



OHIO AUDITOR OF STATE
KEITH FABER



**WARRENSVILLE HEIGHTS CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

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WARRENSVILLE HEIGHTS CITY SCHOOL DISTRICT
CUYAHOGA COUNTY

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OHIO AUDITOR OF STATE KEITH FABER



INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Emphasis of Matter

As discussed in Note 22 to the financial statements, during 2018, the District adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

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

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2019, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

Keith Faber
Auditor of State

Columbus, Ohio

March 7, 2019

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Warrensville Heights City School District

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

The discussion and analysis of the Warrensville Heights City School District's (the School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 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 notes to the basic financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 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 attributable to a higher rate of collectability. 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. Salaries and benefits also increased due to employees receiving base wage increases and certified staffing level increases due to the reopening of Westwood elementary.
- ❑ In fiscal year 2018 the School District issued certificates of participation in the amount of \$17,225,000 for the purpose of building new school facilities in support of the upcoming Ohio Facilities Construction Commission project.

Using this Annual Financial Report

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

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

Warrensville Heights City School District

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

Reporting the School District as a Whole

Statement of Net Position and the Statement of Activities

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

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

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

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins with the discussion of the balance sheet. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus upon the School District's most significant funds. The School District's major governmental funds are the general fund, the bond retirement debt service fund and the classroom facilities capital projects fund.

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

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

Warrensville Heights City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
Unaudited

The School District as a Whole

You may recall that the *Statement of Net Position* provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net position for the current fiscal year compared to the prior fiscal year:

(Table 1)
 Net Position
 Governmental Activities

	2018	2017	Change
Assets			
Current and Other Assets	\$86,238,235	\$54,841,376	\$31,396,859
Capital Assets	14,401,019	15,025,086	(624,067)
<i>Total Assets</i>	<u>100,639,254</u>	<u>69,866,462</u>	<u>30,772,792</u>
Deferred Outflows of Resources			
Deferred Charges on Refunding	110,866	128,144	(17,278)
Pension	10,142,530	7,956,582	2,185,948
OPEB	857,986	73,605	784,381
<i>Total Deferred Outflows of Resources</i>	<u>11,111,382</u>	<u>8,158,331</u>	<u>2,953,051</u>
Liabilities			
Current Liabilities	2,287,034	2,564,733	277,699
Long-Term Liabilities:			
Due Within One Year	2,050,535	1,716,795	(333,740)
Due in More Than One Year:			
Net Pension Liability	33,053,645	43,094,464	10,040,819
Net OPEB Liability	8,435,907	9,364,077	928,170
Other Amounts	28,162,920	12,715,514	(15,447,406)
<i>Total Liabilities</i>	<u>73,990,041</u>	<u>69,455,583</u>	<u>(4,534,458)</u>
Deferred Inflows of Resources			
Property Taxes	19,903,515	16,640,105	(3,263,410)
Payments in Lieu of Taxes	2,050,300	2,289,462	239,162
Pension	2,701,442	2,051,329	(650,113)
OPEB	963,243	0	(963,243)
<i>Total Deferred Inflows of Resources</i>	<u>25,618,500</u>	<u>20,980,896</u>	<u>(4,637,604)</u>
Net Position			
Net Investment in Capital Assets	2,396,885	1,478,230	918,655
Restricted for:			
Capital Projects	8,483,790	545,773	7,938,017
Debt Service	5,104,145	4,583,976	520,169
Other Purposes	1,319,936	1,592,367	(272,431)
Unrestricted (Deficit)	(5,162,661)	(20,612,032)	15,449,371
<i>Total Net Position</i>	<u>\$12,142,095</u>	<u>(\$12,411,686)</u>	<u>\$24,553,781</u>

Warrensville Heights City School District

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2018

Unaudited

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

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

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

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

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

Warrensville Heights City School District

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2018

Unaudited

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.

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 (\$3,121,214) to (\$12,411,686).

The School District continues to provide the services that the School District residents expect while maintaining the costs of providing those services. The most dramatic changes were to cash and cash equivalents, intergovernmental receivable, taxes receivable, other long-term liabilities, deferred inflows of resources in relation to property taxes and also the changes from net pension/OPEB changes noted above. Cash and cash equivalents increased from fiscal year 2017 mainly due to the unspent cash proceeds from the issuance of the certificates of participation debt and increases in property tax revenues in fiscal year 2018. The increase in intergovernmental receivables is due to new monies expected to be received from the Ohio Facilities Construction Commission (OFCC) for the upcoming construction of new facilities for the School District. The increase in taxes receivable relating to property taxes is due to the County estimating collectability at 81.605 percent for fiscal year 2018 versus only 74.87 percent for fiscal year 2017. Other long-term liabilities increased due to the issuance of new certificates of participation debt, which was offset by the paying down of the school improvement refunding bond debt.

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

Warrensville Heights City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
Unaudited

(Table 2)
 Changes in Net Position
 Governmental Activities

	2018	2017	Change
<i>Program Revenues</i>			
Charges for Services	\$505,673	\$541,130	(\$35,457)
Operating Grants and Contributions	4,090,162	4,312,026	(221,864)
Capital Grants and Contributions	38,440	104,368	(65,928)
Total Program Revenues	4,634,275	4,957,524	(323,249)
<i>General Revenues</i>			
Property Taxes	21,851,848	16,429,992	5,421,856
Grants and Entitlements	20,448,932	12,541,934	7,906,998
Unrestricted Contributions	1,304	1,969	(665)
Investment Earnings	427,035	129,691	297,344
Payment in Lieu of Taxes	2,050,300	2,430,735	(380,435)
Miscellaneous	235,330	213,196	22,134
Total General Revenues	45,014,749	31,747,517	13,267,232
Total Revenues	49,649,024	36,705,041	12,943,983
<i>Program Expenses</i>			
Instruction	12,119,116	20,614,862	8,495,746
Support Services			
Pupil	639,699	1,339,809	700,110
Instructional Staff	552,444	938,122	385,678
Board of Education	82,056	97,352	15,296
Administration	2,074,489	3,487,612	1,413,123
Fiscal	1,243,794	1,303,743	59,949
Business	840,093	1,102,465	262,372
Operation and Maintenance of Plant	3,999,639	4,213,438	213,799
Pupil Transportation	1,532,833	1,451,612	(81,221)
Central	155,946	145,021	(10,925)
Operation of Non-Instructional Services:			
Food Service Operations	848,223	870,752	22,529
Other Non-Instructional Services	127,039	176,955	49,916
Extracurricular Activities	232,635	360,243	127,608
Interest and Fiscal Charges	647,237	668,476	21,239
Total Program Expenses	25,095,243	36,770,462	11,675,219
Increase (Decrease) in Net Position	24,553,781	(65,421)	24,619,202
<i>Net Position Beginning of Year</i>	(12,411,686)	N/A	
<i>Net Position End of Year</i>	\$12,142,095	(\$12,411,686)	\$24,553,781

Warrensville Heights City School District

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2018

Unaudited

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 \$73,605 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 \$643,096. Consequently, in order to compare 2018 total program expenses to 2017, the following adjustments are needed:

Total 2018 program expenses under GASB 75	\$25,095,243
Negative OPEB expense under GASB 75	643,096
2018 contractually required contribution	<u>106,212</u>
Adjusted 2018 program expenses	25,844,551
Total 2017 program expenses under GASB 45	<u>36,770,462</u>
Decrease in program expenses not related to OPEB	<u><u>(\$10,925,911)</u></u>

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 \$2,989,965 in fiscal year 2017 to a negative pension expense of \$9,358,717 for fiscal year 2018. The allocation of the fiscal year 2018 negative pension expense to program expenses is as follows:

Program Expenses	2018 Program Expenses Related to Negative Pension Expense
Instruction:	
Regular	(\$6,090,680)
Special	(1,345,471)
Vocational	(44,179)
Support Services:	
Pupils	(522,294)
Instructional Staff	(244,529)
Board of Education	(522)
Administration	(1,026,757)
Fiscal	(6,267)
Business	(719)
Operation and	
Maintenance of Plant	(27,454)
Pupil Transportation	(8,131)
Central	(10,175)
Operation of	
Non-Instructional Services:	(456)
Food Service Operations	(2,904)
Extracurricular Activities	<u>(28,179)</u>
Total Expenses	<u><u>(\$9,358,717)</u></u>

Warrensville Heights City School District

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2018

Unaudited

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 higher property tax revenues as well as increased grants and entitlements received through State Foundation and OFCC grant monies receivable related to the school construction.

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 \$12,348,682 attributable to changes in the net pension liability. The recording on a net OPEB liability resulted in an additional \$643,096 decrease to program expenses. Changes in deferred outflows relating to payments made subsequent to the measurement date resulted in a decrease of \$272,901 to program expenses as well.

