



Dave Yost • Auditor of State



**CUYAHOGA HEIGHTS LOCAL SCHOOL DISTRICT  
CUYAHOGA COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Cuyahoga Heights Local School District  
Cuyahoga County  
4820 East 71<sup>st</sup> Street  
Cuyahoga Heights, Ohio 44125

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Cuyahoga Heights Local School District, Cuyahoga County, Ohio (the District), as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Cuyahoga Heights Local School District, Cuyahoga County, Ohio, as of June 30, 2012 and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 14, 2013, 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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as 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 have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

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

**Dave Yost**  
Auditor of State

May 14, 2013

## **Cuyahoga Heights Local School District**

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2012*

*Unaudited*

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The discussion and analysis of the Cuyahoga Heights Local School District's (the School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2012. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

### **Financial Highlights**

Key financial highlights for fiscal year 2012 are as follows:

- ❑ During fiscal year 2012, the taxpayers of the School District approved a 7.9 mill continuing operating levy. Collections on the approved levy start in fiscal year 2013.
- ❑ Both unions in the School District agreed to a total wage freeze for fiscal year 2013 and 2014 and agreed to pay 12 and 15 percent of their health care premiums in 2013 and 2014, respectively.
- ❑ The School District decreased the teaching staff by 2.5 and the classified staff by 5 full-time equivalent.

### **Using this Financial Report**

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

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

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

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

While these statements contain information about the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2012?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all non-fiduciary assets and liabilities using the accrual basis of accounting, similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

## Cuyahoga Heights Local School District

### *Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2012*

*Unaudited*

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

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

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

The analysis of the School District's major funds begins on page 8. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental fund is the general fund.

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

***Proprietary Funds*** The School District maintains one proprietary fund. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. Internal service funds are an accounting device used to accumulate and allocate costs internally among the School District's various functions. The School District maintains such funds for its self-insurance of dental and vision related employee benefits.

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

### **The School District as a Whole**

Recall that the statement of net assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for the fiscal year 2012 compared to fiscal year 2011:



## Cuyahoga Heights Local School District

### Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2012

Unaudited

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	<u>2012</u>	<u>2011</u>	<u>Change</u>
<b>Assets</b>			
Current and Other Assets	\$12,307,055	\$12,894,390	(\$587,335)
Capital Assets, Net	<u>5,809,521</u>	<u>6,249,718</u>	<u>(440,197)</u>
<i>Total Assets</i>	<u>18,116,576</u>	<u>19,144,108</u>	<u>(1,027,532)</u>
<b>Liabilities</b>			
Current Liabilities	8,788,881	8,618,365	170,516
Long-Term Liabilities			
Due Within One Year	928,937	832,068	96,869
Due In More Than One Year	<u>2,177,265</u>	<u>2,984,260</u>	<u>(806,995)</u>
<i>Total Liabilities</i>	<u>11,895,083</u>	<u>12,434,693</u>	<u>(539,610)</u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	3,950,122	4,166,962	(216,840)
Restricted for:			
Set Asides	44,561	56,259	(11,698)
Capital Projects	221,783	0	221,783
Debt Service	698,540	839,933	(141,393)
Other Purposes	511,115	339,128	171,987
Unrestricted	<u>795,372</u>	<u>1,307,133</u>	<u>(511,761)</u>
<i>Total Net Assets</i>	<u>\$6,221,493</u>	<u>\$6,709,415</u>	<u>(\$487,922)</u>

The decrease in net assets is attributable to the decrease in capital as a result of depreciation on capital assets outpacing additions during the year, and also due to the decrease in grants receivable as the School District received less grants compared to fiscal year 2011. Management continues to diligently plan expenses, staying carefully within the School District's revenues in an effort to extend the durations between its levy requests.

In order to further understand what makes up the changes in net assets for the current year, the following table gives readers further details regarding the results of activities for the current fiscal year. Table 2 shows total revenues, expenses and changes in net assets for the fiscal years 2012 and 2011.

