

# **South Euclid-Lyndhurst City School District**

**Basic Financial Statements  
June 30, 2018**



# OHIO AUDITOR OF STATE KEITH FABER



Board of Education  
South Euclid-Lyndhurst City School District  
5044 Mayfield Rd  
Lyndhurst, OH 44124

We have reviewed the *Independent Auditor's Report* of the South Euclid-Lyndhurst City School District, Cuyahoga County, prepared by Ciuni & Panichi, Inc., for the audit period July 1, 2017 through June 30, 2018. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The South Euclid-Lyndhurst City School District is responsible for compliance with these laws and regulations.

Ohio Auditor of State

A handwritten signature in cursive script that reads 'Keith Faber'.

January 14, 2019

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# South Euclid-Lyndhurst City School District

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## Independent Auditor's Report

Board of Education  
South Euclid-Lyndhurst City School District  
Lyndhurst, Ohio

### 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 South Euclid-Lyndhurst City School District (the "District"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

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 District, as of June 30, 2018, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

#### *Implementation of New Accounting Standards*

As described in Note 23 to the basic financial statements, in 2018, the District adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* and as a result restated their June 30, 2017 net position of the governmental activities. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required schedules on pensions and other postemployment benefits as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of



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the District's 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.

C. J. ... + ... , etc.

Cleveland, Ohio  
December 27, 2018

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**South Euclid-Lyndhurst City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2018*  
*Unaudited*

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The discussion and analysis of the South Euclid-Lyndhurst 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, 2018. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

### **Financial Highlights**

Key financial highlights for 2018 are as follows:

- Net position increased significantly in fiscal year 2018 due mainly to changes in the net pension liability and net OPEB liability and the deferred outflows and deferred inflows of resources associated with these liabilities as well as an increase in property tax revenues due to the timing of advance settlements. The increase in net position was partially offset by a decrease in net capital assets resulting from current year depreciation outpacing capital asset additions.
- Total program expenses decreased in fiscal year 2018 due to changes in the net pension liability and net OPEB liability. Program expenses excluding amounts related to the net pension and net OPEB liabilities actually increased due to higher purchased service costs during fiscal year 2018.
- The School District actively pursues grants and controls expenses while still maintaining the high academic standards the residents expect of the School District.

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

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the School District as a financial whole. 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.

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

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

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

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These two statements report the School District's *net position* and changes in 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 factors, some financial, some not. 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, Governmental Activities include the School District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities and non-instructional services.

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

***Fund Financial Statements***

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

***Governmental Funds*** Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual*, 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 to 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.

**The School District as a Whole**

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

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**(Table 1)**  
 Net Position

	Governmental Activities		
	2018	2017	Change
<b>Assets</b>			
Current and Other Assets	\$72,419,342	\$72,931,242	(\$511,900)
Capital Assets, Net	18,731,661	19,400,364	(668,703)
<i>Total Assets</i>	<u>91,151,003</u>	<u>92,331,606</u>	<u>(1,180,603)</u>
<b>Deferred Outflows of Resources</b>			
Deferred Charge on Refunding	16,610	33,220	(16,610)
Pension	20,113,288	18,469,091	1,644,197
OPEB	694,816	138,296	556,520
<i>Total Deferred Outflows of Resources</i>	<u>20,824,714</u>	<u>18,640,607</u>	<u>2,184,107</u>
<b>Liabilities</b>			
Current Liabilities	6,954,462	7,937,413	982,951
Long Term Liabilities:			
Due Within One Year	1,827,707	1,764,366	(63,341)
Due in More than One Year			
Net Pension Liability	70,968,034	101,812,811	30,844,777
Net OPEB Liability	16,934,073	21,816,013	4,881,940
Other Amounts	4,912,994	5,947,105	1,034,111
<i>Total Liabilities</i>	<u>101,597,270</u>	<u>139,277,708</u>	<u>37,680,438</u>
<b>Deferred Inflows of Resources</b>			
Property Taxes	36,287,118	35,744,057	(543,061)
Pension	6,636,734	1,161,665	(5,475,069)
OPEB	2,870,363	0	(2,870,363)
<i>Total Deferred Inflows of Resources</i>	<u>45,794,215</u>	<u>36,905,722</u>	<u>(8,888,493)</u>
<b>Net Position</b>			
Net Investment in Capital Assets	17,264,461	15,943,070	1,321,391
Restricted:			
Capital Projects	3,352,008	3,089,356	262,652
Debt Service	868,228	831,553	36,675
Other Purposes	716,580	977,138	(260,558)
Unrestricted (Deficit)	<u>(57,617,045)</u>	<u>(86,052,334)</u>	<u>28,435,289</u>
<i>Total Net Position</i>	<u><u>(\$35,415,768)</u></u>	<u><u>(\$65,211,217)</u></u>	<u><u>\$29,795,449</u></u>

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

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

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

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

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

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

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

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

As a result of implementing GASB 75, the School District is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2017, from (\$43,533,500) to (\$65,211,217).

Total current and other assets decreased due mainly to decreases in intergovernmental receivables. The decrease in intergovernmental receivables was attributable to positive State Foundation adjustments for fiscal year 2018 decreasing from adjustment amounts relating to fiscal year 2017. Net capital assets decreased as a result of current year deletions and depreciation outpacing capital asset additions. Current liabilities decreased largely as a result of the pay-down of the School District's tax anticipation note. Long-term general obligation bond debt decreased due to annual debt payments.

Table 2 shows the change in net position for fiscal years 2018 and 2017.

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

	2018	2017	Change
<b>Program Revenues</b>			
Charges for Services and Sales	\$2,360,881	\$2,918,911	(\$558,030)
Operating Grants, Contributions and Interest	4,777,329	5,329,518	(552,189)
Capital Grants	240,533	242,713	(2,180)
<i>Total Program Revenues</i>	<u>7,378,743</u>	<u>8,491,142</u>	<u>(1,112,399)</u>
<b>General Revenues</b>			
Property Taxes	43,944,577	37,540,017	6,404,560
Grants and Entitlements	14,458,693	14,705,515	(246,822)
Unrestricted Contributions	2,084	10,745	(8,661)
Investment Earnings	306,142	187,095	119,047
Gain from Sale of Capital Assets	5,000	4,875	125
Miscellaneous	246,339	314,507	(68,168)
<i>Total General Revenues</i>	<u>58,962,835</u>	<u>52,762,754</u>	<u>6,200,081</u>
<i>Total Revenues</i>	<u>\$66,341,578</u>	<u>\$61,253,896</u>	<u>\$5,087,682</u>

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

	2018	2017	Change
<b>Program Expenses</b>			
Instruction	\$16,266,666	\$38,951,363	\$22,684,697
Support Services			
Pupil	2,212,893	5,185,585	2,972,692
Instructional Staff	968,960	1,321,820	352,860
Board of Education	277,430	272,994	(4,436)
Administration	1,234,224	4,339,183	3,104,959
Fiscal	1,672,795	1,720,497	47,702
Business	460,066	557,450	97,384
Operation and Maintenance of Plant	5,646,160	6,688,734	1,042,574
Pupil Transportation	3,029,591	2,938,305	(91,286)
Central	1,347,228	1,530,728	183,500
Food Service Operations	1,860,800	1,891,401	30,601
Other Non-Instructional Services	487,014	978,004	490,990
Extracurricular Activities	1,040,531	1,463,017	422,486
Interest and Fiscal Charges	41,771	131,795	90,024
<i>Total Program Expenses</i>	<u>36,546,129</u>	<u>67,970,876</u>	<u>31,424,747</u>
<i>Excess of Revenues Over (Under) Expenses</i>	29,795,449	(6,716,980)	36,512,429
<b>Special Item</b>			
Gain on Disposition of Land	0	1,197,573	(1,197,573)
<i>Change in Net Position</i>	29,795,449	(5,519,407)	35,314,856
Net Position Beginning of Year	(65,211,217)	N/A	
Net Position End of Year	<u>(\$35,415,768)</u>	<u>(\$65,211,217)</u>	<u>\$29,795,449</u>

***Governmental Activities***

The information necessary to restate the 2017 beginning balances and the 2017 OPEB expense amounts for the effects of the initial implementation of GASB 75 is not available. Therefore, 2017 functional expenses still include OPEB expense of \$138,296 computed under GASB 45. GASB 45 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 75, OPEB expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of OPEB expense. Under GASB 75, the 2018 statements report negative OPEB expense of \$2,368,592. Consequently, in order to compare 2018 total program expenses to 2017, the following adjustments are needed:

Total 2018 program expenses under GASB 75	\$36,546,129
Negative OPEB expense under GASB 75	2,368,592
2018 contractually required contribution	<u>199,505</u>
Adjusted 2018 program expenses	39,114,226
Total 2017 program expenses under GASB 45	<u>67,970,876</u>
Decrease in program expenses not related to OPEB	<u>(\$28,856,650)</u>



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*Unaudited*

The largest component of the decrease in program expenses results from changes in assumptions and benefit terms related to pensions. STRS adopted certain assumption changes, including a reduction in their discount rate, and also voted to suspend cost of living adjustments (COLA). SERS decreased their COLA assumption. (See Note 11) As a result of these changes, pension expense decreased from \$7,919,389 in fiscal year 2017 to a negative pension expense of \$22,207,253 for fiscal year 2018. The allocation of the fiscal year 2018 negative pension expense to program expenses is as follows:

<b>Program Expenses</b>	<b>2018 Program Expenses Related to Negative Pension Expense</b>
Instruction:	
Regular	(\$12,885,701)
Special	(4,013,823)
Vocational	(191,688)
Support Services:	
Pupils	(2,092,692)
Instructional Staff	(378,451)
Administration	(1,779,388)
Fiscal	(55,719)
Business	(29,665)
Operation and Maintenance of Plant	(403,498)
Pupil Transportation	(63,487)
Central	(143,817)
Operation of	
Food Service Operations	(7,115)
Extracurricular Activities	(162,209)
Total Expenses	<u><u>(\$22,207,253)</u></u>

Program revenues decreased for governmental activities in fiscal year 2018. Charges for services and sales decreased due to a drop in tuition received through foundation adjustments. Operating grants decreased due to reductions in current year restricted grants available from the Ohio Department of Education. General revenues increased in fiscal year 2018 primarily resulting from a significant increase in property taxes due to the timing of advance settlements. The prior fiscal year revenue was much lower due to the fact that many taxpayers paid their second half 2015 bill before July 1, 2016 and therefore that revenue was recognized in fiscal year 2016 instead of fiscal year 2017.

Program expenses decreased in fiscal year 2018 due to changes in the net pension liability and net OPEB liability. As mentioned previously, pension expense decreased by \$30,126,642 attributable to changes in the net pension liability. The recording on a net OPEB liability resulted in an additional \$2,368,592 decrease to program expenses. Changes in deferred outflows relating to payments made subsequent to the measurement date resulted in a decrease of \$187,966 to program expenses as well.

Program expenses excluding amounts related to the net pension and net OPEB liabilities actually increased by approximately \$1,258,000 due to higher purchased services costs.