Program expenses excluding amounts related to the net pension and net OPEB liabilities actually increased by approximately \$1,589,000 due to higher purchased services costs as well as increased instructional costs. Salaries and benefits increased due to employees receiving base wage increases and certified staffing level increases due to the reopening of Westwood elementary.

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

Thus School District's dependence upon property taxes is hampered by a lack of revenue growth so it must regularly return to the voters to maintain a constant level of service. Property taxes and grants and entitlements made up the majority of revenues for governmental activities for Warrensville Heights City School District in fiscal year 2018.

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

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

Warrensville Heights City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
Unaudited

(Table 3)
 Total and Net Cost of Program Services
 Governmental Activities

	Total Cost of Services 2018	Net Cost of Services 2018	Total Cost of Services 2017	Net Cost of Services 2017
Instruction	\$12,119,116	\$9,306,135	\$20,614,862	\$17,499,821
Support Services:				
Pupil and Instructional Staff	1,192,143	771,218	2,277,931	1,739,171
Board of Education and Administration	2,156,545	2,110,176	3,584,964	3,520,293
Fiscal and Business	2,083,887	2,083,887	2,406,208	2,406,208
Operation and Maintenance of Plant	3,999,639	3,961,199	4,213,438	4,045,948
Pupil Transportation	1,532,833	1,399,018	1,451,612	1,353,418
Central	155,946	146,946	145,021	137,821
Operation of Food Service	848,223	(115,241)	870,752	15,886
Operation of Non-Instructional Services	127,039	(18,551)	176,955	127,133
Extracurricular Activities	232,635	168,944	360,243	298,763
Interest and Fiscal Charges	647,237	647,237	668,476	668,476
<i>Total Expenses</i>	<u>\$25,095,243</u>	<u>\$20,460,968</u>	<u>\$36,770,462</u>	<u>\$31,812,938</u>

The dependence upon general revenues for governmental activities is apparent from Table 3. The majority of expenses are supported through taxes and other general revenues.

The School District's Funds

Information regarding the School District's major funds starts with the balance sheet. These funds are accounted for using the modified accrual basis of accounting. For fiscal year 2018, the School District had three major funds, the general fund, the bond retirement debt service fund and the classroom facilities capital projects fund. In the general fund, increases in property taxes, attributable to a higher rate of collectability, were greater than the increases in instructional and support expenses due to increased staffing and wage increases, resulting in an increase in fund balance. The bond retirement fund's increased due to increases in property tax revenues and receivables, attributable to a higher rate of collectability. The classroom facilities capital projects fund was established and holds the majority of the certificates of participation cash issuance amounts for the construction of new facilities, which caused the fund to be major in fiscal year 2018.

General Fund Budgeting Highlights

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

Warrensville Heights City School District

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2018

Unaudited

During the course of fiscal year 2018, the School District amended its general fund budget several times by the end of the fiscal year. For the general fund, the final budget basis revenue was increased from the original budget. The change was attributed to increases in instructional and support services corresponding to the increase in final budget revenues. Actual revenue came in slightly higher than the final budget basis revenue because the administration used more conservative budget estimates on the revenue side. Actual expenditures were less than final appropriations due mainly to the diligence of management to keep costs low while still providing the services the School District citizens expect.

Capital Assets

During fiscal year 2018, the School District's capital asset additions included new equipment and a truck while deletions included a truck. Construction has not commenced on the new building as of the end of fiscal year 2018. For more information about the School District's capital assets, see Note 10 to the basic financial statements.

Debt

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

On December 12, 2017 the School District issued certificates of participation in the amount of \$17,225,000 for the purpose of building new school facilities. The issue was split into serial of \$9,505,000 at various interest rates between 3.125 percent and 4.0 percent and term of \$7,720,000 at an interest rate of 3.5 percent. This lease purchase agreement will mature in December of 2047. The certificates of participation were issued at a discount of \$119,227. This discount will be amortized over 30 years using the straight line method.

The overall debt margin of the School District as of June 30, 2018, was \$4,633,018 with an unvoted debt margin of \$321,705 at June 30, 2018. For more information about the School District's debt obligations, see Note 17 to the basic financial statements.

Current Financial Related Activities

The Warrensville Heights City School District is financially sound for the current and next four years in regards to the five year forecast and projections of the general fund of the School District. The School District completed nine fiscal years of cash basis current year expenditures within current year resources in fiscal year 2018. In other words, School District spending has been less than current revenue resources for the last nine fiscal years on the cash basis. The Board of Education, administration, staff and community are committed to the financial condition of the School District. The passage of a bond/permanent improvement levy on November 6, 2018 is a true indication of the commitment to the District by the school community. The School District has to strike a balance of providing the best services to the School District community, while also being fiscally responsible.

Warrensville Heights City School District

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2018

Unaudited

The financial horizon for the School District is favorable with substantial economic development in projects that were initiated near the end of the 2017 fiscal year. Although two major projects are tax abated, the unabated additions to tax valuation are substantial at an estimated \$22 million in new assessed valuation for the School District. The School District also negotiated revenue sharing agreements through effective partnerships with the local governments.

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

Public education in Ohio continues to be a partnership of local tax funding and State funding. Ohio public school districts must plan accordingly for a long-term financial plan that is transparent to the School District community. The Ohio Department of Education recently reported that Warrensville Heights City School District has substantial and effective partnerships with local governments, businesses and stakeholders of the community. School District leadership is committed to the fiscal discipline necessary to provide the best programs within the resources of the School District; which is documented in the semi-annual five year forecast in October and May of each fiscal year. The School District is embarking on a Master Facility Plan that will provide for new facilities in the School District in the near future, with phase one financed by 2017 Certificates of Participation and phase two financed by the November 6, 2018 passage of a bond/permanent improvement levy.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the funds it receives. If you have any questions about this report or need additional financial information, please contact Dr. Michael A. Rock, Treasurer, at the Warrensville Heights City School District, 4500 Warrensville Center Road, Warrensville Heights, Ohio 44128, or mike.rock@whcsd.org.

Warrensville Heights City School District

Statement of Net Position

June 30, 2018

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$51,793,846
Accrued Interest Receivable	91,384
Intergovernmental Receivable	8,211,278
Revenue in Lieu of Taxes Receivable	2,050,300
Taxes Receivable	24,091,427
Nondepreciable Capital Assets	414,153
Depreciable Capital Assets, Net	<u>13,986,866</u>
<i>Total Assets</i>	<u>100,639,254</u>
Deferred Outflows of Resources	
Deferred Charge on Refunding	110,866
Pension	10,142,530
OPEB	<u>857,986</u>
<i>Total Deferred Outflows of Resources</i>	<u>11,111,382</u>
Liabilities	
Accounts Payable	133,830
Contracts Payable	115,130
Accrued Wages and Benefits	1,438,996
Intergovernmental Payable	522,594
Accrued Interest Payable	75,816
Matured Compensated Absences Payable	668
Long-Term Liabilities:	
Due Within One Year	2,050,535
Due in More Than One Year:	
Net Pension Liability (See Note 11)	33,053,645
Net OPEB Liability (See Note 12)	8,435,907
Other Amounts	<u>28,162,920</u>
<i>Total Liabilities</i>	<u>73,990,041</u>
Deferred Inflows of Resources	
Property Taxes	19,903,515
Payments in Lieu of Taxes	2,050,300
Pension	2,701,442
OPEB	<u>963,243</u>
<i>Total Deferred Inflows of Resources</i>	<u>25,618,500</u>
Net Position	
Net Investment in Capital Assets	2,396,885
Restricted for:	
Capital Projects	8,483,790
Debt Service	5,104,145
Other Purposes	1,319,936
Unrestricted (Deficit)	<u>(5,162,661)</u>
<i>Total Net Position</i>	<u>\$12,142,095</u>

