expenditures
Program Title	Grant Year			
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>				
<i>Passed Through Ohio Department of Education</i>				
Nutrition Cluster				
School Breakfast Program	2017	10.553	\$ 214,125	
National School Lunch Program	2017	10.555	<u>489,272</u>	<u>\$ 72,083</u>
Total Nutrition Cluster			<u>703,397</u>	<u>72,083</u>
Total U.S. Department of Agriculture			<u>703,397</u>	<u>72,083</u>
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>				
<i>Passed Through Ohio Department of Education</i>				
Title I, Grants to States	2016	84.010	247,981	
Title I, Grants to States	2017	84.010	<u>953,898</u>	
Total Title I, Grants to States			1,201,879	-
Special Education Cluster				
IDEA Part B	2016	84.027	56,983	
IDEA Part B	2017	84.027	<u>342,078</u>	
Subtotal IDEA Part B			399,061	-
Preschool Disability Grant				
Preschool Disability Grant	2016	84.173	6,708	
Preschool Disability Grant	2017	84.173	<u>6,817</u>	
Subtotal Preschool Disability Grant			13,525	-
Total Special Education Cluster			412,586	-
Twenty-First Century Community Learning Centers				
Twenty-First Century Community Learning Centers	2016	84.287	31,822	
Twenty-First Century Community Learning Centers	2017	84.287	<u>288,333</u>	
Total Twenty-First Century Community Learning Centers			320,155	-
Improving Teacher Quality, Title II-A				
Improving Teacher Quality, Title II-A	2016	84.367	21,598	
Improving Teacher Quality, Title II-A	2017	84.367	<u>79,960</u>	
Total Improving Teacher Quality, Title II-A			101,558	-
Total U.S. Department of Education			<u>2,036,178</u>	-
<b>Total Federal Financial Assistance</b>			<u>\$ 2,739,575</u>	<u>\$ 72,083</u>

*The accompanying notes are an integral part of this schedule.*

**WARRENSVILLE HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
2 CFR 200.510(b)(6)  
FOR THE YEAR ENDED JUNE 30, 2017**

**NOTE A – BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the Warrensville Heights City School District (the District) under programs of the federal government for the year ended June 30, 2017. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the District.

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. The District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**NOTE C – CHILD NUTRITION CLUSTER**

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

**NOTE D – FOOD DONATION PROGRAM**

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



# Dave Yost • Auditor of State

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

Warrensville Heights City School District  
Cuyahoga County  
4500 Warrensville Center Road  
Warrensville Heights, Ohio 44128

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 Warrensville Heights City School District, Cuyahoga County, (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 27, 2018.

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

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

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

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

***Compliance and Other Matters***

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

***Purpose of this Report***

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

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

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

March 27, 2018





# Dave Yost • Auditor of State

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

Warrensville Heights City School District  
Cuyahoga County  
4500 Warrensville Center Road  
Warrensville Heights, Ohio 44128

To the Board of Education:

### ***Report on Compliance for the Major Federal Program***

We have audited the Warrensville Heights City School District's (the District) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect the Warrensville Heights City School District's major federal program for the year ended June 30, 2017. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the District's major federal program.

### ***Management's Responsibility***

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

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

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

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

***Opinion on the Major Federal Program***

In our opinion, the Warrensville Heights City School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2017.

***Report on Internal Control Over Compliance***

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

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

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

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



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

March 27, 2018

**WARRENSVILLE HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
2 CFR § 200.515  
JUNE 30, 2017**

**1. SUMMARY OF AUDITOR'S RESULTS**

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unmodified
<i>(d)(1)(ii)</i>	Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material weaknesses in internal control reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unmodified
<i>(d)(1)(vi)</i>	Are there any reportable findings under 2 CFR § 200.516(a)?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	CFDA #84.010 - Title I, Grants to States
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 750,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee under 2 CFR §200.520?	Yes

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

None

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None

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# Dave Yost • Auditor of State

WARRENSVILLE HEIGHTS CITY SCHOOL DISTRICT

CUYAHOGA COUNTY

## CLERK'S CERTIFICATION

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

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
MARCH 29, 2018