**Cuyahoga Heights Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2012*  
*Unaudited*

**Table 2**  
 Governmental Activities

	2012	2011	Change
<b>Program Revenues</b>			
Charges for Services and Sales	\$1,147,057	\$1,101,970	\$45,087
Operating Grants, Contributions and Interest	238,244	248,126	(9,882)
Capital Grants and Interest	17,300	0	17,300
<i>Total Program Revenues</i>	<u>1,402,601</u>	<u>1,350,096</u>	<u>52,505</u>
<b>General Revenues</b>			
Property Taxes	7,705,413	8,575,421	(870,008)
Grants and Entitlements	4,616,838	5,153,058	(536,220)
Payment in Lieu of Taxes	841,973	842,573	(600)
Investment Earnings	4,301	11,745	(7,444)
Miscellaneous	23,479	154,473	(130,994)
<i>Total General Revenues</i>	<u>13,192,004</u>	<u>14,737,270</u>	<u>(1,545,266)</u>
<i>Total Revenues</i>	<u>14,594,605</u>	<u>16,087,366</u>	<u>(1,492,761)</u>
<b>Program Expenses</b>			
Regular	6,152,999	5,881,236	(271,763)
Special	1,402,884	1,296,872	(106,012)
Vocational	6,980	817	(6,163)
Support Services			
Pupil	838,251	929,578	91,327
Instructional Staff	563,961	889,526	325,565
Board of Education	55,666	99,870	44,204
Administration	1,295,693	1,503,957	208,264
Fiscal	591,973	635,018	43,045
Business	107,537	188,859	81,322
Operation and Maintenance of Plant	1,515,808	2,008,854	493,046
Pupil Transportation	817,775	966,302	148,527
Central	319,509	1,502,873	1,183,364
Operation of Food Service	379,884	355,505	(24,379)
Operation of Non-Instructional Services	131,237	100,231	(31,006)
Extracurricular Activities	790,083	1,053,182	263,099
Interest and Fiscal Charges	112,287	115,409	3,122
<i>Total Program Expenses</i>	<u>15,082,527</u>	<u>17,528,089</u>	<u>2,445,562</u>
<i>Change in Net Assets</i>	(487,922)	(1,440,723)	952,801
<i>Net Assets Beginning of Year</i>	<u>6,709,415</u>	<u>8,150,138</u>	<u>(1,440,723)</u>
<i>Net Assets End of Year</i>	<u>\$6,221,493</u>	<u>\$6,709,415</u>	<u>(\$487,922)</u>

## **Cuyahoga Heights Local School District**

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2012*

*Unaudited*

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### ***Governmental Activities***

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

Thus school districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to the voters to maintain a constant level of service. Property tax revenue decreased due to the slumping economic conditions the State is facing.

Overall instructional expenses increased over the prior fiscal year reflected increased costs mostly due to annual salary and related fringe benefit growth in accordance with negotiated collective bargaining agreements. Supporting services including pupils, instructional staff, board of education, administration, fiscal, operation and maintenance of plant, pupil transportation and central expenses decreased due to the constant efforts of management to implement cost cutting measures that are part of the School District's continued commitment to fiscal responsibility.

The School District actively pursues grants and controls expenses while still maintaining the high academic standards the residents expect of the School District. Revenue from grants decreased in fiscal year 2012, due to fewer grants received compared to prior fiscal year.