See accompanying notes to the basic financial statements

Warrensville Heights City School District

Statement of Activities

For the Fiscal Year Ended June 30, 2018

	Program Revenues			Governmental Activities	Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions		
Governmental Activities					
Instruction:					
Regular	\$9,229,987	\$265,127	\$803,812	\$0	(\$8,161,048)
Special	2,772,485	68,525	1,591,957	0	(1,112,003)
Vocational	116,644	2,846	80,714	0	(33,084)
Support Services:					
Pupil	639,699	0	31,523	0	(608,176)
Instructional Staff	552,444	0	389,402	0	(163,042)
Board of Education	82,056	0	0	0	(82,056)
Administration	2,074,489	0	46,369	0	(2,028,120)
Fiscal	1,243,794	0	0	0	(1,243,794)
Business	840,093	0	0	0	(840,093)
Operation and Maintenance of Plant	3,999,639	0	0	38,440	(3,961,199)
Pupil Transportation	1,532,833	0	133,815	0	(1,399,018)
Central	155,946	0	9,000	0	(146,946)
Operation of Non-Instructional Services:					
Food Service Operations	848,223	34,788	928,676	0	115,241
Other Non-Instructional Services	127,039	71,696	73,894	0	18,551
Extracurricular Activities	232,635	62,691	1,000	0	(168,944)
Interest and Fiscal Charges	647,237	0	0	0	(647,237)
<i>Total Governmental Activities</i>	<u>\$25,095,243</u>	<u>\$505,673</u>	<u>\$4,090,162</u>	<u>\$38,440</u>	<u>(20,460,968)</u>
General Revenues					
Property Taxes Levied for:					
General Purposes					19,007,957
Debt Service					2,307,897
Capital Projects					535,994
Grants and Entitlements not Restricted to Specific Programs					20,448,932
Unrestricted Contributions					1,304
Investment Earnings					427,035
Payments in Lieu of Taxes					2,050,300
Miscellaneous					235,330
<i>Total General Revenues</i>					<u>45,014,749</u>
Change in Net Position					24,553,781
<i>Net Position Beginning of Year (Restated - See Note 22)</i>					<u>(12,411,686)</u>
<i>Net Position End of Year</i>					<u>\$12,142,095</u>

See accompanying notes to the basic financial statements

Warrensville Heights City School District

*Balance Sheet
Governmental Funds
June 30, 2018*

	General	Bond Retirement	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$27,311,535	\$4,710,509	\$14,114,259	\$5,657,543	\$51,793,846
Accrued Interest Receivable	42,224	0	38,345	10,815	91,384
Intergovernmental Receivable	448,678	0	7,199,472	563,128	8,211,278
Interfund Receivable	566,652	0	0	0	566,652
Revenue in Lieu of Taxes Receivable	2,050,300	0	0	0	2,050,300
Property Taxes Receivable	21,020,002	2,482,824	0	588,601	24,091,427
<i>Total Assets</i>	<u>\$51,439,391</u>	<u>\$7,193,333</u>	<u>\$21,352,076</u>	<u>\$6,820,087</u>	<u>\$86,804,887</u>
Liabilities					
Accounts Payable	\$119,084	\$0	\$0	\$14,746	\$133,830
Contracts Payable	115,130	0	0	0	115,130
Accrued Wages and Benefits	1,311,277	0	0	127,719	1,438,996
Intergovernmental Payable	499,473	0	0	23,121	522,594
Interfund Payable	0	0	0	566,652	566,652
Matured Compensated Absences Payable	668	0	0	0	668
<i>Total Liabilities</i>	<u>2,045,632</u>	<u>0</u>	<u>0</u>	<u>732,238</u>	<u>2,777,870</u>
Deferred Inflows of Resources					
Property Taxes	17,412,752	2,013,372	0	477,391	19,903,515
Payments in Lieu of Taxes	2,050,300	0	0	0	2,050,300
Unavailable Revenue	1,338,446	160,431	7,199,472	594,134	9,292,483
<i>Total Deferred Inflows of Resources</i>	<u>20,801,498</u>	<u>2,173,803</u>	<u>7,199,472</u>	<u>1,071,525</u>	<u>31,246,298</u>
Fund Balances					
Restricted	7,528	5,019,530	14,152,604	5,307,653	24,487,315
Committed	75,712	0	0	0	75,712
Assigned	263,594	0	0	0	263,594
Unassigned (Deficit)	28,245,427	0	0	(291,329)	27,954,098
<i>Total Fund Balances</i>	<u>28,592,261</u>	<u>5,019,530</u>	<u>14,152,604</u>	<u>5,016,324</u>	<u>52,780,719</u>
<i>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</i>	<u>\$51,439,391</u>	<u>\$7,193,333</u>	<u>\$21,352,076</u>	<u>\$6,820,087</u>	<u>\$86,804,887</u>

See accompanying notes to the basic financial statements

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

Total Governmental Fund Balances	\$52,780,719
 <i>Amounts reported for governmental activities in the statement of net position are different because:</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	14,401,019
Other long-term assets are not available to pay for current-period expenditures and therefore are reported as unavailable revenue in the funds:	
Delinquent Property Taxes	1,527,502
Grants	7,755,788
Tuition and Fees	9,193
Total	9,292,483
In the statement of activities, interest is accrued on outstanding loans, whereas in governmental fund, an interest expenditure is reported when due.	(75,816)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
General Obligation Bonds	(12,115,000)
Certificates of Participation	(17,108,091)
Compensated Absences	(990,364)
Deferred Charge on Refunding	110,866
Total	(30,102,589)
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	10,142,530
Deferred Outflows - OPEB	857,986
Net Pension Liability	(33,053,645)
Net OPEB Liability	(8,435,907)
Deferred Inflows - Pension	(2,701,442)
Deferred Inflows - OPEB	(963,243)
Total	(34,153,721)
 <i>Net Position of Governmental Activities</i>	 <u><u>\$12,142,095</u></u>

See accompanying notes to the basic financial statements

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

	General	Bond Retirement	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes	\$19,158,191	\$2,322,675	\$0	\$540,747	\$22,021,613
Intergovernmental	13,386,062	141,973	1,118,828	3,387,453	18,034,316
Interest	299,092	0	69,893	58,050	427,035
Tuition and Fees	335,240	0	0	0	335,240
Extracurricular Activities	872	0	0	114,675	115,547
Contributions and Donations	1,304	0	0	1,000	2,304
Charges for Services	0	0	0	34,788	34,788
Rentals	18,840	0	0	0	18,840
Payments in Lieu of Taxes	2,050,300	0	0	0	2,050,300
Miscellaneous	20,929	0	0	214,401	235,330
<i>Total Revenues</i>	<u>35,270,830</u>	<u>2,464,648</u>	<u>1,188,721</u>	<u>4,351,114</u>	<u>43,275,313</u>
Expenditures					
Current:					
Instruction:					
Regular	14,835,541	0	0	1,122,742	15,958,283
Special	3,827,556	0	0	539,191	4,366,747
Vocational	161,479	0	0	8,121	169,600
Support Services:					
Pupil	1,259,342	0	0	38,795	1,298,137
Instructional Staff	365,229	0	0	457,315	822,544
Board of Education	84,723	0	0	0	84,723
Administration	3,311,372	0	0	79,253	3,390,625
Fiscal	1,278,511	0	0	0	1,278,511
Business	778,082	0	0	63,044	841,126
Operation and Maintenance of Plant	3,660,914	0	0	482,558	4,143,472
Pupil Transportation	1,466,502	0	0	36,611	1,503,113
Central	162,623	0	0	0	162,623
Operation of Non-Instructional Services:					
Food Service Operations	0	0	0	855,568	855,568
Other Non-Instructional Services	15,037	0	0	126,977	142,014
Extracurricular Activities	78,458	0	0	184,743	263,201
Capital Outlay	109,914	0	0	90,742	200,656
Debt Service:					
Principal Retirement	0	1,560,000	0	0	1,560,000
Interest and Fiscal Charges	257,940	322,375	0	0	580,315
Issuance Costs	0	0	459,903	0	459,903
<i>Total Expenditures</i>	<u>31,653,223</u>	<u>1,882,375</u>	<u>459,903</u>	<u>4,085,660</u>	<u>38,081,161</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>3,617,607</u>	<u>582,273</u>	<u>728,818</u>	<u>265,454</u>	<u>5,194,152</u>
Other Financing Sources (Uses)					
Certificates of Participation Issued	0	0	13,543,013	3,681,987	17,225,000
Discount of Certificates of Participation	0	0	(119,227)	0	(119,227)
Transfers In	0	0	0	138,000	138,000
Transfers Out	(138,000)	0	0	0	(138,000)
<i>Total Other Financing Sources (Uses)</i>	<u>(138,000)</u>	<u>0</u>	<u>13,423,786</u>	<u>3,819,987</u>	<u>17,105,773</u>
<i>Net Change in Fund Balances</i>	3,479,607	582,273	14,152,604	4,085,441	22,299,925
<i>Fund Balances Beginning of Year</i>	<u>25,112,654</u>	<u>4,437,257</u>	<u>0</u>	<u>930,883</u>	<u>30,480,794</u>
<i>Fund Balances End of Year</i>	<u><u>\$28,592,261</u></u>	<u><u>\$5,019,530</u></u>	<u><u>\$14,152,604</u></u>	<u><u>\$5,016,324</u></u>	<u><u>\$52,780,719</u></u>