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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 voter levy does not increase solely as a result of inflation. Although school districts experience inflationary growth in expenses, tax revenue does not keep pace with the increased expenses due to House Bill 920 (HB 920). As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would be assessed \$35.00 annually in taxes. If three years later the home was appraised and increased to \$200,000 (and the inflationary increase in value is comparable to the other property owners), the effective tax rate would become .5 mills and the owner would still be assessed \$35.00 and the School District would collect the same dollar value the levy generated in the year it was passed.

Thus, school districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to voters to maintain a constant level of service. Property taxes made up the largest percentage of revenue for governmental activities for the School District in fiscal year 2018.

The *Statement of Activities* shows the cost of program services and the charges for services and grants offsetting those services for governmental activities. 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.

**(Table 3)**  
 Governmental Activities

Programs	Total Cost of Services 2018	Net Cost of Services 2018	Total Cost of Services 2017	Net Cost of Services 2017
Instruction	\$16,266,666	(\$12,444,744)	\$38,951,363	(\$34,480,877)
Support Services:				
Pupil and Instructional Staff	3,181,853	(2,654,608)	6,507,405	(5,994,106)
Board of Education, Administration, Fiscal and Business	3,644,515	(3,471,284)	6,890,124	(6,643,475)
Operation and Maintenance of Plant	5,646,160	(5,425,403)	6,688,734	(6,406,064)
Pupil Transportation	3,029,591	(2,646,702)	2,938,305	(2,697,798)
Central	1,347,228	(1,287,217)	1,530,728	(1,465,122)
Operation of Non-Instructional Services	2,347,814	(373,918)	2,869,405	(441,491)
Extracurricular Activities	1,040,531	(821,739)	1,463,017	(1,219,006)
Interest and Fiscal Charges	41,771	(41,771)	131,795	(131,795)
<b>Total Expenses</b>	<b>\$36,546,129</b>	<b>(\$29,167,386)</b>	<b>\$67,970,876</b>	<b>(\$59,479,734)</b>

**The School District's Funds**

Information about the School District's major funds begins with the balance sheet. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$66,016,234 and expenditures of \$66,719,999. The total fund balance for the general fund decreased in fiscal year 2018 due to higher purchased service costs. The community as a whole is by far the primary support for the South Euclid-Lyndhurst City School District's students.

**South Euclid-Lyndhurst City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2018*  
*Unaudited*

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**General Fund Budgeting Highlights**

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

During the course of fiscal year 2018, the School District modified its general fund budget. The School District uses site-based budgeting and budgeting systems which are designed to tightly control total site budgets but provide flexibility for site management.

For the general fund, final budget basis revenue was higher than the original budget estimate due mainly to an increase in estimated property taxes and an increase in intergovernmental revenues as the School District received notifications of current year grant awards and changes in State aid were finalized.

For the general fund, final budget basis expenditures were higher than the original budget basis expenditures mainly due to increases in various instructional and support services.

Total actual expenditures on the budget basis were less than final budgeted amounts. This is largely attributable to the School District's cost cutting measures.

**Capital Assets**

During fiscal year 2018, the School District's capital asset additions included construction in progress, various building improvements, new equipment, 3 buses and a van while deletions included a bus. Construction in progress is related to architect/planning costs for a new bus garage. Please see Note 10 for additional information.

**Debt**

Debt obligations outstanding as of June 30, 2018 included general obligation bonds, energy conservation notes and a capital lease payable. The 2006 general obligation bonds were issued to refund the 1993 and 1996 school improvement bonds for the purpose of renovating and making additions to school buildings. The 2017 energy conservation bond anticipation notes were issued to pay the costs of installations, modifications and the remodeling of school buildings to conserve energy. The capital lease was for copiers. The School District fully retired short-term tax anticipation notes during fiscal year 2018. Principal retirement for short-term and long-term debt during fiscal year 2018 totaled \$2,524,413. The School District's overall debt margin was \$67,321,120 with an unvoted debt margin of \$749,544 at June 30, 2018. For more information about the School District's debt obligations, see Notes 15, 16 and 17.

**South Euclid-Lyndhurst City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2018*  
*Unaudited*

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**Current Financial Related Activities**

The financial future and well-being of any School District is not without internal and external challenges. For the most part, both internal and external challenges are quite similar in most School Districts. In this School District, a primary internal challenge is student achievement and a primary external challenge is the over-reliance on local property taxes required to fund general operations.

Unfortunately, the South Euclid-Lyndhurst City School District, like many in Ohio, must rely heavily on its property tax payers for both residents and businesses to support its general operations. Approximately sixty-five percent of general fund revenue is received from property taxes paid by residents and business owners. Thankfully, the South Euclid-Lyndhurst community has been extremely supportive of the School District and has approved continuing operating levies in 1978, 1982, 1986, 1991, 1994, 1998, 2001, 2005, 2008, and again in 2012.

By a considerable margin residents passed a 5.9 mill continuing operating levy on November 6, 2012, which provides about \$4 million (after allowance for delinquencies) annually. One of the major campaign promises the Board of Education made was to remain off the ballot again until at least November 2016.

Current financial projections suggest that, unless something drastic were to change within the projections for fiscal years 2019 and 2020, the School District will not need to seek additional operating funding through a ballot issue until at least November 2019.

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

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional information, contact Paul J. Pestello, Treasurer of South Euclid-Lyndhurst City School District, 5044 Mayfield Road, Lyndhurst, Ohio 44124 or [pestello@sel.k12.oh.us](mailto:pestello@sel.k12.oh.us).

## **Basic Financial Statements**

**South Euclid-Lyndhurst City School District**

*Statement of Net Position*

*June 30, 2018*

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$22,561,068
Accounts Receivable	3,416
Accrued Interest Receivable	24,087
Intergovernmental Receivable	1,718,036
Prepaid Items	105,116
Materials and Supplies Inventory	28,666
Inventory Held for Resale	9,170
Property Taxes Receivable	47,969,783
Non-depreciable Capital Assets	825,526
Depreciable Capital Assets, Net	<u>17,906,135</u>
<i>Total Assets</i>	<u>91,151,003</u>
<b>Deferred Outflows of Resources</b>	
Deferred Charge on Refunding	16,610
Pension	20,113,288
OPEB	<u>694,816</u>
<i>Total Deferred Outflows of Resources</i>	<u>20,824,714</u>
<b>Liabilities</b>	
Accounts Payable	732,693
Accrued Wages and Benefits	5,003,171
Intergovernmental Payable	965,677
Matured Compensated Absences Payable	170,605
Accrued Interest Payable	7,316
Notes Payable	75,000
Long-Term Liabilities:	
Due Within One Year	1,827,707
Due In More Than One Year:	
Net Pension Liability (See Note 11)	70,968,034
Net OPEB Liability (See Note 12)	16,934,073
Other Amounts	<u>4,912,994</u>
<i>Total Liabilities</i>	<u>101,597,270</u>
<b>Deferred Inflows of Resources</b>	
Property Taxes	36,287,118
Pension	6,636,734
OPEB	<u>2,870,363</u>
<i>Total Deferred Inflows of Resources</i>	<u>45,794,215</u>
<b>Net Position</b>	
Net Investment in Capital Assets	17,264,461
Restricted for:	
Capital Outlay	3,352,008
Debt Service	868,228
Scholarships	34,642
Athletics	162,581
Auxiliary Services	49,042
Title I	68,638
Unclaimed Monies	29,420
Other Purposes	372,257
Unrestricted (Deficit)	<u>(57,617,045)</u>
<i>Total Net Position</i>	<u><u>(\$35,415,768)</u></u>

The accompanying notes are an integral part of the basic financial statements

**South Euclid-Lyndhurst City School District**

*Statement of Activities*

*For the Fiscal Year Ended June 30, 2018*

	Program Revenues				Net (Expense)
	Expenses	Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants	Revenue and Changes in Net Position
<b>Governmental Activities</b>					<b>Governmental Activities</b>
Instruction:					
Regular	\$8,057,224	\$674,481	\$250,623	\$0	(\$7,132,120)
Special	6,405,438	292,446	2,461,230	0	(3,651,762)
Vocational	1,804,004	58,056	85,086	0	(1,660,862)
Support Services:					
Pupil	2,212,893	137,598	130,426	43,163	(1,901,706)
Instructional Staff	968,960	32,921	159,182	23,955	(752,902)
Board of Education	277,430	7,835	0	0	(269,595)
Administration	1,234,224	102,035	0	0	(1,132,189)
Fiscal	1,672,795	48,853	0	0	(1,623,942)
Business	460,066	14,508	0	0	(445,558)
Operation and Maintenance of Plant	5,646,160	202,122	0	18,635	(5,425,403)
Pupil Transportation	3,029,591	80,702	147,407	154,780	(2,646,702)
Central	1,347,228	49,211	10,800	0	(1,287,217)
Operation of Non-Instructional Services:					
Food Service Operations	1,860,800	437,861	1,099,389	0	(323,550)
Other Non-Instructional Services	487,014	9,770	426,876	0	(50,368)
Extracurricular Activities	1,040,531	212,482	6,310	0	(821,739)
Interest and Fiscal Charges	41,771	0	0	0	(41,771)
<b>Totals</b>	<b>\$36,546,129</b>	<b>\$2,360,881</b>	<b>\$4,777,329</b>	<b>\$240,533</b>	<b>(29,167,386)</b>
<b>General Revenues</b>					
Property Taxes Levied for:					
General Purposes					41,472,732
Debt Service					830,519
Capital Projects					1,641,326
Grants and Entitlements not Restricted to Specific Programs					14,458,693
Unrestricted Contributions					2,084
Investment Earnings					306,142
Gain from Sale of Capital Assets					5,000
Miscellaneous					246,339
<b>Total General Revenues</b>					<b>58,962,835</b>
Change in Net Position					29,795,449
<i>Net Position Beginning of Year (Restated - See Note 23)</i>					<u>(65,211,217)</u>
<i>Net Position End of Year</i>					<u><u>(\$35,415,768)</u></u>

The accompanying notes are an integral part of the basic financial statements

**South Euclid-Lyndhurst City School District**

*Balance Sheet*

*Governmental Funds*

*June 30, 2018*

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$18,262,465	\$4,269,183	\$22,531,648
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	29,420	0	29,420
Accounts Receivable	3,416	0	3,416
Accrued Interest Receivable	24,087	0	24,087
Intergovernmental Receivable	976,362	741,674	1,718,036
Prepaid Items	105,116	0	105,116
Materials and Supplies Inventory	23,749	4,917	28,666
Inventory Held for Resale	0	9,170	9,170
Interfund Receivable	286,000	0	286,000
Property Taxes Receivable	45,661,814	2,307,969	47,969,783
<i>Total Assets</i>	<u>\$65,372,429</u>	<u>\$7,332,913</u>	<u>\$72,705,342</u>
<b>Liabilities</b>			
Accounts Payable	\$375,297	\$357,396	\$732,693
Accrued Wages and Benefits	4,769,344	233,827	5,003,171
Intergovernmental Payable	938,066	27,611	965,677
Matured Compensated Absences Payable	151,869	18,736	170,605
Interfund Payable	0	286,000	286,000
Notes Payable	0	75,000	75,000
<i>Total Liabilities</i>	<u>6,234,576</u>	<u>998,570</u>	<u>7,233,146</u>
<b>Deferred Inflows of Resources</b>			
Property Taxes	34,645,634	1,641,484	36,287,118
Unavailable Revenue	4,245,273	987,022	5,232,295
<i>Total Deferred Inflows of Resources</i>	<u>38,890,907</u>	<u>2,628,506</u>	<u>41,519,413</u>
<b>Fund Balances</b>			
Nonspendable	158,285	4,917	163,202
Restricted	0	4,131,733	4,131,733
Committed	140,906	0	140,906
Assigned	6,285,039	0	6,285,039
Unassigned (Deficit)	13,662,716	(430,813)	13,231,903
<i>Total Fund Balances</i>	<u>20,246,946</u>	<u>3,705,837</u>	<u>23,952,783</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$65,372,429</u>	<u>\$7,332,913</u>	<u>\$72,705,342</u>