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

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

**Cuyahoga Heights Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2012*  
*Unaudited*

**Table 3**  
 Total and Net Cost of Program Services  
 Governmental Activities

	2012		2011	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Instruction:				
Regular	\$6,152,999	(\$5,853,575)	\$5,881,236	(\$5,613,339)
Special	1,402,884	(1,250,244)	1,296,872	(1,182,922)
Vocational	6,980	(6,682)	817	(786)
Support Services:				
Pupil	838,251	(787,592)	929,578	(864,675)
Instructional Staff	563,961	(519,635)	889,526	(855,538)
Board of Education	55,666	(53,288)	99,870	(74,766)
Administration	1,295,693	(1,240,628)	1,503,957	(1,446,423)
Fiscal	591,973	(566,774)	635,018	(610,788)
Business	107,537	(103,177)	188,859	(155,800)
Operation and Maintenance of Plant	1,515,808	(1,457,492)	2,008,854	(1,944,072)
Pupil Transportation	817,775	(784,554)	966,302	(935,110)
Central	319,509	(268,976)	1,502,873	(1,450,218)
Operation of Food Service	379,884	(61,610)	355,505	(30,504)
Operation of Non-Instructional Services	131,237	(51,164)	100,231	(97,984)
Extracurricular Activities	790,083	(562,248)	1,053,182	(799,659)
Interest and Fiscal Charges	112,287	(112,287)	115,409	(115,409)
<b>Total</b>	<b>\$15,082,527</b>	<b>(\$13,679,926)</b>	<b>\$17,528,089</b>	<b>(\$16,177,993)</b>

The dependence upon general revenues for governmental activities is apparent. 51.09 percent of total expenses are supported through taxes. Program revenues support 9.3 percent of expenses. Grants and entitlements not restricted to specific programs, investments, and other miscellaneous type revenues support the remaining expenses.

**The School District's Funds**

Information regarding the School District's major funds begins on page 15. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$14,737,458 and expenditures of \$15,348,224. The general fund had a decrease in fund balance mainly due to increases in instructional services as a result of the salary increases and less employees retiring. As one can see from the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds, property taxes comprise the School District largest revenue source, accounting for 53.17 percent of total governmental revenue.

**General Fund Budgeting Highlights**

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

During the course of fiscal year 2012, the School District amended its general fund budget several times. The School District uses an operational unit budget process and has in place systems that are designed to tightly control expenses but provide flexibility for program based decision and management.

**Cuyahoga Heights Local School District**

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2012*

*Unaudited*

Due to conservative estimates for property taxes and intergovernmental revenue, the original budget basis revenue amount was lower than final budget revenues. The School District's actual expenditures were \$300,821 higher than final budget basis expenditures. This is due in large part to the School District's continued commitment to provide a quality education while still controlling the costs of that quality education.

**Capital Assets and Debt Administration**

***Capital Assets***

Table 4 shows fiscal year 2012 balances compared to fiscal year 2011:

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

	<u>2012</u>	<u>2011</u>
Land	\$798,600	\$798,600
Land Improvements	970,483	1,044,010
Buildings and Improvements	2,845,740	2,962,054
Furniture and Equipment	986,782	1,184,749
Vehicles	207,916	260,305
<i>Total Capital Assets</i>	<u>\$5,809,521</u>	<u>\$6,249,718</u>

All capital assets, except land, are reported net of depreciation. The decrease in capital assets was due to current year depreciation outpacing acquisitions of capital assets. See Note 12 for additional capital asset information. Effective July 1, 2011, the textbooks set aside is no longer required and has been removed from the existing law. Therefore, for fiscal year 2012, Ohio law required school districts to expend or otherwise reserve three percent of qualifying revenues only for the purpose of capital improvements. For fiscal year 2012, this amounted to \$154,716. See Note 22 for additional set-aside information.

***Debt***

Table 5 summarizes the bonds outstanding as of June 30, 2012.

**Table 5**  
Outstanding Long-term Debt at June 30  
Governmental Activities

	<u>2012</u>	<u>2011</u>
2004 School Improvement Refunding Bonds	\$358,021	\$691,105
Capital Leases	1,745,427	1,919,498
Total	<u>\$2,103,448</u>	<u>\$2,610,603</u>

## **Cuyahoga Heights Local School District**

### *Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2012*

*Unaudited*

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The 2004 current interest construction refunding general obligation bonds were issued to advance refund the 1993 current interest construction bonds, which were originally issued for the acquisition and construction of equipment and facilities in the School District. These bonds include serial and capital appreciation bonds in the amount of \$2,795,000 and \$110,000, respectively. The serial bonds were paid in full during fiscal year 2012. The School District has entered into capital leases for synthetic turf playing field, goal posts and various improvements to School District buildings, bus, printers and phone system. See Note 17 to the basic financial statements for additional information on the School District's long-term obligations.