See accompanying notes to the basic financial statements

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

Net Change in Fund Balances - Total Governmental Funds \$22,299,925

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

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

Capital Asset Additions	68,069	
Current Year Depreciation	(692,136)	
Total		(624,067)

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

Delinquent Property Taxes	(169,765)	
Intergovernmental	6,542,218	
Tuition and Fees	1,258	
Total		6,373,711

Other financing sources in the governmental funds increase long-term liabilities in the statement of net position:

Certificates of Participation	(17,225,000)	
Discount on Certificates of Participation	119,227	
Total		(17,105,773)

Repayment of long-term obligations is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 1,560,000

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

Accrued Interest	(47,326)	
Amortization of Deferred Charge on Refunding	(17,278)	
Amortization of Discount	(2,318)	
Total		(66,922)

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	(233,055)	
Special Termination Benefits	24,000	
Total		(209,055)

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

Pension	2,217,937	
OPEB	106,212	
Total		2,324,149

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

Pension	9,358,717	
OPEB	643,096	
Total		10,001,813

Change in Net Position of Governmental Activities \$24,553,781

See accompanying notes to the basic financial statements

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

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Taxes	\$17,544,239	\$19,001,763	\$19,022,647	\$20,884
Intergovernmental	11,324,165	13,009,778	13,026,330	16,552
Interest	346,476	375,261	375,673	412
Tuition and Fees	400,644	433,928	434,405	477
Payments in Lieu of Taxes	2,580,735	2,050,300	2,050,300	0
Miscellaneous	6,210	6,652	6,658	6
<i>Total Revenues</i>	<u>32,202,469</u>	<u>34,877,682</u>	<u>34,916,013</u>	<u>38,331</u>
Expenditures				
Current:				
Instruction:				
Regular	15,151,775	15,613,720	14,862,845	750,875
Special	3,922,413	4,062,470	3,944,619	117,851
Vocational	169,964	176,033	172,094	3,939
Support Services:				
Pupil	1,288,397	1,334,401	1,288,369	46,032
Instructional Staff	376,171	389,603	367,120	22,483
Board of Education	86,204	89,282	88,876	406
Administration	3,457,679	3,581,143	3,419,264	161,879
Fiscal	1,319,015	1,366,113	1,286,660	79,453
Business	796,340	824,775	807,316	17,459
Operation and Maintenance of Plant	3,787,496	3,922,736	3,697,976	224,760
Pupil Transportation	1,481,993	1,534,911	1,450,009	84,902
Central	161,912	167,694	159,964	7,730
Operation of Non-Instructional Services:				
Other Non-Instructional Services	14,960	15,494	14,611	883
Extracurricular Activities	79,530	82,370	77,569	4,801
Capital Outlay	67,315	148,800	148,800	0
Debt Service:				
Interest and Fiscal Charges	257,940	257,940	257,940	0
<i>Total Expenditures</i>	<u>32,419,104</u>	<u>33,567,485</u>	<u>32,044,032</u>	<u>1,523,453</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(216,635)</u>	<u>1,310,197</u>	<u>2,871,981</u>	<u>1,561,784</u>
Other Financing Sources (Uses)				
Transfers Out	(138,000)	(138,000)	(138,000)	0
Advances In	1,213,569	1,213,569	1,213,569	0
Advances Out	(566,652)	(566,652)	(566,652)	0
<i>Total Other Financing Sources (Uses)</i>	<u>508,917</u>	<u>508,917</u>	<u>508,917</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	<u>292,282</u>	<u>1,819,114</u>	<u>3,380,898</u>	<u>1,561,784</u>
<i>Fund Balance Beginning of Year</i>	<u>22,520,711</u>	<u>22,520,711</u>	<u>22,520,711</u>	<u>0</u>
Prior Year Encumbrances Appropriated	<u>1,060,393</u>	<u>1,060,393</u>	<u>1,060,393</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$23,873,386</u>	<u>\$25,400,218</u>	<u>\$26,962,002</u>	<u>\$1,561,784</u>

See accompanying notes to the basic financial statements

Warrensville Heights City School District

Statement of Fiduciary Assets and Liabilities

Agency Funds

June 30, 2018

Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$94,746</u>
Liabilities	
Undistributed Monies	\$52,793
Due to Students	<u>41,953</u>
<i>Total Liabilities</i>	<u>\$94,746</u>

See accompanying notes to the basic financial statements

Warrensville Heights City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

Note 1 – Description of the School District and Reporting Entity

The Warrensville Heights City School District (School District) is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally-elected Board form of government consisting of five-members elected at-large for staggered four year terms. The School District provides educational services as authorized and mandated by State statute and federal guidelines. The Board controls the School District's 5 instructional facilities, staffed by 96 classified employees, 153 certificated full-time teaching personnel, 4 exempt employees and 31 administrators who provide services to students and other community members.

The School District is located in Warrensville Heights, Ohio, Cuyahoga County. The enrollment for the School District during the 2018 fiscal year was 1,770. The School District operates three elementary schools (K-5), one middle school (6-8), and one high school (9-12).

Reporting Entity

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

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

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

Note 2 – Summary of Significant Accounting Policies

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

Warrensville Heights City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

Basis of Presentation

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

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

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

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

Fund Accounting

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

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

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

Warrensville Heights City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

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

Classroom Facilities Fund The classroom facilities fund accounts for grants and interest received and expended in connection with contracts entered into by the School District and the Ohio Facilities Construction Commission for the building and equipping of classroom facilities.

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

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

Measurement Focus

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

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

Basis of Accounting

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

Warrensville Heights City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

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 fiscal year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

Deferred Outflows/Inflows of Resources In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School District, deferred outflows of resources are reported on the government-wide statement of net position for deferred charges on refunding and for pension 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, payments in lieu of taxes, pension, OPEB plans and unavailable revenue. Property taxes and payments in lieu of taxes represent amounts for which there is an enforceable legal claim as of June 30, 2018, but which were levied to finance fiscal year 2019 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the School District unavailable revenue includes delinquent property taxes, 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 Balance 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.

Warrensville Heights City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

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.

Budgetary Data

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

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

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

Cash and Cash Equivalents

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

During fiscal year 2018, investments were limited to State Treasury Asset Reserve of Ohio (STAR Ohio), money market accounts, negotiable certificates of deposit, commercial paper, federal home loan bank bonds, federal farm credit bonds, federal national mortgage association notes, federal home loan mortgage corporation notes and U.S. treasury notes. Investments are reported at fair value which is based on quoted market prices.

Warrensville Heights City School District

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

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.

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 \$299,092 which includes \$74,322 assigned from other School District funds.

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

Capital Assets

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

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

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

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

Warrensville Heights City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

Deferred Charge on Refunding

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

Bond Discounts

On the government-wide financial statements, bond discounts are deferred and amortized over the term of the bonds using the straight line method. On the government-wide financial statements, bond discounts are presented as a decrease of the face amount of the general obligation bonds payable. On fund financial statements, bond discounts are expended in the year the bonds are issued.

Interfund Balances

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

Compensated Absences

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

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

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

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

Accrued Liabilities and Long-Term Obligations

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

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

Warrensville Heights City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

Net Position

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

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

Internal Activity

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

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

Fund Balance

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

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

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

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

Warrensville Heights City School District

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

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

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

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

Estimates

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

Note 3 – Accountability

At June 30, 2018, the following funds had deficit fund balances:

	<u>Amount</u>
Other Governmental Funds:	
Public School Preschool	\$46,675
Title VI-B	65,946
Title I	176,943
Class Size Reduction	1,765

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

Note 4 – Budgetary Basis of Accounting

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

Warrensville Heights City School District

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

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

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

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

<u>Net Change in Fund Balance</u>	
GAAP Basis	\$3,479,607
Net Adjustment for Revenue Accruals	(438,335)
Advances In	1,213,569
Beginning Fair Value Adjustment for Investments	(27,103)
Ending Fair Value Adjustment for Investments	145,908
Net Adjustment for Expenditure Accruals	28,345
Advances Out	(566,652)
Perspective Differences:	
Public School Support	(7,894)
Adjustment for Encumbrances	<u>(446,547)</u>
Budget Basis	<u><u>\$3,380,898</u></u>

Note 5 – 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.

Warrensville Heights City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

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

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

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

1. United States Treasury bills, bonds notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked 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.

Warrensville Heights City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At June 30, 2018, \$1,891,922 of the School District's total bank balance of \$7,423,870 was exposed to custodial credit risk because those deposits were uninsured and uncollateralized. The School District's financial institution participates in the Ohio Pooled Collateral System (OPCS) and was approved for a reduced collateral floor of 73.63 percent resulting in the uninsured and uncollateralized balance.