The accompanying notes are an integral part of the basic financial statements



**South Euclid-Lyndhurst City School District**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Position of Governmental Activities  
 June 30, 2018*

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**Total Governmental Fund Balances** \$23,952,783

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

Capital assets used in governmental activities are not financial  
 resources and therefore are not reported in the funds. 18,731,661

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	4,380,003
Grants	739,197
Tuition and Fees	113,095

Total 5,232,295

In the statement of activities, interest is accrued on outstanding debt,  
 whereas in governmental funds, an interest expenditure is  
 reported when due. (7,316)

The net pension liability and net OPEB liability are not due and payable  
 in the current period; therefore, the liability and related deferred  
 inflows/outflows are not reported in governmental funds:

Deferred Outflows - Pension	20,113,288
Deferred Outflows - OPEB	694,816
Net Pension Liability	(70,968,034)
Net OPEB Liability	(16,934,073)
Deferred Inflows - Pension	(6,636,734)
Deferred Inflows - OPEB	(2,870,363)

Total (76,601,100)

Long-term liabilities are not due and payable in the  
 current period and therefore are not reported in  
 the funds:

General Obligation Bonds	(957,962)
Energy Conservation Note	(240,000)
Capital Lease Payable	(43,404)
Compensated Absences	(5,099,335)
Special Termination Benefits	(400,000)
Deferred Charge on Refunding	16,610

Total (6,724,091)

*Net Position of Governmental Activities* (\$35,415,768)

The accompanying notes are an integral part of the basic financial statements

**South Euclid-Lyndhurst City School District**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
**Governmental Funds**  
*For the Fiscal Year Ended June 30, 2018*

	General	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>			
Property Taxes	\$41,103,989	\$2,452,931	\$43,556,920
Intergovernmental	15,816,622	3,709,674	19,526,296
Interest	306,142	2,636	308,778
Tuition and Fees	1,649,352	0	1,649,352
Extracurricular Activities	82,115	103,197	185,312
Contributions and Donations	2,084	60,792	62,876
Charges for Services	10,984	448,919	459,903
Rentals	20,458	0	20,458
Miscellaneous	195,842	50,497	246,339
<i>Total Revenues</i>	<u>59,187,588</u>	<u>6,828,646</u>	<u>66,016,234</u>
<b>Expenditures</b>			
Current:			
Instruction:			
Regular	23,214,633	242,585	23,457,218
Special	10,352,733	1,412,829	11,765,562
Vocational	2,052,056	0	2,052,056
Support Services:			
Pupil	4,814,351	157,323	4,971,674
Instructional Staff	1,139,716	293,457	1,433,173
Board of Education	277,430	0	277,430
Administration	3,915,388	165	3,915,553
Fiscal	1,796,965	0	1,796,965
Business	507,350	0	507,350
Operation and Maintenance of Plant	6,381,102	0	6,381,102
Pupil Transportation	2,871,024	0	2,871,024
Central	1,478,658	10,800	1,489,458
Operation of Non-Instructional Services:			
Food Service Operations	0	1,846,981	1,846,981
Other Non-Instructional Services	13,957	418,357	432,314
Extracurricular Activities	1,046,506	377,092	1,423,598
Capital Outlay	81,565	721,256	802,821
Debt Service:			
Principal Retirement	24,413	1,215,000	1,239,413
Interest and Fiscal Charges	3,286	53,021	56,307
<i>Total Expenditures</i>	<u>59,971,133</u>	<u>6,748,866</u>	<u>66,719,999</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(783,545)</u>	<u>79,780</u>	<u>(703,765)</u>
<b>Other Financing Sources (Uses)</b>			
Inception of Capital Lease	63,227	0	63,227
Energy Conservation Notes Issued	0	240,000	240,000
Sale of Capital Assets	5,000	0	5,000
Transfers In	0	790,000	790,000
Transfers Out	(790,000)	0	(790,000)
<i>Total Other Financing Sources (Uses)</i>	<u>(721,773)</u>	<u>1,030,000</u>	<u>308,227</u>
<i>Net Change in Fund Balances</i>	<u>(1,505,318)</u>	<u>1,109,780</u>	<u>(395,538)</u>
<i>Fund Balances Beginning of Year</i>	<u>21,752,264</u>	<u>2,596,057</u>	<u>24,348,321</u>
<i>Fund Balances End of Year</i>	<u>\$20,246,946</u>	<u>\$3,705,837</u>	<u>\$23,952,783</u>

The accompanying notes are an integral part of the basic financial statements

**South Euclid-Lyndhurst 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, 2018*

<b>Net Change in Fund Balances - Total Governmental Funds</b>		(\$395,538)
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
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	1,031,076	
Current Year Depreciation	(1,699,779)	
Total		(668,703)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:		
Property Taxes	387,657	
Intergovernmental	(113,169)	
Tuition and Fees	45,856	
Total		320,344
Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		
		1,239,413
Other financing sources in the governmental funds increase long-term liabilities in the statement of net position:		
Inception of Capital Lease	(63,227)	
Energy Conservation Notes Issued	(240,000)	
Total		(303,227)
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:		
Accrued Interest on Bonds	3,184	
Amortization of Bond Premium	27,962	
Amortization of Deferred Charge on Refunding	(16,610)	
Total		14,536
Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows:		
Pension	4,806,652	
OPEB	199,505	
Total		5,006,157
Except for amounts reported as deferred inflows/outflows, changes in the net pension/OPEB liability are reported as pension/OPEB contra-expense in the statement of activities:		
Pension	22,207,253	
OPEB	2,368,592	
Total		24,575,845
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	166,622	
Special Termination Benefits	(160,000)	
Total		6,622
<i>Change in Net Position of Governmental Activities</i>		<b>\$29,795,449</b>

The accompanying notes are an integral part of the basic financial statements

**South Euclid-Lyndhurst 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, 2018*

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>Revenues</b>				
Property Taxes	\$41,511,060	\$41,952,205	\$41,954,956	\$2,751
Intergovernmental	14,225,568	15,598,302	15,602,681	4,379
Interest	377,455	424,715	431,026	6,311
Tuition and Fees	2,095,092	2,307,734	2,315,880	8,146
Extracurricular Activities	67,540	73,365	77,525	4,160
Contributions and Donations	1,150	1,250	1,250	0
Charges for Services	9,895	10,750	10,984	234
Rentals	21,175	23,000	23,733	733
Miscellaneous	98,134	168,430	181,439	13,009
<i>Total Revenues</i>	<u>58,407,069</u>	<u>60,559,751</u>	<u>60,599,474</u>	<u>39,723</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	23,865,210	23,568,291	23,226,657	341,634
Special	9,743,238	10,496,238	10,389,719	106,519
Vocational	1,657,789	2,110,789	2,029,325	81,464
Support Services:				
Pupil	4,742,271	4,922,706	4,829,928	92,778
Instructional Staff	1,564,456	1,226,456	1,135,730	90,726
Board of Education	1,067,191	1,094,191	312,772	781,419
Administration	4,166,293	3,990,693	3,915,364	75,329
Fiscal	1,798,746	1,767,963	1,726,646	41,317
Business	539,203	555,203	510,261	44,942
Operation and Maintenance of Plant	6,841,258	6,926,258	6,612,648	313,610
Pupil Transportation	2,929,173	3,123,887	2,881,148	242,739
Central	2,039,612	2,026,162	1,782,546	243,616
Operation of Non-Instructional Services	151,061	155,201	3,451	151,750
Extracurricular Activities	1,092,951	1,100,234	1,046,813	53,421
Capital Outlay	20,200	23,200	18,338	4,862
Debt Service:				
Principal Retirement	24,413	24,413	24,413	0
Interest and Fiscal Charges	3,286	3,286	3,286	0
<i>Total Expenditures</i>	<u>62,246,351</u>	<u>63,115,171</u>	<u>60,449,045</u>	<u>2,666,126</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(3,839,282)</u>	<u>(2,555,420)</u>	<u>150,429</u>	<u>2,705,849</u>
<b>Other Financing Sources (Uses)</b>				
Sale of Capital Assets	0	6,000	5,000	(1,000)
Advances In	325,000	325,000	325,000	0
Advances Out	(20,107)	(287,607)	(286,000)	1,607
Transfers Out	(875,000)	(1,043,760)	(1,040,000)	3,760
<i>Total Other Financing Sources (Uses)</i>	<u>(570,107)</u>	<u>(1,000,367)</u>	<u>(996,000)</u>	<u>4,367</u>
<i>Net Change in Fund Balance</i>	<u>(4,409,389)</u>	<u>(3,555,787)</u>	<u>(845,571)</u>	<u>2,710,216</u>
<i>Fund Balance Beginning of Year</i>	<u>17,207,226</u>	<u>17,207,226</u>	<u>17,207,226</u>	<u>0</u>
Prior Year Encumbrances Appropriated	610,568	610,568	610,568	0
<i>Fund Balance End of Year</i>	<u>\$13,408,405</u>	<u>\$14,262,007</u>	<u>\$16,972,223</u>	<u>\$2,710,216</u>

The accompanying notes are an integral part of the basic financial statements

**South Euclid-Lyndhurst City School District**

*Statement of Fiduciary Assets and Liabilities*

*Agency Funds*

*June 30, 2018*

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<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$85,185</u>
<b>Liabilities</b>	
Undistributed Monies	\$1,551
Due to Students	<u>83,634</u>
<i>Total Liabilities</i>	<u>\$85,185</u>

The accompanying notes are an integral part of the basic financial statements

## **South Euclid-Lyndhurst City School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2018*

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

The South Euclid-Lyndhurst City School District (School District) is a body public and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The School District is governed by a locally-elected five-member Board of Education (Board) and provides educational services as mandated by state and/or federal agencies. This Board controls the School District's six instructional/support facilities which are staffed by 242 classified and 292 certificated personnel who provide services to 3,362 students and other community members.

#### *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, boards, departments and agencies that are not legally separate from the School District. For the School District, this includes the agencies and departments that provide the following services: general operations, food services and student related activities of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt or the levying of taxes, 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 does not have any component units.

The School District participates in three jointly governed organizations and two public entity pools. These organizations are Connect, Lake Geauga Computer Association, Ohio Schools Council, Ohio School Boards Association Workers' Compensation Group Rating Program, and Suburban Health Consortium. These organizations are presented in Notes 18 and 19 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.