### **School District Outlook**

The School District relies heavily on its local property taxpayers. The School District has been affected by declining tax base, changes in the personal property tax structure and commercial business uncertainties, and rising cost of goods and services due to inflation. The effects of a bankruptcy in 2000 by the second largest taxpayer in the School District are still being felt in the trend of decreasing tax revenues. The overall tax valuation has decreased from \$522,191,973 in 2002 to \$321,206,336 in 2012. One mil of tax valuation is generating less and less revenue for the School District. Although House Bill 66 is reimbursing the School District on the loss of personal property tax revenue, the potential growth in this tax revenue is still reduced since the reimbursements are based on the 2004 tax base. House Bill 66 greatly reduces and eliminates the potential growth in personal property tax during the phase out years. By 2018, an annual revenue stream of approximately \$4,000,000 will be eliminated from the revenue sources of the School District. The School District will lose \$18,000,000 in the phase-out years due to House Bill 66. The State of Ohio has yet to declare the new commercial revenue tax will be allocated to school districts. Presently, the commercial activity tax is funding the hold-harmless reimbursement payments for HB 66. As a result, the School District cannot count on the commercial activity tax as a future revenue source. Furthermore, the current housing market decline is affecting the historical average of 8 to 11 percent increases in value for revaluation years. Due to the housing environment, real estate taxes are not projected to grow. As of the last known information from the Governor's office the tangible personal property tax loss make-up payments will decrease dramatically over the duration of the State's biennium budget and beyond. Also, included is the complete phase-out of reimbursements to the School District for revenues lost due to utilities deregulation. All of these factors make it increasingly difficult for the School District to meet educational programming needs, rising utility costs, and increased special education services required for our students in the future.

### **House Bill 264**

The School District has utilized the House Bill 264 program with the State of Ohio to reduce utility and maintenance expenditures through energy performance projects within the HB 264 program. The HB 264 program is a State House Bill that allows special financing opportunities for energy conservation permanent improvements in school districts. A phase of projects initiated in 2007 encompasses \$970,000 of heating, air condition, and lighting improvements. This project saved the School District \$110,000 annually, which was higher than projection, and more than paying the annual lease. The savings are expected to increase over the next fifteen years. Completing necessary building improvements under the HB 264 program improves the cash flow of the School District and also reduces expenditures.

## **Cuyahoga Heights Local School District**

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2012*

*Unaudited*

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The future of State funding may greatly affect the financial horizon of the School District. The State of Ohio was found by the Ohio Supreme Court to be operating an unconstitutional education system in regards to the funding formula. Currently, an initiative is actively seeking a restructuring of the State Funding formula and Cuyahoga Heights Local School District is one of the multiple districts in Ohio that passed a board resolution supporting the campaign. However, the future is uncertain and there may be a risk of a redistribution of tax revenues for school districts in Ohio. This would be catastrophic to the School District since tax revenues are the primarily source of revenue. The recent passage of House Bill 1 by the State of Ohio has completely changed the State school funding. The 2010-11 biennial budget (Am. Sub. H.B. 1 of the 128<sup>th</sup> General Assembly), established a new funding formula called the Evidence-Based Model (EBM). Am. Sub. H.B. 153 of the 129<sup>th</sup> General Assembly repealed the EBM and implemented a temporary funding formula for the 2012-13 biennial budget as a new school funding formula is developed. The temporary formula is called the Bridge formula. The Bridge formula provides for a simplified approach to fund distribution based on fiscal year 2011 total calculated amounts on per pupil basis for both fiscal year 2012 and fiscal year 2013.