The School District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or be protected by:

Eligible securities pledged to the School District and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105 percent of the deposits being secured; or

Participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State.

Investments

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	\$11,069,787	Average 48.9 Days	AAAm	N/A
Fair Value - Level One Inputs:				
Money Market Accounts	135,753	Less than one year	AAAm	N/A
Fair Value - Level Two Inputs:				
Negotiable Certificates of Deposit	4,392,899	Less than one year	N/A	9.73%
Negotiable Certificates of Deposit	6,556,177	More than one year	N/A	14.52%
Commercial Paper	8,042,456	Less than one year	A/AA-	17.81%
Federal Home Loan Bank Bonds	493,845	Less than three years	AA+	N/A
Federal Farm Credit Bonds	4,956,260	Less than three years	AA+	10.98%
Federal National Mortgage Association Notes	441,504	Less than three years	AA+	N/A
Federal Home Loan Mortgage Corporation Notes	3,120,212	Less than three years	AA+	6.91%
US Treasury Notes	5,945,640	Less than one year	AA+	13.17%
Total	<u>\$45,154,533</u>			

Warrensville Heights City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

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 treasury obligations money market 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)

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

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

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

Concentration of Credit Risk This type of risk is defined by the Governmental Accounting Standards Board as having investments of five percent or more in the securities of a single issuer. The School District's investment policy requires diversification of the portfolio but does not indicate specific percentage allocations.

Note 6 – Receivables

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

Warrensville Heights City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

A summary of the intergovernmental receivables follows:

<u>Governmental Activities</u>	<u>Amounts</u>
Ohio Facilities Construction Commission Receivable	\$7,199,472
Title I Grant	303,812
Medicaid Reimbursement	171,449
Title VI-B Grant	153,121
Foundation Adjustments	141,760
Bureau of Workers' Compensation Rebate	135,469
Public School Preschool Grant	63,949
Improving Teacher Quality Grant	15,936
Preschool for the Handicapped Grant	10,496
Federal Lunch and Breakfast Subsidy	6,812
Miscellaneous Federal Grants	4,682
Miscellaneous State Grants	4,320
<i>Total Intergovernmental Receivables</i>	<u><u>\$8,211,278</u></u>

Payment in Lieu of Taxes

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

Note 7 – Property Taxes

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

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

Public utility property tax revenues received in calendar year 2018 represents collections of calendar year 2017 taxes. Public utility real and tangible personal property taxes received in calendar year 2018 become a lien 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 currently is assessed at varying percentages of true value.

Warrensville Heights City School District

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

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

The amount available as an advance at June 30, 2018, was \$2,277,997 in the general fund, \$309,021 in the bond retirement debt service fund and \$73,392 in the permanent improvement capital projects fund. The amount available as an advance at June 30, 2017, was \$2,142,453 in the general fund, \$278,154 in the bond retirement debt service fund and \$69,539 in the permanent improvement capital projects fund. The difference is in the timing and collection by the County Fiscal Officer.

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

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

	2017 Second Half Collections		2018 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$304,298,790	95.52 %	\$306,301,280	95.21 %
Public Utility	14,286,570	4.48	15,404,140	4.79
Total Assessed Value	<u>\$318,585,360</u>	<u>100.00 %</u>	<u>\$321,705,420</u>	<u>100.00 %</u>
Tax rate per \$1,000 of assessed valuation		\$92.40		\$93.20

Note 8 – Tax Abatements

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

Overlapping Government	Amount of Fiscal Year 2018 Taxes Abated
<i>Community Reinvestment Areas:</i> City of Warrensville Heights	\$405,364

Pursuant to Section 5709.82 of the Ohio Revised Code, the City of Warrensville Heights and the Warrensville Heights City School District created various Community Reinvestment Area (CRA) Compensation Agreements. The School District received \$151,869 through various tax sharing agreements with the City.

Warrensville Heights City School District

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

Note 9 – Risk Management

Insurance

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School District contracted with Todd Associates Insurance for property insurance (which also includes inland marine, crime), general liability, umbrella and automobile coverage. The School District also contracted with Travelers Insurance for boiler/machinery.

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

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

Employee Health Benefits

For fiscal 2018, the School District was a participant in the Suburban Health Consortium (the “Consortium”) to provide employee health, dental, vision and prescription drug benefits. The Consortium is administered by Medical Mutual. Payments are made to the Consortium for the monthly attachment point, monthly stop-loss premiums, and administrative charges. The fiscal agent of the Consortium is the Orange City School District. The Treasurer of the Orange City School District pays monthly for the actual amount of claims processed, the stop-loss premium and the administrative charges. The entire risk of loss transfers to the Consortium upon payment of the premiums.

During fiscal year 2018, the School District provided full-time employees with 90 percent Board paid hospitalization, prescription drug, dental and vision.

Workers’ Compensation

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

Warrensville Heights City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

Note 10 – Capital Assets

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

	Balance June 30, 2017	Additions	Deletions	Balance June 30, 2018
Governmental Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	\$414,153	\$0	\$0	\$414,153
<i>Capital Assets, being depreciated:</i>				
Land Improvements	1,372,879	0	0	1,372,879
Buildings and Improvements	39,131,233	0	0	39,131,233
Furniture, Fixtures and Equipment	1,619,299	5,995	0	1,625,294
Vehicles	1,639,257	62,074	(23,750)	1,677,581
<i>Total Capital Assets, being depreciated</i>	<u>43,762,668</u>	<u>68,069</u>	<u>(23,750)</u>	<u>43,806,987</u>
<i>Less: Accumulated Depreciation</i>				
Land Improvements	(1,318,333)	(12,121)	0	(1,330,454)
Buildings and Improvements	(25,063,725)	(537,965)	0	(25,601,690)
Furniture, Fixtures and Equipment	(1,376,745)	(63,722)	0	(1,440,467)
Vehicles	(1,392,932)	(78,328)	23,750	(1,447,510)
<i>Total Accumulated Depreciation</i>	<u>(29,151,735)</u>	<u>(692,136) *</u>	<u>23,750</u>	<u>(29,820,121)</u>
<i>Total Capital Assets, being depreciated, Net</i>	<u>14,610,933</u>	<u>(624,067)</u>	<u>0</u>	<u>13,986,866</u>
Governmental Activities Capital Assets, Net	<u>\$15,025,086</u>	<u>(\$624,067)</u>	<u>\$0</u>	<u>\$14,401,019</u>

*Depreciation expense was charged to governmental activities as follows:

Regular Instruction	\$534,600
Support Services:	
Instructional Staff	42,871
Administration	6,391
Business	9,110
Operation and Maintenance of Plant	14,432
Pupil Transportation	74,563
Food Service Operations	3,851
Extracurricular Activities	6,318
<i>Total Depreciation Expense</i>	<u>\$692,136</u>

Warrensville Heights City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

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.

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.

Warrensville Heights City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS' fiduciary net position. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

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.

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 \$721,613 for fiscal year 2018. Of this amount \$95,056 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.

Warrensville Heights City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

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.

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 \$1,496,324 for fiscal year 2018. Of this amount \$152,986 is reported as an intergovernmental payable.

Warrensville Heights City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

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

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net Pension Liability Prior Measurement Date	0.15536060%	0.09477336%	
Proportion of the Net Pension Liability Current Measurement Date	<u>0.18041600%</u>	<u>0.09376547%</u>	
Change in Proportionate Share	<u>0.02505540%</u>	<u>-0.00100789%</u>	
Proportionate Share of the Net Pension Liability	\$10,779,456	\$22,274,189	\$33,053,645
Pension Expense	(\$84,381)	(\$9,274,336)	(\$9,358,717)

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$463,910	\$860,124	\$1,324,034
Changes of assumptions	557,414	4,871,610	5,429,024
Changes in proportionate Share and difference between School District contributions and proportionate share of contributions	1,171,535	0	1,171,535
School District contributions subsequent to the measurement date	<u>721,613</u>	<u>1,496,324</u>	<u>2,217,937</u>
Total Deferred Outflows of Resources	<u>\$2,914,472</u>	<u>\$7,228,058</u>	<u>\$10,142,530</u>
Deferred Inflows of Resources			
Differences between expected and actual experience	\$0	\$179,521	\$179,521
Net difference between projected and actual earnings on pension plan investments	51,168	735,074	786,242
Changes in Proportionate Share and Difference between School District contributions and proportionate share of contributions	<u>0</u>	<u>1,735,679</u>	<u>1,735,679</u>
Total Deferred Inflows of Resources	<u>\$51,168</u>	<u>\$2,650,274</u>	<u>\$2,701,442</u>

Warrensville Heights City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

\$2,217,937 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:

Fiscal Year Ending June 30:	SERS	STRS	Total
2019	\$874,570	\$328,657	\$1,203,227
2020	1,055,292	1,328,611	2,383,903
2021	463,122	1,106,710	1,569,832
2022	(251,293)	317,482	66,189
Total	\$2,141,691	\$3,081,460	\$5,223,151

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.