#### *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.

## South Euclid-Lyndhurst City School District

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

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**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 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. Nonmajor funds are aggregated and presented in a single column. The fiduciary funds are reported by type.

### **Fund Accounting**

The School District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. 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 liabilities and deferred inflows of resources is reported as fund balance. The following is the School District's major governmental fund:

**General Fund** The general fund is the operating fund of the School District and is used to account for and report 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.

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.

## South Euclid-Lyndhurst City School District

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

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***Fiduciary Funds*** Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. 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 agency funds account for student activities.

### ***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 outflows/inflows of resources, and in the presentation of expenses versus expenditures.

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

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On 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 year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure



## South Euclid-Lyndhurst City School District

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

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requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

***Deferred Outflows/Inflows of Resources*** In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School District, deferred outflows of resources are reported on the government-wide statement of net position for deferred charges on refunding, pension and OPEB plans. 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 and OPEB plans are explained in Notes 11 and 12.

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, pension, OPEB plans and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2018, but which were levied to finance fiscal year 2019 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and 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, intergovernmental grants and tuition and fees. 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 Balances to Net Position of Governmental Activities found on page 19. Deferred inflows of resources related to pension and OPEB plans are reported on the government-wide statement of net position. (See Notes 11 and 12)

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

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

## **South Euclid-Lyndhurst City School District**

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

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### ***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 object level within each function for the general fund and at the fund level for all other funds. The Treasurer has been given the authority to allocate board appropriations to the function and object levels within each fund, other than the general fund.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original and final budgeted amounts in the budgetary statements reflect the amounts in the amended certificate that 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 year with the restriction that appropriations may not exceed estimated revenues by fund. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

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

To improve cash management, 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."

During fiscal year 2018, investments were limited to STAR Ohio, money market mutual funds and negotiable certificates of deposit. Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices, or in case of mutual funds, current share price.

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

For fiscal year 2018, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, twenty-four hours advance notice is appreciated for deposits and withdrawals of \$25 million or more. STAR Ohio reserves the right to limit the transactions to \$100 million per day, requiring the excess amount to be transacted the following business day(s), but only to the \$100 million limit. All accounts of the participant will be combined for these purposes.

# South Euclid-Lyndhurst City School District

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

Following Ohio statutes, the Board of Education has, by resolution, identified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2018 amounted to \$306,142 which includes \$55,793 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.

## ***Restricted Assets***

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments or imposed by law through constitutional provisions. Restricted assets in the general fund include money set aside for unclaimed monies.

## ***Prepaid Items***

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

## ***Inventory***

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

## ***Capital Assets***

The School District's only capital assets are general capital assets. These assets generally result from expenditures in the governmental funds. They are reported in the governmental activities column of the governmental-wide statement of net position but are not reported in the fund financial statements.

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 \$1,000. 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 and construction in progress 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>
Buildings and Improvements	10-40 years
Furniture and Equipment	5-20 years
Vehicles	10 years

## South Euclid-Lyndhurst City School District

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

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### ***Interfund Balances***

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

### ***Fund Balance***

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

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

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

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

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

***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.

## **South Euclid-Lyndhurst City School District**

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

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### ***Bond Premium***

On the government-wide financial statements, bond premiums are deferred and amortized over the term of the bonds using the straight-line method. Bond premiums are presented as an increase of the face amount of the bonds payable. On the governmental fund statements, bond premiums are receipted in the year the bonds are issued. Under Ohio law, premiums on the original issuance of debt are to be deposited to the bond retirement fund to be used for debt retirement and are precluded from being applied to the project fund. Ohio law does allow premiums on refunding debt to be used as part of the payment to the bond escrow agent.

### ***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 straight-line method and is presented as deferred outflows of resources on the statement of net position.

### ***Compensated Absences***

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

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy. The School District records a liability for accumulated unused sick leave for employees after 10 years of current service with the School District.

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

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the fund or funds from which the employees who have accumulated the leave are paid.

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

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

## South Euclid-Lyndhurst City School District

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

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

### ***Net Position***

Net position represents the difference between all other elements in a statement of financial position. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws, or regulations of other governments adopted by the School District. Net position restricted for other purposes include resources restricted for education management information systems, entry-year programs, school-net professional development and miscellaneous state and federal grant programs.

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

### ***Internal Activity***

Transfers between governmental funds are eliminated on the government-wide financial statements. Internal events that are allocations of overhead expenses from one function to another or within the same function are eliminated on the Statement of Activities. Interfund payments for services provided and used are eliminated.

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

### ***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.

## South Euclid-Lyndhurst City School District

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2018*

### Note 3 – Fund Balances

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

Fund Balances	General	Other Governmental Funds	Total
<b><i>Nonspendable:</i></b>			
Unclaimed Monies	\$29,420	\$0	\$29,420
Prepays	105,116	0	105,116
Materials and Supplies Inventory	23,749	4,917	28,666
<b>Total Nonspendable</b>	<b>158,285</b>	<b>4,917</b>	<b>163,202</b>
<b><i>Restricted for:</i></b>			
Scholarships	0	34,642	34,642
Leadership/Intern Programs	0	131,672	131,672
Athletics	0	159,782	159,782
Auxiliary Services	0	49,042	49,042
Teacher Development	0	3,717	3,717
Capital Projects	0	2,960,722	2,960,722
Debt Service	0	792,156	792,156
<b>Total Restricted</b>	<b>0</b>	<b>4,131,733</b>	<b>4,131,733</b>
<b><i>Committed to:</i></b>			
Educational Service Center Services	12,240	0	12,240
Legal and Audit/Consulting Services	24,042	0	24,042
Termination Benefits	104,124	0	104,124
Other Purposes	500	0	500
<b>Total Committed</b>	<b>140,906</b>	<b>0</b>	<b>140,906</b>
<b><i>Assigned to:</i></b>			
Administration	39,209	0	39,209
After School Daycare Program	324	0	324
Athletics	317,674	0	317,674
Purchases on Order			
Salaries and Fringe Benefits	5,287	0	5,287
Purchased Services	141,413	0	141,413
Materials and Supplies	48,403	0	48,403
Capital Outlay and Other	236,850	0	236,850
Fiscal Year 2019 Operations	5,495,879	0	5,495,879
<b>Total Assigned</b>	<b>6,285,039</b>	<b>0</b>	<b>6,285,039</b>
<b><i>Unassigned (Deficit)</i></b>	<b>13,662,716</b>	<b>(430,813)</b>	<b>13,231,903</b>
<b><i>Total Fund Balances</i></b>	<b>\$20,246,946</b>	<b>\$3,705,837</b>	<b>\$23,952,783</b>

## South Euclid-Lyndhurst City School District

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

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### **Note 4 – Fund Deficits**

At June 30, 2018, the following funds have deficit balances:

#### **Other Governmental Funds:**

##### Special Revenue Funds:

Food Service	\$26,896
Title VI-B	185,609
Title III	3,614
Title I	141,264
Preschool Handicap	2,852
Title II-A	65,001
Miscellaneous Federal Grants	660

The deficits in the non-major special revenue funds are caused by the recognition of expenditures on the modified accrual basis of accounting. The general fund is liable for any deficits in these funds and provides transfers when cash is required, rather than when accruals occur.

### **Note 5 – Budgetary Basis of Accounting**

While the School District is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual 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 basis).
2. Advances-In and Advances-Out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).
3. Unrecorded cash represents amounts received but not included as revenue on the budgetary statements, but is reported on the operating statements prepared using GAAP.
4. Investments are reported at cost (budget basis) rather than at fair value (GAAP basis).
5. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
6. Budgetary revenues and expenditures of the public school support, latchkey, stadium funds and termination benefits are classified to general fund for GAAP Reporting.
7. Encumbrances are treated as expenditures (budget basis) rather than as restricted, committed or assigned fund balance (GAAP basis).



## South Euclid-Lyndhurst City School District

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

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>General</u>
GAAP Basis	(\$1,505,318)
Net Adjustment for Revenue Accruals	1,501,976
Advances In	325,000
Beginning Unrecorded Cash	18,338
Beginning Fair Value Adjustment for Investments	(40,188)
Ending Fair Value Adjustment for Investments	148,688
Net Adjustment for Expenditure Accruals	(39,798)
Perspective Difference:	
Public School Support	5,140
Latchkey	147
Stadium Funds	(50,000)
Termination Benefits	(43,225)
Advances Out	(286,000)
Encumbrances	(880,331)
Budget Basis	<u><u>(\$845,571)</u></u>

### **Note 6 – Deposits and Investments**

Monies held by the School District are classified by State statute 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.

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

## South Euclid-Lyndhurst City School District

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

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

1. United States Treasury bills, bonds notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio, and with certain limitations bonds and other obligations of political subdivisions of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio); and
8. Certain bankers' acceptances and commercial paper for a period not to exceed one hundred eighty days in an amount not to exceed 40 percent of the interim monies available for investment at any one time if training requirements have been met.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity.

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

## South Euclid-Lyndhurst City School District

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

### **Investments**

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

Measurement/Investment	Measurement Amount	Maturity	Standard & Poor's Rating	Percentage of Total Investments
Net Asset Value (NAV) per Share				
STAR Ohio	\$9,059,691	Average 48.9 Days	AAAm	N/A
Fair Value - Level One Inputs				
Money Market Mutual Fund	981,577	Less than one year	AAA	N/A
Fair Value - Level Two Inputs				
Negotiable Certificates of Deposit	5,226,787	Less than one year	N/A	23.08%
Negotiable Certificates of Deposit	<u>7,374,525</u>	More than one year	N/A	32.57%
Total	<u><u>\$22,642,580</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, 2018. The Money Market Mutual Fund is measured at fair value and is valued using quoted market prices (Level 1 inputs). The School District's remaining investments measured at fair value are valued using methodologies that incorporate market inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data including market research publications. Market indicators and industry and economic events are also monitored, which could require the need to acquire further market data. (Level 2 inputs)

**Credit Risk** The negotiable certificates of deposit are unrated. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The School District has no investment policy that addresses credit risk.

**Interest Rate Risk** The School District has no policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and that an investment must be purchased with the expectation that it will be held to maturity.

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

### **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 distributions are received by the School District in the second half of the fiscal year. Second-half tax distributions are received in the first half of the following fiscal year.

## South Euclid-Lyndhurst City School District

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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 2018 represent the collection of calendar year 2017 taxes. Real property taxes received in calendar year 2018 were levied after April 1, 2017, on the assessed value listed as of January 1, 2017, the lien date. Assessed values for real property are established by State law at thirty-five percent of appraised market value. Real property are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

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

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

Accrued property taxes receivable includes real property and public utility property taxes which are measurable as of June 30, 2018, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 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. On the accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on the modified accrual basis the revenue has been reported as deferred inflows of resources – unavailable revenue.

The amount available as an advance at June 30, 2018, was \$6,884,002 in the general fund, \$140,267 in the bond retirement debt service fund, and \$278,393 in the permanent improvement capital projects fund. The amount available as an advance at June 30, 2017, was \$7,734,969 in the general fund, \$157,953 in the bond retirement debt service fund, and \$313,495 in the permanent improvement capital projects fund.