All scenarios require management to plan carefully and prudently to provide the resources to meet student needs over the next several years. The School District commits itself to a high level of financial stability and financial reporting. The School District received the Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting for eleven consecutive years. The due diligence of the Board of Education, administration, Treasurer, Superintendent, community and finance committee contributes to the financial success of the School District and prudent financial decisions for the School District.

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

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

## **Basic Financial Statements**



# Cuyahoga Heights Local School District

## Statement of Net Assets

June 30, 2012

	Governmental Activities
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$2,522,759
Accounts Receivable	4,463
Intergovernmental Receivable	6,797
Materials and Supplies Inventory	9,942
Inventory Held for Resale	3,980
Property Taxes Receivable	8,913,368
Payments in Lieu of Taxes Receivable	841,973
Deferred Charges	3,773
Non-depreciable Capital Assets	798,600
Depreciable Capital Assets, Net	5,010,921
<i>Total Assets</i>	<u>18,116,576</u>
<b>Liabilities</b>	
Accounts Payable	69,652
Accrued Wages and Benefits	1,136,302
Intergovernmental Payable	279,113
Matured Compensated Absences Payable	13,172
Deferred Revenue	7,240,814
Accrued Interest Payable	28,128
Claims Payable	21,700
Long-Term Liabilities:	
Due Within One Year	928,937
Due In More Than One Year	2,177,265
<i>Total Liabilities</i>	<u>11,895,083</u>
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	3,950,122
Restricted for:	
Debt Service	698,540
Capital Projects	221,783
Music and Athletics	495,241
Set Asides	44,561
Other Purposes	15,874
Unrestricted	795,372
<i>Total Net Assets</i>	<u><u>\$6,221,493</u></u>

See accompanying notes to the basic financial statements

**Cuyahoga Heights Local School District**

*Statement of Activities*

*For the Fiscal Year Ended June 30, 2012*

	Program Revenues				Net (Expense)
	Expenses	Charges for Services and Sales	Operating Grants Contributions and Interest	Capital Grants and Contributions	Revenue and Changes in Net Assets
<b>Governmental Activities</b>					
Instruction:					
Regular	\$6,152,999	\$262,328	\$37,096	\$0	(\$5,853,575)
Special	1,402,884	56,071	96,569	0	(1,250,244)
Vocational	6,980	298	0	0	(6,682)
Support Services:					
Pupil	838,251	43,073	7,586	0	(787,592)
Instructional Staff	563,961	24,883	19,443	0	(519,635)
Board of Education	55,666	2,378	0	0	(53,288)
Administration	1,295,693	55,065	0	0	(1,240,628)
Fiscal	591,973	25,199	0	0	(566,774)
Business	107,537	4,360	0	0	(103,177)
Operation and Maintenance of Plant	1,515,808	58,316	0	0	(1,457,492)
Pupil Transportation	817,775	33,221	0	0	(784,554)
Central	319,509	27,483	5,750	17,300	(268,976)
Operation of Non-Instructional Services:					
Food Service Operations	379,884	246,720	71,554	0	(61,610)
Other Non-Instructional Services	131,237	80,073	0	0	(51,164)
Extracurricular Activities	790,083	227,589	246	0	(562,248)
Interest and Fiscal Charges	112,287	0	0	0	(112,287)
<b>Totals</b>	<u>\$15,082,527</u>	<u>\$1,147,057</u>	<u>\$238,244</u>	<u>\$17,300</u>	<u>(13,679,926)</u>
<b>General Revenues</b>					
Property Taxes Levied for:					
General Purposes					7,647,144
Debt Service					58,269
Grants and Entitlements not Restricted to Specific Programs					4,616,838
Payment in Lieu of Taxes					841,973
Investment Earnings					4,301
Miscellaneous					23,479
<b>Total General Revenues</b>					<u>13,192,004</u>
Change in Net Assets					(487,922)
<i>Net Assets Beginning of Year - Restated (See Note 3)</i>					<u>6,709,415</u>
<i>Net Assets End of Year</i>					<u>\$6,221,493</u>