Warrensville Heights City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

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

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

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

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

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

Warrensville Heights City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
School District's proportionate share of the net pension liability	\$14,959,086	\$10,779,456	\$7,278,166

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.

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:

Warrensville Heights City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

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	\$31,929,291	\$22,274,189	\$14,141,212

Warrensville Heights City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

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 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 \$79,486.

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 \$106,212 for fiscal year 2018. Of this amount \$83,007 is reported as an intergovernmental payable.

Warrensville Heights City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

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 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:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net OPEB Liability			
Prior Measurement Date	0.15070230%	0.09477336%	
Proportion of the Net OPEB Liability			
Current Measurement Date	<u>0.17801760%</u>	<u>0.09376547%</u>	
Change in Proportionate Share	<u>0.02731530%</u>	<u>-0.00100789%</u>	
Proportionate Share of the Net			
OPEB Liability	\$4,777,525	\$3,658,382	\$8,435,907
OPEB Expense	\$480,945	(\$1,124,041)	(\$643,096)

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

Warrensville Heights City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$0	\$211,184	\$211,184
Changes in proportionate Share and difference between School District contributions and proportionate share of contributions	540,590	0	540,590
School District contributions subsequent to the measurement date	<u>106,212</u>	<u>0</u>	<u>106,212</u>
Total Deferred Outflows of Resources	<u>\$646,802</u>	<u>\$211,184</u>	<u>\$857,986</u>
Deferred Inflows of Resources			
Changes of assumptions	\$453,362	\$294,695	\$748,057
Net difference between projected and actual earnings on OPEB plan investments	12,616	156,368	168,984
Changes in Proportionate Share and Difference between School District contributions and proportionate share of contributions	<u>0</u>	<u>46,202</u>	<u>46,202</u>
Total Deferred Inflows of Resources	<u>\$465,978</u>	<u>\$497,265</u>	<u>\$963,243</u>

\$106,212 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:

Fiscal Year Ending June 30:	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
2019	\$28,450	(\$60,710)	(\$32,260)
2020	28,450	(60,710)	(32,260)
2021	20,865	(60,710)	(39,845)
2022	(3,153)	(60,711)	(63,864)
2023	0	(21,618)	(21,618)
Thereafter	<u>0</u>	<u>(21,622)</u>	<u>(21,622)</u>
Total	<u>\$74,612</u>	<u>(\$286,081)</u>	<u>(\$211,469)</u>

Actuarial Assumptions - SERS

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

Warrensville Heights City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

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.

Warrensville Heights City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

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	\$5,769,469	\$4,777,525	\$3,991,651

	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	\$3,876,603	\$4,777,525	\$5,969,910

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:

Warrensville Heights City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

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.

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

Warrensville Heights City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

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.

	<u>1% Decrease (3.13%)</u>	<u>Current Discount Rate (4.13%)</u>	<u>1% Increase (5.13%)</u>
School District's proportionate share of the net OPEB liability	\$4,911,320	\$3,658,382	\$2,668,153

	<u>1% Decrease</u>	<u>Current Trend Rate</u>	<u>1% Increase</u>
School District's proportionate share of the net OPEB liability	\$2,541,687	\$3,658,382	\$5,128,084

Note 13 – Other Employee Benefits

Compensated Absences

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

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

Life Insurance

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

Warrensville Heights City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

Note 14 – Jointly Governed Organizations

Lake Geauga Computer Association

The Lake Geauga Computer Association (LGCA) is a jointly governed organization that was formed for the purpose of providing computer services for accounting, grading, scheduling, EMIS and other applications among its nineteen member school districts. Each of the school districts supports LGCA based on a per pupil charge. LGCA's Board exercises total control over the operations of the organization including budgeting, appropriating, contracting and designating management. The executive committee (governing board) consists of the superintendents and treasurers of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the governing board. LGCA's continued existence is not dependent on the School District's continued participation. LGCA is not accumulating significant financial resources or experiencing fiscal stress which would cause additional financial benefit or burden on the School District. In fiscal year 2018, the School District paid \$92,814 to LGCA. Financial information can be obtained from the Lake Geauga Computer Association, 8140 Auburn Road, Painesville, Ohio 44077.

Ohio Schools' Council

The Ohio Schools Council (Council) is a jointly governed organization among 231 school districts. The jointly governed organization was created by school districts for the purpose of saving money through volume purchases. Each district supports the Council by paying an annual participation fee. Each school district member's superintendent serves as a representative of the Assembly. The Council's Board exercises total control over the operations of the organization including budgeting, appropriating, contracting and designating management. Each participant's degree of control is limited to its representation on the Board. The Assembly elects five of the Council's Board members and the remaining four are representatives of the Greater Cleveland School Superintendents' Association. The Council operates under a nine-member Board of Directors (the Board). The Board is the policy making authority of the Council. The Board meets monthly September to June. The Board appoints an Executive Director who is responsible for receiving and disbursing funds, investing available funds, preparing financial reports for the Board and Assembly and carrying out such other responsibilities as designated by the Board. In fiscal year 2018, the School District paid \$83,914 to the Council. Financial information can be obtained by contacting 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.

Warrensville Heights City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

Note 15 – Shared Risk Pool

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

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

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.

Warrensville Heights City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

Note 16 – Contingencies

Grants

The School District received financial assistance from Federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 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. ODE has finalized the impact of enrollment adjustments to the June 30, 2018 foundation funding for the School District. These adjustments were insignificant for the School district.

Litigation

The Warrensville Heights City School District is currently a party to legal proceedings challenging the value of property for a major business in the School District with various appeals of property valuation. Total revenue for the School District may increase due to valuation adjustments. At this time, the effect on the financial condition of the School District is unknown.

Warrensville Heights City School District received communications from Beachwood City School District concerning a revenue sharing agreement from 1997, claiming particular sharing of tax revenues from particular properties that reside in the City of Beachwood but on the tax duplicate of Warrensville Heights City School District. The Beachwood City School District re-filed a “Complaint, Request for Declaratory and Injunctive Relief and Damages” in the Court of Common Pleas for Cuyahoga County, naming the Warrensville Heights Board of Education as defendant. The matter is currently in scheduling for pretrial conference and trial dates. The ultimate disposition of the situation is unknown at this time.

Warrensville Heights City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

Note 17 – Long-Term Obligations

The changes in the School District’s long-term obligations during fiscal year 2018 were as follows:

	Balance 6/30/2017	Additions	Deletions	Balance 6/30/2018	Amount Due in One Year
Governmental Activities					
2015 School Improvement Refunding Bonds, 2.5%	\$13,675,000	\$0	(\$1,560,000)	\$12,115,000	\$1,600,000
2017 Certificates of Participation					
Serial, 3.125% to 4.0%	0	9,505,000	0	9,505,000	370,000
Term, 3.5%	0	7,720,000	0	7,720,000	0
Discount	0	(119,227)	2,318	(116,909)	0
Total Certificates of Participation	0	17,105,773	2,318	17,108,091	370,000
Net Pension Liability					
SERS	11,370,962	0	(591,506)	10,779,456	0
STRS	31,723,502	0	(9,449,313)	22,274,189	0
Total Net Pension Liability	43,094,464	0	(10,040,819)	33,053,645	0
Net OPEB Liability					
SERS	4,295,573	481,952	0	4,777,525	0
STRS	5,068,504	0	(1,410,122)	3,658,382	0
Total Net OPEB Liability	9,364,077	481,952	(1,410,122)	8,435,907	0
Compensated Absences	757,309	389,850	(156,795)	990,364	80,535
<i>Total Governmental Activities</i>	<u>\$66,890,850</u>	<u>\$17,977,575</u>	<u>(\$13,165,418)</u>	<u>\$71,703,007</u>	<u>\$2,050,535</u>

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

On December 12, 2017, the School District issued \$17,225,000 in Certificates of Participation (COPS) for the purpose building new facilities, which included \$9,505,000 in serial bonds and \$7,720,000 in term bonds. The certificates of participation were issued for a thirty year period with final maturity in fiscal year 2048. The certificates will be paid from property taxes from the bond retirement debt service fund. The COPs were issued through a series of lease agreements and trust indentures in accordance with Section 3313.375 of the Ohio Revised Code. The COPs have been designated to be “qualified tax exempt obligations” within the meaning of 265(b)(3) of the Ohio Revised Code. In accordance with the lease terms, the project assets are leased to the Ohio School Building Leasing Corporation, and then subleased back to the School District. The COPs were issued through a series of annual leases with the right to renew for successive one-year terms through fiscal year 2048 subject to annual appropriations. To satisfy the trustee agreements, the School District is required to make annual base rent payments, subject to the lease terms and appropriations, semi-annually. The base rent includes an interest component of 3.125 – 4 percent. The School District has the option to purchase the renovations on any lease payment date by paying the amount necessary to defease the indenture.