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

	2017 Second Half Collections		2018 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$738,309,110	97.91 %	\$732,775,390	97.76 %
Public Utility Personal	15,727,200	2.09	16,768,650	2.24
<b>Total</b>	<b>\$754,036,310</b>	<b>100.00 %</b>	<b>\$749,544,040</b>	<b>100.00 %</b>
Tax rate per \$1,000 of assessed valuation	\$107.70		\$107.70	

## South Euclid-Lyndhurst City School District

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

### Note 8 – Receivables

Receivables at June 30, 2018, consisted of taxes, accounts (tuition and miscellaneous) and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes. All receivables, except delinquent property taxes, are expected to be collected within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

A summary of the intergovernmental receivables follows:

Governmental Activities	Amount
Prior Year State Foundation Adjustments	\$728,401
Title VI-B Grant	408,266
Title I Grant	235,410
Bureau Workers Compensation Refund	169,706
Title II-A Grant	83,888
School Employees Retirement System Refund	70,681
Medicaid Reimbursement	7,574
Miscellaneous Federal Grant	6,164
Preschool Handicap Grant	5,469
State Breakfast Subsidy	2,477
Total Governmental Activities	<u><u>\$1,718,036</u></u>

### Note 9 – Risk Management

#### *Insurance*

The School District is exposed to various risks of loss related to torts, thefts of, damage to, and destruction of assets, errors, and omissions, injuries to employees, and natural disasters. The School District has addressed these various types of risk by purchasing a comprehensive insurance policy through commercial carriers.

General liability insurance is maintained in the amount of \$1,000,000 for each occurrence and \$2,000,000 in the aggregate.

The School District maintains fleet insurance in the amount of \$1,000,000 for any one accident or loss.

The School District maintains replacement cost insurance on buildings and contents in the amount of \$160,016,469.

Settled claims have not exceeded coverage within the last three years. There has not been a significant reduction in coverage from the prior years.

#### *Employee Health Benefits*

For fiscal year 2018, the School District was a participant in the Suburban Health Consortium (the "Consortium") to provide employee health, dental 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

## South Euclid-Lyndhurst City School District

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

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.

The School District provides vision coverage through VSP and is also subject to certain deductibles, co-pays and maximum benefits as outlined in the plan. In order for employees to be eligible to receive vision coverage they must work at least twenty hours or more for classified and at least half time for certified employees. Per the negotiated agreement, the premium is paid based on full time equivalency. If an employee is not full time, the School District pays the premium for an employee who has single coverage and the difference between the monthly family premium and the employee contribution for family coverage.

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

For fiscal year 2018, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 19). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Sheakley Uniserve provides administration, cost control, and actuarial services to the GRP.

### **Note 10 – Capital Assets**

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

	Balance 6/30/17	Additions	Deletions	Balance 6/30/18
<b>Governmental Activities</b>				
<b><i>Capital Assets, not being depreciated:</i></b>				
Land	\$734,366	\$0	\$0	\$734,366
Construction in Progress	0	91,160	0	91,160
<b><i>Total Capital Assets, not being depreciated</i></b>	<b>734,366</b>	<b>91,160</b>	<b>0</b>	<b>825,526</b>
<b><i>Capital Assets, being depreciated:</i></b>				
Buildings and Improvements	30,118,046	299,998	0	30,418,044
Furniture and Equipment	10,738,686	352,714	0	11,091,400
Vehicles	4,218,865	287,204	(56,338)	4,449,731
<b><i>Total Capital Assets, being depreciated</i></b>	<b>45,075,597</b>	<b>939,916</b>	<b>(56,338)</b>	<b>45,959,175</b>
<b><i>Less Accumulated Depreciation:</i></b>				
Buildings and Improvements	(15,455,533)	(675,980)	0	(16,131,513)
Furniture and Equipment	(8,161,716)	(703,146)	0	(8,864,862)
Vehicles	(2,792,350)	(320,653)	56,338	(3,056,665)
<b><i>Total Accumulated Depreciation</i></b>	<b>(26,409,599)</b>	<b>(1,699,779) *</b>	<b>56,338</b>	<b>(28,053,040)</b>
<b><i>Total Capital Assets, being depreciated, net</i></b>	<b>18,665,998</b>	<b>(759,863)</b>	<b>0</b>	<b>17,906,135</b>
<b>Governmental Activities Capital Assets, Net</b>	<b>\$19,400,364</b>	<b>(\$668,703)</b>	<b>\$0</b>	<b>\$18,731,661</b>

## South Euclid-Lyndhurst City School District

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

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

Instruction:	
Regular	\$934,428
Special	3,172
Vocational	2,464
Support Services:	
Pupil	11,474
Instructional Staff	31,085
Administration	8,405
Fiscal	3,600
Business	11,691
Operation and Maintenance of Plant	139,025
Pupil Transportation	289,679
Central	92,543
Operation of Non-Instructional Services:	
Food Service Operations	25,202
Other Non-Instructional Services	54,407
Extracurricular Activities	92,604
Total Depreciation Expense	<u>\$1,699,779</u>

### **Note 11 – Defined Benefit Pension Plans**

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

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

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

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

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

## South Euclid-Lyndhurst City School District

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

GASB 68/75 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires funding to come from these employers. All pension contributions to date have come solely from these employers (which also includes pension costs paid in the form of withholdings from employees). The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits. In addition, health care plan enrollees pay a portion of the health care costs in the form of a monthly premium. State statute requires the retirement systems to amortize unfunded pension liabilities within 30 years. If the pension amortization period exceeds 30 years, each retirement system’s board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension/OPEB liability. Resulting adjustments to the net pension/OPEB liability would be effective when the changes are legally enforceable. The Ohio Revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients.

The proportionate share of each plan’s unfunded benefits is presented as a long-term *net pension/OPEB liability* on the accrual basis of accounting. Any liability for the contractually-required pension/OPEB contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting. The remainder of this note includes the required pension disclosures. See Note 12 for the required OPEB disclosures.

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

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

Age and service requirements for retirement are as follows:

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

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

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.



## South Euclid-Lyndhurst City School District

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

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Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2018, the allocation to pension, death benefits, and Medicare B was 13.5 percent. The remaining .5 percent was allocated to the Health Care Fund.

The School District's contractually required contribution to SERS was \$1,382,388 for fiscal year 2018. Of this amount \$20,690 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.

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

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

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

## South Euclid-Lyndhurst City School District

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

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

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2018, the employer rate was 14 percent and the plan members were also required to contribute 14 percent of covered salary. The fiscal year 2018 contribution rates were equal to the statutory maximum rates.

The School District's contractually required contribution to STRS was \$3,424,264 for fiscal year 2018. Of this amount \$483,227 is reported as an intergovernmental payable.

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

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

	SERS	STRS	Total
Proportion of the Net Pension Liability Prior Measurement Date	0.32784280%	0.23247905%	
Proportion of the Net Pension Liability Current Measurement Date	0.31342150%	0.21991715%	
Change in Proportionate Share	-0.01442130%	-0.01256190%	
Proportionate Share of the Net Pension Liability	\$18,726,242	\$52,241,792	\$70,968,034
Pension Contra-Expense	(\$990,385)	(\$21,216,868)	(\$22,207,253)

## South Euclid-Lyndhurst City School District

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

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

	SERS	STRS	Total
<b>Deferred Outflows of Resources</b>			
Differences between expected and actual experience	\$805,913	\$2,017,333	\$2,823,246
Changes of assumptions	968,348	11,425,854	12,394,202
Changes in proportionate Share and difference between School District contributions and proportionate share of contributions	89,188	0	89,188
School District contributions subsequent to the measurement date	1,382,388	3,424,264	4,806,652
<b>Total Deferred Outflows of Resources</b>	<b>\$3,245,837</b>	<b>\$16,867,451</b>	<b>\$20,113,288</b>
<b>Deferred Inflows of Resources</b>			
Differences between expected and actual experience	\$0	\$421,048	\$421,048
Net difference between projected and actual earnings on pension plan investments	88,889	1,724,040	1,812,929
Changes in Proportionate Share and Difference between School District contributions and proportionate share of contributions	753,325	3,649,432	4,402,757
<b>Total Deferred Inflows of Resources</b>	<b>\$842,214</b>	<b>\$5,794,520</b>	<b>\$6,636,734</b>

\$4,806,652 reported as deferred outflows of resources related to pension resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2019	\$453,541	\$1,305,954	\$1,759,495
2020	903,286	3,651,242	4,554,528
2021	100,955	2,522,112	2,623,067
2022	(436,547)	169,359	(267,188)
<b>Total</b>	<b>\$1,021,235</b>	<b>\$7,648,667</b>	<b>\$8,669,902</b>

## South Euclid-Lyndhurst City School District

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

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### ***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, 2017, are presented below:

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

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

For 2017, the mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females. Mortality among service retired members, and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120 percent of male rates, and 110 percent of female rates. Mortality among disabled members were based upon the RP-2000 Disabled Mortality Table, 90 percent for male rates and 100 percent for female rates, set back five years is used for the period after disability retirement.

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

## South Euclid-Lyndhurst City School District

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

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

**Discount Rate** The total pension liability was calculated using the discount rate of 7.50 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State 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	\$25,987,158	\$18,726,242	\$12,643,745

## South Euclid-Lyndhurst City School District

*Notes to the Basic Financial Statements  
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### *Actuarial Assumptions - STRS*

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

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

For the July 1, 2017, actuarial valuation, post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

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

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

## South Euclid-Lyndhurst City School District

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

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

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

**Discount Rate** The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2017. The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2017. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2017.

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

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
School District's proportionate share of the net pension liability	\$74,886,829	\$52,241,792	\$33,166,740

## South Euclid-Lyndhurst City School District

*Notes to the Basic Financial Statements  
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### **Note 12 - Defined Benefit OPEB Plans**

See Note 11 for a description of the net OPEB liability.

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

Health Care Plan Description - The School District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. SERS' Health Care Plan provides healthcare benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need 10 years of service credit, exclusive of most types of purchased credit, to qualify to participate in SERS' health care coverage. In addition to age and service retirees, disability benefit recipients and beneficiaries who are receiving monthly benefits due to the death of a member or retiree, are eligible for SERS' health care coverage. Most retirees and dependents choosing SERS' health care coverage are over the age of 65 and therefore enrolled in a fully insured Medicare Advantage plan; however, SERS maintains a traditional, self-insured preferred provider organization for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program. Health care is a benefit that is permitted, not mandated, by statute. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2018, .5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2018, this amount was \$23,700. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2018, the School District's surcharge obligation was \$148,305.

The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The School District's contractually required contribution to SERS was \$199,505 for fiscal year 2018. Of this amount \$149,071 is reported as an intergovernmental payable.



## South Euclid-Lyndhurst City School District

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

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2018, STRS did not allocate any employer contributions to post-employment health care.