See accompanying notes to the basic financial statements

**Cuyahoga Heights Local School District**

*Balance Sheet*

*Governmental Funds*

*June 30, 2012*

	General	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$1,158,033	\$1,287,835	\$2,445,868
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	45,676	0	45,676
Accounts Receivable	1,040	3,423	4,463
Intergovernmental Receivable	0	6,797	6,797
Materials and Supplies Inventory	8,993	949	9,942
Inventory Held for Resale	0	3,980	3,980
Interfund Receivable	44,765	0	44,765
Property Taxes Receivable	8,913,368	0	8,913,368
Payments in Lieu of Taxes Receivable	619,800	222,173	841,973
<i>Total Assets</i>	<u>\$10,791,675</u>	<u>\$1,525,157</u>	<u>\$12,316,832</u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts Payable	\$64,323	\$5,329	\$69,652
Accrued Wages and Benefits	1,133,387	2,915	1,136,302
Intergovernmental Payable	256,422	22,691	279,113
Matured Compensated Absences Payable	13,172	0	13,172
Interfund Payable	0	44,765	44,765
Deferred Revenue	8,693,775	224,194	8,917,969
<i>Total Liabilities</i>	<u>10,161,079</u>	<u>299,894</u>	<u>10,460,973</u>
<b>Fund Balances</b>			
Nonspendable	8,993	4,929	13,922
Restricted	45,676	1,236,921	1,282,597
Assigned	205,713	0	205,713
Unassigned (Deficit)	370,214	(16,587)	353,627
<i>Total Fund Balances</i>	<u>630,596</u>	<u>1,225,263</u>	<u>1,855,859</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$10,791,675</u>	<u>\$1,525,157</u>	<u>\$12,316,832</u>

See accompanying notes to the basic financial statements

**Cuyahoga Heights Local School District**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Assets of Governmental Activities  
 June 30, 2012*

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<b>Total Governmental Fund Balances</b>	<b>\$1,855,859</b>
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*Amounts reported for governmental activities in the statement of  
 net assets are different because:*

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	5,809,521
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Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.

Property Taxes	833,161
Payment in Lieu of Taxes	841,973
Intergovernmental	<u>2,021</u>

Total	1,677,155
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Bond issuance costs will be amortized over the life of the bonds on the statement of net assets.	3,773
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An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	9,515
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In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(28,128)
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.

Capital Appreciation Bonds	(110,000)
Accretion	(240,276)
Premium on Bonds	(7,745)
Capital Leases	(1,745,427)
Compensated Absences	<u>(1,002,754)</u>

Total	<u>(3,106,202)</u>
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<i>Net Assets of Governmental Activities</i>	<u><u>\$6,221,493</u></u>
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See accompanying notes to the basic financial statements