The certificates of participation were issued at a discount of \$119,227. This discount will be amortized over 30 years using the straight line method.

Warrensville Heights City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

The term bonds mature on December 1, 2042 and 2047 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 as follows:

Year	Issue	
	\$3,530,000	\$4,190,000
2038	\$660,000	\$0
2039	680,000	0
2040	705,000	0
2041	730,000	0
2043	0	780,000
2044	0	810,000
2045	0	840,000
2046	0	865,000
Total mandatory sinking fund payment:	2,775,000	3,295,000
Amount due at stated maturity	755,000	895,000
Total	<u>\$3,530,000</u>	<u>\$4,190,000</u>

There are no repayment schedules for the net pension liability and net OPEB liability. However, employer pension and OPEB contributions are made from following funds: the general fund and the food service, recreation, other grants, public preschool, title VI-B, title I, class size reduction and miscellaneous federal grant special revenue funds. For additional information related to the net pension and net OPEB liabilities see Notes 11 and 12. Compensated absences will be paid from the general fund and the food service, recreation, other grants, public preschool, title VI-B, title I and class size reduction special revenue funds.

The overall debt margin of the School District as of June 30, 2018, was \$4,633,018 with an unvoted debt margin of \$321,705 at June 30, 2018. Principal and interest requirements to retire long-term liabilities outstanding at June 30, 2018, are as follows:

Fiscal Year	General Obligation Bonds	
	Serial	
	Principal	Interest
2019	\$1,600,000	\$282,875
2020	1,635,000	242,438
2021	1,690,000	200,875
2022	1,735,000	158,063
2023	1,780,000	114,125
2024-2025	3,675,000	92,311
Total	<u>\$12,115,000</u>	<u>\$1,090,687</u>

Warrensville Heights City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

Fiscal Year	Certificates of Participation					
	Serial		Term		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$370,000	\$329,319	\$0	\$270,200	\$370,000	\$599,519
2020	335,000	315,219	0	270,200	335,000	585,419
2021	350,000	301,519	0	270,200	350,000	571,719
2022	365,000	287,219	0	270,200	365,000	557,419
2023	380,000	272,319	0	270,200	380,000	542,519
2024-2028	2,135,000	1,116,693	0	1,351,000	2,135,000	2,467,693
2029-2033	2,570,000	685,708	0	1,351,000	2,570,000	2,036,708
2034-2038	3,000,000	248,813	0	1,351,000	3,000,000	1,599,813
2039-2043	0	0	3,530,000	1,050,527	3,530,000	1,050,527
2044-2048	0	0	4,190,000	376,599	4,190,000	376,599
Total	\$9,505,000	\$3,556,809	\$7,720,000	\$6,831,126	\$17,225,000	\$10,387,935

Note 18 – Interfund Transactions

Balances

	Interfund Payable	Interfund Receivable
		General
<i>Other Governmental Funds:</i>		
Public Preschool		\$74,294
Miscellaneous State Grants		4,682
Title VI-B		153,121
Title I		303,803
Preschool for the Handicapped		10,496
Improving Teacher Quality		15,936
Miscellaneous Federal Grants		4,320
Total		\$566,652

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

Transfers

During fiscal year 2018, the School District made transfers from the general fund to the recreation special revenue fund and the athletics and music special revenue fund in the amounts of \$8,000 and \$130,000, respectively, to move unrestricted balances to support programs and projects accounted for in these funds.

Warrensville Heights City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

Note 19 – Fund Balances

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

Fund Balances	General	Bond Retirement	Classroom Facilities	Other Governmental Funds	Total
<i>Restricted for:</i>					
Special Education	1,140	0	0	1,944	3,084
Continuous Improvement Programs	3,315	0	0	0	3,315
Professional Development	2,970	0	0	0	2,970
Improving Reading Proficiency	103	0	0	0	103
Food Service Operations	0	0	0	623,868	623,868
Scholarships	0	0	0	5,705	5,705
Recreation Programs	0	0	0	12,408	12,408
Athletics and Music	0	0	0	23,726	23,726
Data and Information Systems	0	0	0	69,017	69,017
Student Development	0	0	0	3,500	3,500
Drug Abuse Education	0	0	0	9,785	9,785
Preschool	0	0	0	3,467	3,467
Debt Service Payments	0	5,019,530	0	0	5,019,530
Capital Improvements	0	0	14,152,604	4,201,987	18,354,591
Other Purposes	0	0	0	352,246	352,246
<i>Total Restricted</i>	7,528	5,019,530	14,152,604	5,307,653	24,487,315
<i>Committed to:</i>					
Educational Services	43,943	0	0	0	43,943
Capital Improvements	31,769	0	0	0	31,769
<i>Total Committed</i>	75,712	0	0	0	75,712
<i>Assigned to:</i>					
Purchases on Order:					
Instruction	194,221	0	0	0	194,221
Support Services	21,037	0	0	0	21,037
Other Non-Instructional Services	7,221	0	0	0	7,221
Administrative Support	40,110	0	0	0	40,110
Uniform School Supplies	1,005	0	0	0	1,005
<i>Total Assigned</i>	263,594	0	0	0	263,594
<i>Unassigned (Deficit)</i>	28,245,427	0	0	(291,329)	27,954,098
<i>Total Fund Balances</i>	\$28,592,261	\$5,019,530	\$14,152,604	\$5,016,324	\$52,780,719

Warrensville Heights City School District

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

Note 20 – 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	\$446,547
Other Governmental Funds	395,744
Total	<u>\$842,291</u>

Note 21 – Set-Aside Calculation

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

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

	Capital Improvements
Set-aside Balance as of June 30, 2017	\$0
Add: Current Year Set-aside Requirement	268,139
Permanent Improvement Levy Offset During the Fiscal Year	(575,334)
Qualifying Disbursements	(763,850)
Total	<u>(\$1,071,045)</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>\$0</u>
Set-aside Balance as of June 30, 2018	<u>\$0</u>

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

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

For fiscal year 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)*.

Warrensville Heights City School District

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

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	(\$3,121,214)
Adjustments:	
Net OPEB Liability	(9,364,077)
Deferred Outflow - Payments Subsequent to Measurement Date	<u>73,605</u>
Restated Net Position June 30, 2017	<u><u>(\$12,411,686)</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 23 – Subsequent Event

On November 6, 2018 the citizens of Warrensville Heights passed a new bond/permanent improvement combination levy. The bond portion of the levy is to generate \$48,500,000 for the purpose of constructing, renovating, remodeling, rehabilitating, adding to, furnishing, equipping and otherwise improving the School District buildings and facilities including a 6-12 school, and clearing, preparing, equipping and otherwise improving real estate, for School District purposes. In addition the permanent improvement portion of the levy is to provide funds for acquisition, construction, enlargement, renovation, and financing of general permanent improvements at a rate not exceeding 4.5 mills for a continuing period of time.

Required Supplementary Information

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

	2018	2017	2016
School District's Proportion of the Net Pension Liability	0.18041600%	0.15536060%	0.15431310%
School District's Proportionate Share of the Net Pension Liability	\$10,779,456	\$11,370,962	\$8,805,256
School District's Covered Payroll	\$4,708,336	\$4,842,700	\$4,697,481
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered - Payroll	228.94%	234.81%	187.45%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.50%	62.98%	69.16%

(1) Information prior to 2014 is not available.

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

See accompanying notes to the required supplementary information

<u>2015</u>	<u>2014</u>
0.15124500%	0.15124500%
\$7,654,424	\$8,994,055
\$4,397,536	\$4,258,153
174.06%	211.22%
71.70%	65.52%

Warrensville Heights 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	0.17801760%	0.15070230%
School District's Proportionate Share of the Net OPEB Liability	\$4,777,525	\$4,295,573
School District's Covered Payroll	\$4,708,336	\$4,842,700
School District's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered - Payroll	101.47%	88.70%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	12.46%	11.49%

(1) Information prior to 2017 is not available.