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

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

	SERS	STRS	Total
Proportion of the Net OPEB Liability Prior Measurement Date	0.32918440%	0.23247905%	
Proportion of the Net OPEB Liability Current Measurement Date	0.31127180%	0.21991715%	
Change in Proportionate Share	-0.01791260%	-0.01256190%	
Proportionate Share of the Net OPEB Liability	\$8,353,717	\$8,580,356	\$16,934,073
OPEB Expense/(Contra-Expense)	\$345,642	(\$2,714,234)	(\$2,368,592)

## South Euclid-Lyndhurst City School District

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

	SERS	STRS	Total
<b>Deferred Outflows of Resources</b>			
Differences between expected and actual experience	\$0	\$495,311	\$495,311
School District contributions subsequent to the measurement date	199,505	0	199,505
Total Deferred Outflows of Resources	\$199,505	\$495,311	\$694,816
<b>Deferred Inflows of Resources</b>			
Changes of assumptions	\$792,725	\$691,175	\$1,483,900
Net difference between projected and actual earnings on OPEB plan investments	22,060	366,745	388,805
Changes in Proportionate Share and Difference between School District contributions and proportionate share of contributions	421,817	575,841	997,658
Total Deferred Inflows of Resources	\$1,236,602	\$1,633,761	\$2,870,363

\$199,505 reported as deferred outflows of resources related to OPEB resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2019	(\$445,566)	(\$220,304)	(\$665,870)
2020	(445,566)	(220,304)	(665,870)
2021	(339,955)	(220,304)	(560,259)
2022	(5,515)	(220,306)	(225,821)
2023	0	(128,618)	(128,618)
Thereafter	0	(128,614)	(128,614)
Total	(\$1,236,602)	(\$1,138,450)	(\$2,375,052)

### ***Actuarial Assumptions - SERS***

The total OPEB liability is determined by SERS' actuaries in accordance with GASB Statement No. 74, as part of their annual actuarial valuation for each retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment terminations). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

## South Euclid-Lyndhurst City School District

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

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

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

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

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, 120 percent of male rates and 110 percent of female rates. RP-2000 Disabled Mortality Table with 90 percent for male rates and 100 percent for female rates set back five years.

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

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

## South Euclid-Lyndhurst City School District

*Notes to the Basic Financial Statements  
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The SERS health care plan follows the same asset allocation and long-term expected real rate of return for each major asset class as the pension plan, see Note 11.

**Discount Rate** The discount rate used to measure the total OPEB liability at June 30, 2017 was 3.63 percent. The discount rate used to measure total OPEB liability prior to June 30, 2017 was 2.98 percent. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the state statute contribution rate of 2.00 percent of projected covered employee payroll each year, which includes a 1.50 percent payroll surcharge and 0.50 percent of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2025. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2024 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.56 percent, as of June 30, 2017 (i.e. municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

**Sensitivity of the School District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates** The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability of SERS, what SERS' net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.63 percent) and higher (4.63 percent) than the current discount rate (3.63 percent). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.5 percent decreasing to 4.0 percent) and higher (8.5 higher decreasing to 6.0 percent) than the current rate.

	1% Decrease (2.63%)	Current Discount Rate (3.63%)	1% Increase (4.63%)
School District's proportionate share of the net OPEB liability	\$10,088,177	\$8,353,717	\$6,979,582
	1% Decrease (6.5 % decreasing to 4.0 %)	Current Trend Rate (7.5 % decreasing to 5.0 %)	1% Increase (8.5 % decreasing to 6.0 %)
School District's proportionate share of the net OPEB liability	\$6,778,416	\$8,353,717	\$10,438,656

## South Euclid-Lyndhurst City School District

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

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### *Actuarial Assumptions – STRS*

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

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

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

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

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

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

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

The STRS health care plan follows the same asset allocation and long-term expected real rate of return for each major asset class as the pension plan, see Note 11.

## South Euclid-Lyndhurst City School District

*Notes to the Basic Financial Statements  
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**Discount Rate** The discount rate used to measure the total OPEB liability was 4.13 percent as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes STRS Ohio continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was not projected to be sufficient to make all projected future benefit payments of current plan members. The OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2037. Therefore, the long-term expected rate of return on OPEB plan assets was used to determine the present value of the projected benefit payments through the fiscal year ending June 30, 2036 and the Bond Buyer 20-year municipal bond rate of 3.58 percent as of June 30, 2017 (i.e. municipal bond rate), was used to determine the present value of the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The blended discount rate of 4.13 percent, which represents the long-term expected rate of return of 7.45 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 3.58 percent for the unfunded benefit payments, was used to measure the total OPEB liability as of June 30, 2017. A blended discount rate of 3.26 percent which represents the long term expected rate of return of 7.75 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 2.85 percent for the unfunded benefit payments was used to measure the total OPEB liability at June 30, 2016.

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

	1% Decrease (3.13%)	Current Discount Rate (4.13%)	1% Increase (5.13%)
School District's proportionate share of the net OPEB liability	\$11,518,990	\$8,580,356	\$6,257,874
	1% Decrease	Current Trend Rate	1% Increase
School District's proportionate share of the net OPEB liability	\$5,961,263	\$8,580,356	\$12,027,388

### Note 13 – Employee Benefits

#### *Compensated Absences*

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees whose established contractual year is 240 days or more earn 10 to 25 days of vacation per year, depending upon length of service and hours worked. Teachers do not earn vacation time. Administrators employed to work 260 days per year earn 20 to 30 days of vacation annually. Accumulated unused vacation time is paid to classified employees and administrators upon termination of employment.

## South Euclid-Lyndhurst City School District

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Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. Employee sick leave may be accumulated to a maximum number of days, classified employees, teachers and administrators have an unlimited number of days. Upon retirement, employees receive payment for a percentage of their total sick leave accumulation, up to a maximum number of days. Classified employees receive 30 percent of their total sick leave accumulation to a maximum of 75 days, teachers receive 30 percent of their total sick leave accumulation to a maximum of 80 days, and administrators receive 30 percent of their total sick leave to a maximum of 90 days.

### ***Early Retirement Incentive***

The School District negotiated an early retirement incentive for eligible certified employees who submit an irrevocable notice of resignation for retirement from the State Teachers Retirement System on or before March 2023 to take effect on or before July 1, 2023 and who are not seeking reemployment with the School District. The incentive amount is \$60,000 per eligible employee to be made in three equal payments in January of the first, second and third consecutive year after retirement. There was a liability of \$400,000 as of June 30, 2018 for this plan.

### ***Life Insurance***

The School District provides life insurance and accidental death and dismemberment insurance to most employees administered by Anthem through the Suburban Health Consortium, in the amount of \$60,000 for all certified employees, \$50,000 for classified employees, and \$135,000 for administrators.

### **Note 14 – Set-Asides**

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

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

	<u>Capital Improvements</u>
Set-Aside Balance as of June 30, 2017	\$0
Current Year Set-Aside Requirement	584,131
Current Year Offsets	(932,309)
Qualifying Disbursements	(915,618)
Totals	<u><u>(\$1,263,796)</u></u>
Set-Aside Balance Carried Forward to Future Fiscal Years	<u><u>\$0</u></u>
Set-Aside Balance as of June 30, 2018	<u><u>\$0</u></u>

While the qualifying disbursements and offsets during the fiscal year reduced the capital improvement set-aside amount to below zero, this amount may not be used to reduce the set-aside requirements of future fiscal years.

## South Euclid-Lyndhurst City School District

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### Note 15 – Capital Lease

In fiscal year 2018, the School District entered into a capital lease for copiers. The lease obligation meets the criteria of a capital lease and has been recorded on the government-wide statements. The original amounts capitalized for the capital lease and the book value as of June 30, 2018 follows:

	Amounts
Asset:	
Furniture and Equipment	\$63,227
Less: Accumulated Depreciation	(3,161)
Current Book Value	\$60,066

Amortization of the asset held under the capital lease is included in depreciation expense.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and present value of the minimum lease payments is as follows:

Year ending June 30,	Capital Lease
2019	\$23,089
2020	23,090
Total Minimum Lease Payments	46,179
Less: Amount Representing Interest	(2,775)
Present Value of Minimum Lease Payments	\$43,404

### Note 16 – Short-Term Debt

The School District's note activity, including amounts outstanding and interest rates, is as follows:

	Balance 6/30/2017	Additions	Deletions	Balance 6/30/2018
<b>Permanent Improvement Fund</b>				
Tax Anticipation Note 2007 - 5.0%	\$1,200,000	\$0	(\$1,200,000)	\$0
Unamortized Premium	31,979	0	(31,979)	0
Total Tax Anticipation Note	1,231,979	0	(1,231,979)	0
<b>Building Fund</b>				
Energy Conservation Notes, Series 2016 - 1.20%	85,000	0	(85,000)	0
Energy Conservation Notes, Series 2017 - 1.46%	0	75,000	0	75,000
Total Energy Conservation Notes	85,000	75,000	(85,000)	75,000
<i>Total Short-Term Debt</i>	\$1,316,979	\$75,000	(\$1,316,979)	\$75,000

The energy conservation improvement bond anticipation notes are backed by the full faith and credit of the School District and will mature within one year. The note liability is reflected in the fund which received the proceeds.



## South Euclid-Lyndhurst City School District

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### Note 17 – Long-Term Obligations

The original issue date, interest rate, original issue amount and date of maturity of each of the School District's long-term obligations are:

Debt Issue	Interest Rate	Issue Amount	Date of Maturity
<i>General Obligation Bonds:</i>			
School Improvement Refunding - 2006 Term Bonds	4.00%	\$1,830,000	December 1, 2018
Energy Conservation Notes, Series 2017	1.46%	240,000	August 3, 2018

Changes in long-term obligations of the School District during fiscal year 2018 were as follows:

	Principal Outstanding 6/30/17	Additions	(Reductions)	Principal Outstanding 6/30/18	Amount Due in One Year
<b>General Obligation Debt:</b>					
School Improvement Refunding - 2006 Term Bonds	\$1,830,000	\$0	(\$900,000)	\$930,000	\$930,000
Unamortized Premium	55,924	0	(27,962)	27,962	0
<i>Total General Obligation Bonds</i>	<u>1,885,924</u>	<u>0</u>	<u>(927,962)</u>	<u>957,962</u>	<u>930,000</u>
Energy Conservation Notes, Series 2016	315,000	0	(315,000)	0	0
Energy Conservation Notes, Series 2017	0	240,000	0	240,000	0
<i>Total Energy Conservation Notes</i>	<u>315,000</u>	<u>240,000</u>	<u>(315,000)</u>	<u>240,000</u>	<u>0</u>
<b>Other Long-term Obligations:</b>					
Net Pension Liability					
STRS	77,817,744	0	(25,575,952)	52,241,792	0
SERS	23,995,067	0	(5,268,825)	18,726,242	0
<i>Total Net Pension Liability</i>	<u>101,812,811</u>	<u>0</u>	<u>(30,844,777)</u>	<u>70,968,034</u>	<u>0</u>
Net OPEB Liability					
STRS	12,433,040	0	(3,852,684)	8,580,356	0
SERS	9,382,973	0	(1,029,256)	8,353,717	0
<i>Total Net OPEB Liability</i>	<u>21,816,013</u>	<u>0</u>	<u>(4,881,940)</u>	<u>16,934,073</u>	<u>0</u>
Capital Lease Payable	4,590	63,227	(24,413)	43,404	21,050
Compensated Absences	5,265,957	421,666	(588,288)	5,099,335	716,657
Special Termination Benefits	240,000	240,000	(80,000)	400,000	160,000
<i>Total Other Long-term Obligations</i>	<u>129,139,371</u>	<u>724,893</u>	<u>(36,419,418)</u>	<u>93,444,846</u>	<u>897,707</u>
<b>Total Governmental Activities</b>	<u><u>\$131,340,295</u></u>	<u><u>\$964,893</u></u>	<u><u>(\$37,662,380)</u></u>	<u><u>\$94,642,808</u></u>	<u><u>\$1,827,707</u></u>

Energy conservation bond anticipation notes were issued to pay the costs of installations, modifications and the remodeling of school buildings to conserve energy. These notes will be paid from the building fund.