**Cuyahoga Heights Local School District**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2012*

	General	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>			
Property Taxes	\$7,726,925	\$109,363	\$7,836,288
Payment in Lieu of Taxes	378,050	464,523	842,573
Intergovernmental	4,637,761	235,088	4,872,849
Interest	4,301	46	4,347
Tuition and Fees	592,524	13,730	606,254
Extracurricular Activities	13,101	43,003	56,104
Contributions and Donations	9,421	1,444	10,865
Charges for Services	76,348	246,720	323,068
Rentals	1,774	159,857	161,631
Miscellaneous	21,926	1,553	23,479
<i>Total Revenues</i>	<u>13,462,131</u>	<u>1,275,327</u>	<u>14,737,458</u>
<b>Expenditures</b>			
Current:			
Instruction:			
Regular	6,228,928	4,865	6,233,793
Special	1,312,373	87,370	1,399,743
Vocational	6,980	0	6,980
Support Services:			
Pupil	785,809	7,969	793,778
Instructional Staff	544,267	15,618	559,885
Board of Education	55,651	0	55,651
Administration	1,340,763	0	1,340,763
Fiscal	605,320	0	605,320
Business	102,043	1,282	103,325
Operation and Maintenance of Plant	1,349,957	0	1,349,957
Pupil Transportation	759,808	0	759,808
Central	207,738	64,214	271,952
Operation of Non-Instructional Services:			
Food Service Operations	0	378,610	378,610
Other Non-Instructional Services	90,649	0	90,649
Extracurricular Activities	689,445	89,541	778,986
Debt Service:			
Principal Retirement	15,480	528,591	544,071
Interest and Fiscal Charges	1,850	73,103	74,953
<i>Total Expenditures</i>	<u>14,097,061</u>	<u>1,251,163</u>	<u>15,348,224</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(634,930)</u>	<u>24,164</u>	<u>(610,766)</u>
<b>Other Financing Sources (Uses)</b>			
Transfers In	0	127,000	127,000
Transfers Out	(127,000)	0	(127,000)
<i>Total Other Financing Sources (Uses)</i>	<u>(127,000)</u>	<u>127,000</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	<u>(761,930)</u>	<u>151,164</u>	<u>(610,766)</u>
<i>Fund Balances Beginning of Year- Restated (See Note 3)</i>	<u>1,392,526</u>	<u>1,074,099</u>	<u>2,466,625</u>
<i>Fund Balances End of Year</i>	<u>\$630,596</u>	<u>\$1,225,263</u>	<u>\$1,855,859</u>

See accompanying notes to the basic financial statements

**Cuyahoga Heights Local School District**  
*Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Fiscal Year Ended June 30, 2012*

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**Net Change in Fund Balances - Total Governmental Funds** (S610,766)

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

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

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

Capital Asset Additions	2,860	
Current Year Depreciation	<u>(439,753)</u>	
Total		(436,893)

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (3,304)

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

Property Taxes	(130,875)	
Payment in Lieu of Taxes	(600)	
Intergovernmental	<u>(11,378)</u>	
Total		(142,853)

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 544,071

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

Accrued Interest	3,356	
Amortization of Premium	7,746	
Accretion	(44,662)	
Amortization of Issuance Costs	<u>(3,774)</u>	
Total		(37,334)

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. 202,971

The internal service fund used by management to charge the costs of insurance to individual funds are not reported in the district-wide statements of activities. Governmental fund expenditures and related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities. (3,814)

*Change in Net Assets of Governmental Activities* (S487,922)

See accompanying notes to the basic financial statements

**Cleveland Heights Local School District**  
*Statement of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*General Fund*  
*For the Fiscal Year Ended June 30, 2012*