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

See accompanying notes to the required supplementary information

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

	2018	2017	2016
School District's Proportion of the Net Pension Liability	0.09376547%	0.09477336%	0.09901681%
School District's Proportionate Share of the Net Pension Liability	\$22,274,189	\$31,723,502	\$27,365,351
School District's Covered Payroll	\$9,943,436	\$10,019,057	\$10,251,643
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered - Payroll	224.01%	316.63%	266.94%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.30%	66.80%	72.10%

(1) Information prior to 2014 is not available.

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

See accompanying notes to the required supplementary information

<u>2015</u>	<u>2014</u>
0.10515902%	0.10515902%
\$25,578,313	\$30,468,719
\$10,722,650	\$11,462,500
238.54%	265.81%
74.70%	69.30%

Warrensville Heights 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	0.09376547%	0.09477336%
School District's Proportionate Share of the Net OPEB Liability	\$3,658,382	\$5,068,504
School District's Covered Payroll	\$9,943,436	\$10,019,057
School District's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered - Payroll	36.79%	50.59%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	47.10%	37.30%

(1) Information prior to 2017 is not available.

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

See accompanying notes to the required supplementary information

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Net Pension Liability				
Contractually Required Contribution	\$721,613	\$659,167	\$677,978	\$619,128
Contributions in Relation to the Contractually Required Contribution	<u>(721,613)</u>	<u>(659,167)</u>	<u>(677,978)</u>	<u>(619,128)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
School District Covered Payroll (1)	\$5,345,281	\$4,708,336	\$4,842,700	\$4,697,481
Pension Contributions as a Percentage of Covered Payroll	<u>13.50%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>13.18%</u>
Net OPEB Liability				
Contractually Required Contribution (2)	106,212	73,605	47,345	80,475
Contributions in Relation to the Contractually Required Contribution	<u>(106,212)</u>	<u>(73,605)</u>	<u>(47,345)</u>	<u>(80,475)</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>1.99%</u>	<u>1.56%</u>	<u>0.98%</u>	<u>1.71%</u>
Total Contributions as a Percentage of Covered Payroll (2)	<u>15.49%</u>	<u>15.56%</u>	<u>14.98%</u>	<u>14.89%</u>

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

(2) Includes Surcharge

See accompanying notes to the required supplementary information

2014	2013	2012	2011	2010	2009
\$609,498	\$589,328	\$555,337	\$518,535	\$542,730	\$467,076
<u>(609,498)</u>	<u>(589,328)</u>	<u>(555,337)</u>	<u>(518,535)</u>	<u>(542,730)</u>	<u>(467,076)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$4,397,536	\$4,258,153	\$4,128,898	\$4,125,182	\$4,008,349	\$4,746,711
<u>13.86%</u>	<u>13.84%</u>	<u>13.45%</u>	<u>12.57%</u>	<u>13.54%</u>	<u>9.84%</u>
56,888	65,548	81,676	123,983	98,605	268,762
<u>(56,888)</u>	<u>(65,548)</u>	<u>(81,676)</u>	<u>(123,983)</u>	<u>(98,605)</u>	<u>(268,762)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>1.29%</u>	<u>1.54%</u>	<u>1.98%</u>	<u>3.01%</u>	<u>2.46%</u>	<u>5.66%</u>
<u>15.15%</u>	<u>15.38%</u>	<u>15.43%</u>	<u>15.58%</u>	<u>16.00%</u>	<u>15.50%</u>

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Net Pension Liability				
Contractually Required Contribution	\$1,496,324	\$1,392,081	\$1,402,668	\$1,435,230
Contributions in Relation to the Contractually Required Contribution	<u>(1,496,324)</u>	<u>(1,392,081)</u>	<u>(1,402,668)</u>	<u>(1,435,230)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
School District Covered Payroll (1)	\$10,688,029	\$9,943,436	\$10,019,057	\$10,251,643
Pension Contributions as a Percentage of Covered Payroll	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>
Net OPEB Liability				
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

<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$1,393,945	\$1,490,125	\$1,549,840	\$1,644,314	\$1,872,546	\$2,006,888
<u>(1,393,945)</u>	<u>(1,490,125)</u>	<u>(1,549,840)</u>	<u>(1,644,314)</u>	<u>(1,872,546)</u>	<u>(2,006,888)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$10,722,650	\$11,462,500	\$11,921,846	\$12,648,569	\$14,404,200	\$15,437,600
<u>13.00%</u>	<u>13.00%</u>	<u>13.00%</u>	<u>13.00%</u>	<u>13.00%</u>	<u>13.00%</u>
\$107,226	\$114,625	\$119,218	\$126,486	\$144,042	\$154,376
<u>(107,226)</u>	<u>(114,625)</u>	<u>(119,218)</u>	<u>(126,486)</u>	<u>(144,042)</u>	<u>(154,376)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>1.00%</u>	<u>1.00%</u>	<u>1.00%</u>	<u>1.00%</u>	<u>1.00%</u>	<u>1.00%</u>
<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>

Warrensville Heights 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

Warrensville Heights City School District

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

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.

Warrensville Heights City School District

Notes to Required Supplementary Information

For the Fiscal Year Ended June 30, 2018

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**WARRENSVILLE HEIGHTS CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018**

<u>FEDERAL GRANTOR</u> <i>Pass Through Grantor</i>		Federal CFDA Number	Expenditures	Non-Cash Expenditures
Program Title	Grant Year			
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
<i>Passed Through Ohio Department of Education</i>				
Nutrition Cluster				
School Breakfast Program	2018	10.553	\$ 318,389	
National School Lunch Program	2018	10.555	694,659	\$ 67,782
Total Nutrition Cluster			<u>1,013,048</u>	<u>67,782</u>
Total U.S. Department of Agriculture			<u>1,013,048</u>	<u>67,782</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>				
<i>Passed Through Ohio Department of Education</i>				
Title I, Grants to States	2017	84.010	248,046	
Title I, Grants to States	2018	84.010	1,059,499	
Total Title I, Grants to States			<u>1,307,545</u>	-
Special Education Cluster				
IDEA Part B	2017	84.027	67,612	
IDEA Part B	2018	84.027	439,668	
Subtotal IDEA Part B			<u>507,280</u>	-
Preschool Disability Grant	2017	84.173	120	
Preschool Disability Grant	2018	84.173	3,629	
Subtotal Preschool Disability Grant			<u>3,749</u>	-
Total Special Education Cluster			511,029	-
Twenty-First Century Community Learning Centers	2017	84.287	65,567	
Twenty-First Century Community Learning Centers	2018	84.287	12,048	
Total Twenty-First Century Community Learning Centers			<u>77,615</u>	-
Improving Teacher Quality, Title II-A	2017	84.367	13,574	
Improving Teacher Quality, Title II-A	2018	84.367	140,221	
Total Improving Teacher Quality, Title II-A			<u>153,795</u>	-
Total U.S. Department of Education			<u>2,049,984</u>	-
Total Federal Financial Assistance			<u>\$ 3,063,032</u>	<u>\$ 67,782</u>

The accompanying notes are an integral part of this schedule.

**WARRENSVILLE HEIGHTS CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
2 CFR 200.510(b)(6)
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the Warrensville Heights City School District (the District) under programs of the federal government for the year ended June 30, 2018. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the District.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE C – CHILD NUTRITION CLUSTER

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

NOTE D – FOOD DONATION PROGRAM

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

OHIO AUDITOR OF STATE KEITH FABER



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

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

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Warrensville Heights City School District, Cuyahoga County, (the District) as of and for the year ended June 30, 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 March 7, 2019, wherein we noted the District adopted Government Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



Keith Faber
Auditor of State

Columbus, Ohio

March 7, 2019

OHIO AUDITOR OF STATE KEITH FABER



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

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

To the Board of Education:

Report on Compliance for the Major Federal Program

We have audited the Warrensville Heights City School District's (the District) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect the Warrensville Heights City School District's major federal program for the year ended June 30, 2018. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the District's major federal program.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on the Major Federal Program

In our opinion, the Warrensville Heights City School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2018.

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www.ohioauditor.gov

Report on Internal Control Over Compliance

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

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

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

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



Keith Faber
Auditor of State

Columbus, Ohio

March 7, 2019

**WARRENSVILLE HEIGHTS CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
2 CFR § 200.515
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 weaknesses in internal control reported at the financial statement level (GAGAS)?	No
(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 weaknesses in internal control reported for major federal programs?	No
(d)(1)(iv)	Were there any 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 § 200.516(a)?	No
(d)(1)(vii)	Major Programs (list):	Child Nutrition Cluster: CFDA #10.553 – School Breakfast Program; CFDA #10.555 – School Lunch Program
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 750,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee under 2 CFR § 200.520?	Yes

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

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OHIO AUDITOR OF STATE
KEITH FABER



WARRENSVILLE HEIGHTS CITY SCHOOL DISTRICT

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 26, 2019**