The capital lease and early retirement incentive will be paid out of the general fund. Compensated absences will be paid from the general fund and the food service, Title VI-B, Title I and preschool handicap special revenue funds. There are no repayment schedules for the net pension liability and net

## South Euclid-Lyndhurst City School District

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

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OPEB liability. However, employer pension and OPEB contributions are made from following funds: general, food service, Title VI-B, Title I and Title II-A. For additional information related to the net pension and net OPEB liabilities see Notes 11 and 12.

On June 28, 2006, the School District issued \$9,389,995 in voted general obligation bonds, which included serial, term, and capital appreciation (deep discount) bonds in the amount of \$7,065,000, \$1,830,000 and \$494,995, respectively. The bonds advance refunded \$5,605,000 of outstanding 1993 School Improvement General Obligation Bonds and \$3,785,000 of outstanding 1996 School Improvement General Obligation Bonds which were issued for the purpose of renovating and making additions to school buildings. The bonds will be paid from property taxes in the debt service fund.

The term bonds remained outstanding at June 30, 2018.

The term bonds maturing on December 1, 2018, are subject to mandatory sinking fund redemption at a redemption price of 100 percent of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1, 2018, in the amount of \$930,000.

The School District's overall debt margin was \$67,321,120 with an unvoted debt margin of \$749,544 at June 30, 2018. Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2018, are \$930,000 and 18,600, respectively.

In 2006, the School District defeased 1993 and 1996 school improvement bond issues, in order to take advantage of lower interest rates. The proceeds of the new bonds were placed in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the School District's financial statements. On June 30, 2018, \$985,000 of the defeased bonds are still outstanding.

### **Note 18 – Jointly Governed Organizations**

#### ***Connect***

Connect is a jointly governed computer service bureau owned and operated by thirteen public school districts. Connect was formed when the Lakeshore Northeast Ohio Computer Consortium and the Lake Erie Educational Computer Association merged during fiscal year 2012. The primary function of Connect is to provide to its members the support and leadership which enables organizations to achieve their objectives through innovative and cost effective shared technology solutions. Major areas of service provided by Connect include accounting, payroll, inventory, career guidance services, handicapped student tracking, pupil scheduling, attendance reporting and grade reporting. Connect is wholly owned by its member districts and is governed by a Board of Directors (member Superintendents). Connect'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. Connect's current membership includes the Educational Service Center of Cuyahoga County and thirteen school districts in Cuyahoga County. Each year, the Board of Directors elects a Chairman, a Vice Chairman, and a Recording Secretary. The Treasurer of the fiscal agent is a nonvoting, ex-officio member of the Board of Directors. The Cuyahoga County Educational Service Center serves as the fiscal agent of Connect. Each school district supports Connect based upon a per pupil charge dependent upon the software packages used. In fiscal year 2018, the School District paid \$80,636 to Connect. Financial information can be obtained by contacting the Treasurer of the fiscal agent at 6393 Oak Tree Boulevard, Independence, Ohio 44131.

## **South Euclid-Lyndhurst City School District**

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

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

During June 2018, the School District switched to the Lake Geauga Computer Association (LGCA). LGCA is a jointly governed organization that was formed for the purpose of providing computer services for accounting, grading, scheduling, EMIS and other applications to its twenty-member school districts. Each of the districts supports LGCA based upon a per pupil charge. The executive committee (governing board) consists of the superintendents and treasurers of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the governing board. LGCA's continued existence is not dependent on the School District's continued participation. The School District paid \$0 to LGCA during fiscal year 2018. Financial information can be obtained from 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, which is the legislative body of the Council. 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 2018, the School District paid \$5,224 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.

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.

## South Euclid-Lyndhurst City School District

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

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### **Note 19 – Public Entity Pools**

#### ***Insurance Purchasing Pool***

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

#### ***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.

## **South Euclid-Lyndhurst City School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2018*

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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 20 – Contingencies**

#### ***Grants***

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

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

School District foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end. As of the date of this report, additional ODE adjustments for fiscal year 2018 are not finalized. As a result, the impact of future FTE adjustments on the fiscal year 2018 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 School District is a party to legal proceedings seeking damages as of June 30, 2018. 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.

**South Euclid-Lyndhurst City School District**

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

**Note 21 – Interfund Transfers and Balances**

***Interfund Transfers***

The general fund transferred \$790,000 to other governmental funds to help provide funding for fiscal year 2018.

***Interfund Balances***

Interfund balances at June 30, 2018, consisted of the following:

<u>Interfund Payable</u>	<u>Interfund Receivable</u>
	<u>General</u>
<i>Other Governmental Funds:</i>	
Local Grants	\$10,000
Title VI-B	150,000
Title III	20,000
Title I	45,000
Title II-A	60,000
Miscellaneous Federal Grants	<u>1,000</u>
<i>Total All Funds</i>	<u><u>\$286,000</u></u>

Interfund receivables/payables of \$286,000 between the general fund and other governmental funds are due to the timing of the receipt of grant monies. The general fund provides temporary funding of the programs until the grant dollars are received.

**Note 22 – 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 Fund	\$880,331
Other Governmental Funds	<u>704,077</u>
Total	<u><u>\$1,584,408</u></u>

## South Euclid-Lyndhurst City School District

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

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### Note 23 – Change in Accounting Principle and Restatement of Net Position

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

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

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

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

Net Position June 30, 2017	(\$43,533,500)
Adjustments:	
Net OPEB Liability	(21,816,013)
Deferred Outflow - Payments Subsequent to Measurement Date	<u>138,296</u>
Restated Net Position June 30, 2017	<u><u>(\$65,211,217)</u></u>

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

### Note 24 – Subsequent Event

On August 3, 2018, the School District retired \$315,000 in energy conservation bond anticipation notes and issued \$240,000 in new notes. The new notes have a maturity date of August 2, 2019, and an interest rate of 2.63 percent.

**South Euclid-Lyndhurst City School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2018*

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## Required Supplementary Information

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**South Euclid-Lyndhurst 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 Five Fiscal Years (1)*

	2018	2017	2016
School District's Proportion of the Net Pension Liability	0.31342150%	0.32784280%	0.32455690%
School District's Proportionate Share of the Net Pension Liability	\$18,726,242	\$23,995,067	\$18,519,531
School District's Covered Payroll	\$10,266,193	\$10,235,579	\$9,797,679
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered - Payroll	182.41%	234.43%	189.02%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.50%	62.98%	69.16%

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

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

See accompanying notes to the required supplementary information

<u>2015</u>	<u>2014</u>
0.33065500%	0.33065500%
\$16,734,261	\$19,662,992
\$9,266,886	\$9,206,344
180.58%	213.58%
71.70%	65.52%

**South Euclid-Lyndhurst City School District**  
*Required Supplementary Information*  
*Schedule of the School District's Proportionate Share of the Net OPEB Liability*  
*School Employees Retirement System of Ohio*  
*Last Two Fiscal Years (1)*

	2018	2017
School District's Proportion of the Net OPEB Liability	0.31127180%	0.32918440%
School District's Proportionate Share of the Net OPEB Liability	\$8,353,717	\$9,382,973
School District's Covered Payroll	\$10,266,193	\$10,235,579
School District's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered - Payroll	81.37%	91.67%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	12.46%	11.49%

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

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

See accompanying notes to the required supplementary information

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**South Euclid-Lyndhurst 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 Five Fiscal Years (1)*

	2018	2017	2016
School District's Proportion of the Net Pension Liability	0.21991715%	0.23247905%	0.23351627%
School District's Proportionate Share of the Net Pension Liability	\$52,241,792	\$77,817,744	\$64,537,067
School District's Covered Payroll	\$24,149,457	\$24,446,664	\$24,376,636
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered - Payroll	216.33%	318.32%	264.75%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.30%	66.80%	72.10%

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

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

See accompanying notes to the required supplementary information

<u>2015</u>	<u>2014</u>
0.23737313%	0.23737313%
\$57,737,359	\$68,776,366
\$24,413,454	\$23,824,092
236.50%	288.68%
74.70%	69.30%

**South Euclid-Lyndhurst City School District**  
*Required Supplementary Information*  
*Schedule of the School District's Proportionate Share of the Net OPEB Liability*  
*State Teachers Retirement System of Ohio*  
*Last Two Fiscal Years (1)*

	2018	2017
School District's Proportion of the Net OPEB Liability	0.21991715%	0.23247905%
School District's Proportionate Share of the Net OPEB Liability	\$8,580,356	\$12,433,040
School District's Covered Payroll	\$24,149,457	\$24,446,664
School District's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered - Payroll	35.53%	50.86%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	47.10%	37.30%

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

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

See accompanying notes to the required supplementary information



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**South Euclid-Lyndhurst City School District**  
*Required Supplementary Information*  
*Schedule of the School District's Contributions*  
*School Employees Retirement System of Ohio*  
*Last Ten Fiscal Years*

	2018	2017	2016	2015
<b>Net Pension Liability</b>				
Contractually Required Contribution	\$1,382,388	\$1,437,267	\$1,432,981	\$1,291,334
Contributions in Relation to the Contractually Required Contribution	(1,382,388)	(1,437,267)	(1,432,981)	(1,291,334)
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
School District Covered Payroll (1)	\$10,239,911	\$10,266,193	\$10,235,579	\$9,797,679
Pension Contributions as a Percentage of Covered Payroll	<u>13.50%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>13.18%</u>
<b>Net OPEB Liability</b>				
Contractually Required Contribution (2)	199,505	138,296	153,490	207,021
Contributions in Relation to the Contractually Required Contribution	(199,505)	(138,296)	(153,490)	(207,021)
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
OPEB Contributions as a Percentage of Covered Payroll	<u>1.95%</u>	<u>1.35%</u>	<u>1.50%</u>	<u>2.11%</u>
Total Contributions as a Percentage of Covered Payroll (2)	<u>15.45%</u>	<u>15.35%</u>	<u>15.50%</u>	<u>15.29%</u>

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

(2) Includes Surcharge

See accompanying notes to the required supplementary information

<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$1,284,390	\$1,274,158	\$1,287,984	\$1,199,885	\$1,288,432	\$898,287
<u>(1,284,390)</u>	<u>(1,274,158)</u>	<u>(1,287,984)</u>	<u>(1,199,885)</u>	<u>(1,288,432)</u>	<u>(898,287)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$9,266,886	\$9,206,344	\$9,576,087	\$9,545,622	\$9,515,743	\$9,128,933
<u>13.86%</u>	<u>13.84%</u>	<u>13.45%</u>	<u>12.57%</u>	<u>13.54%</u>	<u>9.84%</u>
139,535	153,092	195,648	287,337	189,141	517,909
<u>(139,535)</u>	<u>(153,092)</u>	<u>(195,648)</u>	<u>(287,337)</u>	<u>(189,141)</u>	<u>(517,909)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>1.51%</u>	<u>1.66%</u>	<u>2.04%</u>	<u>3.01%</u>	<u>1.99%</u>	<u>5.67%</u>
<u>15.37%</u>	<u>15.50%</u>	<u>15.49%</u>	<u>15.58%</u>	<u>15.53%</u>	<u>15.51%</u>

**South Euclid-Lyndhurst City School District**  
*Required Supplementary Information*  
*Schedule of the School District's Contributions*  
*State Teachers Retirement System of Ohio*  
*Last Ten Fiscal Years*

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>Net Pension Liability</b>				
Contractually Required Contribution	\$3,424,264	\$3,380,924	\$3,422,533	\$3,412,729
Contributions in Relation to the Contractually Required Contribution	<u>(3,424,264)</u>	<u>(3,380,924)</u>	<u>(3,422,533)</u>	<u>(3,412,729)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
School District Covered Payroll (1)	\$24,459,029	\$24,149,457	\$24,446,664	\$24,376,636
Pension Contributions as a Percentage of Covered Payroll	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>
<b>Net OPEB Liability</b>				
Contractually Required Contribution	\$0	\$0	\$0	\$0
Contributions in Relation to the Contractually Required Contribution	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
OPEB Contributions as a Percentage of Covered Payroll	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
Total Contributions as a Percentage of Covered Payroll	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>

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

See accompanying notes to the required supplementary information

2014	2013	2012	2011	2010	2009
\$3,173,749	\$3,097,132	\$3,259,293	\$3,280,302	\$3,218,006	\$3,237,000
(3,173,749)	(3,097,132)	(3,259,293)	(3,280,302)	(3,218,006)	(3,237,000)
\$0	\$0	\$0	\$0	\$0	\$0
\$24,413,454	\$23,824,092	\$25,071,485	\$25,233,092	\$24,753,892	\$24,900,000
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%
\$244,135	\$238,241	\$250,715	\$252,331	\$247,539	\$249,000
(244,135)	(238,241)	(250,715)	(252,331)	(247,539)	(249,000)
\$0	\$0	\$0	\$0	\$0	\$0
1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
14.00%	14.00%	14.00%	14.00%	14.00%	14.00%

## South Euclid-Lyndhurst City School District

### Notes to Required Supplementary Information

For the Fiscal Year Ended June 30, 2018

#### Net Pension Liability

##### Changes in Assumptions – SERS

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

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

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

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

##### Changes in Assumptions - STRS

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

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

For fiscal year 2018 post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70% of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014

## South Euclid-Lyndhurst City School District

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

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Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

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

### Net OPEB Liability

#### Changes in Assumptions – SERS

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

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

#### Changes in Assumptions – STRS

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

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

**South Euclid-Lyndhurst City School District**

*Notes to Required Supplementary Information*

*For the Fiscal Year Ended June 30, 2018*

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CPAs and Business Advisors

**Where Relationships Count.**

**Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

Board of Education  
South Euclid-Lyndhurst City School District  
Lyndhurst, Ohio

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the South Euclid-Lyndhurst City School District (the “District”), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements and have issued our report thereon dated December 27, 2018, wherein we noted that the District implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postretirement Benefits Other Than Pensions*, and as a result restated their June 30, 2017 net position of the governmental activities, as disclosed in Note 23.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District’s internal control. Accordingly, we do not express an opinion on the effectiveness of the District’s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District’s financial statements will not be prevented, or detected and corrected on a timely basis. 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.

Board of Education  
South Euclid-Lyndhurst City School District

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 deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses (Finding No. 2018-001).

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **South Euclid-Lyndhurst City School District's Response to Finding**

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Cimini & Panichi, Inc.*

Cleveland, Ohio  
December 27, 2018



CPAs and Business Advisors

*Where Relationships Count.*

**Independent Auditor’s Report on Compliance for Each Major Program;  
Report on Internal Control over Compliance; and Report on the Schedule  
of Expenditures of Federal Awards Required by the Uniform Guidance**

Board of Education  
South Euclid-Lyndhurst City School District  
Lyndhurst, Ohio

**Report on Compliance for Each Major Federal Program**

We have audited the South Euclid-Lyndhurst City School District’s (the “District”) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District’s major federal programs for the year ended June 30, 2018. The District’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

***Management’s Responsibility***

Management is responsible for compliance 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 express an opinion on compliance for each of the District’s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on 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 that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District’s compliance.

***Opinion on Each Major Federal Program***

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

**Report on Internal Control over Compliance**

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion 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, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program 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 was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. 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.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Board of Education  
South Euclid-Lyndhurst City School District

**Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated December 27, 2018, which contained unmodified opinions on those financial statements, wherein we noted that the District implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postretirement Benefits Other Than Pensions*, and as a result restated their June 30, 2017 net position of the governmental activities, as disclosed in Note 23. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Ciurie + Panichi, Inc.*

Cleveland, Ohio  
December 27, 2018

# South Euclid-Lyndhurst City School District

## Schedule of Expenditures of Federal Awards

### For the Year Ended June 30, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Disbursements	Non-cash Disbursements
U.S. Department of Agriculture:			
Passed-Through Ohio Department of Education:			
Child Nutrition Cluster:			
School Breakfast Program	10.553	\$ 205,187	\$ -
National School Lunch Program	10.555	<u>782,872</u>	<u>92,274</u>
Total Child Nutrition Cluster		988,059	92,274
U.S. Department of Education:			
Passed-Through Ohio Department of Education:			
Special Education Cluster (IDEA):			
Special Education - Grants to States	84.027	940,460	-
Special Education - Preschool Grants	84.173	<u>20,563</u>	<u>-</u>
Total Special Education Cluster (IDEA)		961,023	-
Title I Grants to Local Educational Agencies	84.010	865,715	-
Student Support and Academic Enrichment Program	84.424	14,035	-
English Language Acquisition State Grants	84.365	11,875	-
Improving Teacher Quality State Grants	84.367	<u>187,454</u>	<u>-</u>
Total U.S. Department of Education		<u>2,040,102</u>	<u>-</u>
U.S. Department of Health and Human Services			
Passed-Through Ohio Department of			
Developmental Disabilities:			
Medicaid Cluster:			
Medical Assistance Program	93.778	<u>107,883</u>	<u>-</u>
Total Medicaid Cluster		<u>107,883</u>	<u>-</u>
Total Expenditures of Federal Awards		\$ <u>3,136,044</u>	\$ <u>92,274</u>

# South Euclid-Lyndhurst City School District

Notes to the Schedule of Expenditures of Federal Awards

**For the Year Ended June 30, 2018**

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## **Note 1: Significant Accounting Policies**

### **Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") presents the activity of all federal awards of the South Euclid-Lyndhurst City School District (the "District") and is presented on the cash basis of accounting. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position or changes in net position of the District.

### **Child Nutrition Cluster**

Cash receipts from the U.S. Department of Agriculture are commingled with state grants. It is assumed that federal monies are expended first.

### **Food Donation Program**

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This non-monetary assistance (expenditures) is reported in the Schedule at the fair value of the commodities received.

### **Medicaid Assistance Program Settlement Amounts**

The District received \$170,051 in reimbursements. Of this amount, \$62,168 relate to settlements for services provided during prior years.

## **Note 2: Indirect Cost Rate**

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

# South Euclid-Lyndhurst City School District

Schedule of Findings and Questioned Costs  
2 CFR Section 200.515

**For the Year Ended June 30, 2018**

## 1. Summary of Auditor's Results

(d)(1)(i)	Type of Financial Statement Opinion	Unmodified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any other significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unmodified
(d)(1)(vi)	Are there any reportable findings under 2 CFR Section 200.516(a)?	No
(d)(1)(vii)	Major Programs	Special Education Cluster (IDEA): CFDA # 84.027 and 84.173 Title I Grants to Local Educational Agencies: CFDA #84.010
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: >\$750,000 Type B: All Others
(d)(1)(ix)	Low Risk Auditee?	No

## 2. Findings Related to the Financial Statements Required to be Reported in Accordance With GAGAS

### 2018-001 – Material Weakness in Internal Control

#### Condition:

During the audit, we discovered errors requiring adjustment to properly report the financial statements under the accounting principles generally accepted in the United State of America (GAAP) in accordance with Ohio Revised Code Section 117.38.

The District had errors in accounts and intergovernmental payables cut-off that resulted in an overstatement of unadjusted accounts payable of \$435,931 and intergovernmental payable of \$6,130.



# South Euclid-Lyndhurst City School District

Schedule of Findings and Questioned Costs (continued)  
2 CFR Section 200.515

**For the Year Ended June 30, 2018**

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## **2. Findings Related to the Financial Statements Required to be Reported in Accordance with GAGAS (continued)**

### **2018-001 – Material Weakness in Internal Control (continued):**

#### **Criteria:**

The internal control structure and processes to convert the information from the cash-basis to the GAAP-basis should provide for proper cut-off of balances and transactions. The District should adopt policies and control procedures over the recording of year-end financial transactions and over financial reporting to help ensure the information accurately reflects the activity of the District and thereby increasing the reliability of the financial data at year-end.

#### **Cause:**

The District's personnel misinterpreted how liabilities should be accounted for under the GAAP-basis.

#### **Effect:**

Weaknesses in controls over the financial statement preparation process can result in inaccurate data being reported and relied upon to make financial decisions by the users of the financial statements.

#### **Recommendations:**

District personnel should gain a better understanding of the conversion process. Furthermore, the District should implement a review process to make sure information used to convert the cash-basis accounting system to GAAP is proper.

#### **Management's Response:**

Once the Treasurer prepares the list of accounts payable for the financial statements, the list will be reviewed for accuracy and validity by the Assistance Treasurer before submission to the conversion team for the preparation of the financial statements at fiscal year-end.

## **3. Findings for Federal Awards**

None noted.

**South Euclid-Lyndhurst City School District**

Schedule of Prior Audit Findings and Questioned Costs

**For the Year Ended June 30, 2018**

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No prior year findings or questioned costs.

Linda N. Reid  
*Superintendent of Schools*



Paul J. Pestello  
*Treasurer*

South Euclid Lyndhurst City School District  
Corrective Action Plan – Accounts Payable  
December 27, 2018

Finding 2018-001: Material Weakness in Internal Control

Contact Person: Paul J. Pestello, Treasurer

**Corrective Action:**

Once the Treasurer prepares the list of accounts payable for the financial statements, the list will be reviewed for accuracy and validity by the Assistant Treasurer before submission to the conversion team for the preparation of the financial statements at fiscal year end.

Completion Date: June 30, 2019

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OHIO AUDITOR OF STATE  
**KEITH FABER**



**SOUTH EUCLID – LYNDHURST 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  
JANUARY 24, 2019**