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>Revenues</b>				
Property Taxes	\$6,527,952	\$7,955,900	\$7,954,495	(\$1,405)
Payment in Lieu of Taxes	619,800	619,800	378,050	(241,750)
Intergovernmental	4,982,741	4,638,770	4,637,795	(975)
Interest	20,328	15,000	4,239	(10,761)
Tuition and Fees	608,157	561,600	580,764	19,164
Extracurricular Activities	1,010	31,119	3,520	(27,599)
Contributions and Donations	729	2,000	1,774	(226)
Charges for Services	86,610	82,200	76,348	(5,852)
Rentals	2,137	2,000	2,039	39
Miscellaneous	47,807	17,285	17,888	603
<i>Total Revenues</i>	<u>12,897,271</u>	<u>13,925,674</u>	<u>13,656,912</u>	<u>(268,762)</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	6,234,457	6,403,954	6,389,422	14,532
Special	1,272,618	1,479,584	1,354,109	125,475
Vocational	4,000	7,637	6,980	657
Support Services:				
Pupil	812,647	807,997	796,758	11,239
Instructional Staff	581,953	613,241	616,787	(3,546)
Board of Education	87,243	67,184	57,552	9,632
Administration	1,459,691	1,488,316	1,460,596	27,720
Fiscal	786,567	684,030	662,739	21,291
Business	131,220	146,073	133,341	12,732
Operation and Maintenance of Plant	1,560,002	1,453,987	1,418,978	35,009
Pupil Transportation	790,815	821,937	821,937	0
Central	229,126	227,126	210,233	16,893
Operation of Non-Instructional Services	72,188	72,016	51,838	20,178
Extracurricular Activities	712,325	704,467	695,458	9,009
<i>Total Expenditures</i>	<u>14,734,852</u>	<u>14,977,549</u>	<u>14,676,728</u>	<u>300,821</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(1,837,581)</u>	<u>(1,051,875)</u>	<u>(1,019,816)</u>	<u>32,059</u>
<b>Other Financing Sources (Uses)</b>				
Transfers In	25,000	25,000	0	(25,000)
Advances In	0	254,976	254,976	0
Transfers Out	0	(127,036)	(127,000)	36
<i>Total Other Financing Sources (Uses)</i>	<u>25,000</u>	<u>152,940</u>	<u>127,976</u>	<u>(24,964)</u>
<i>Net Change in Fund Balance</i>	<u>(1,812,581)</u>	<u>(898,935)</u>	<u>(891,840)</u>	<u>7,095</u>
<i>Fund Balance Beginning of Year</i>	1,483,898	1,483,898	1,483,898	0
Prior Year Encumbrances Appropriated	367,533	367,533	367,533	0
<i>Fund Balance End of Year</i>	<u>\$38,850</u>	<u>\$952,496</u>	<u>\$959,591</u>	<u>\$7,095</u>

See accompanying notes to the basic financial statements

**Cuyahoga Heights Local School District**

*Statement of Fund Net Assets*

*Internal Service Fund*

*June 30, 2012*

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	<u>Employee Benefit Self Insurance</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$31,215
<b>Liabilities</b>	
Claims Payable	<u>21,700</u>
<b>Net Assets</b>	
Unrestricted	<u><u>\$9,515</u></u>

See accompanying notes to the basic financial statements



**Cuyahoga Heights Local School District**  
*Statement of Revenues,  
 Expenses and Changes in Fund Net Assets  
 Internal Service Fund  
 For the Year Ended June 30, 2012*

	<u>Employee Benefit Self Insurance</u>
<b>Operating Revenues</b>	
Charges for Services	<u>\$149,886</u>
<b>Operating Expenses</b>	
Purchased Services	11,239
Claims	<u>142,461</u>
<i>Total Operating Expenses</i>	<u>153,700</u>
<i>Change in Net Assets</i>	(3,814)
<i>Net Assets Beginning of Year</i>	<u>13,329</u>
<i>Net Assets End of Year</i>	<u><u>\$9,515</u></u>

See accompanying notes to the basic financial statements

**Cuyahoga Heights Local School District**

*Statement of Cash Flows*

*Internal Service Fund*

*For the Year Ended June 30, 2012*

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	<u>Employee Benefit Self Insurance</u>
<b><i>Increase (Decrease) in Cash and Cash Equivalents</i></b>	
<b>Cash Flows from Operating Activities</b>	
Cash Received from Interfund Services Provided	\$149,886
Cash Payments for Goods and Services	(11,239)
Cash Payments for Claims	<u>(137,861)</u>
<i>Net Increase in Cash and Cash Equivalents</i>	786
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>30,429</u>
<i>Cash and Cash Equivalents End of Year</i>	<u><u>\$31,215</u></u>
 <b><i>Reconciliation of Operating Loss to Net Cash Provided by Operating Activities</i></b>	
<i>Operating Loss</i>	(\$3,814)
Increase in Liabilities:	
Claims Payable	<u>4,600</u>
<i>Net Cash Provided by Operating Activities</i>	<u><u>\$786</u></u>

See accompanying notes to the basic financial statements

**Cuyahoga Heights Local School District**

*Statement of Fiduciary Net Assets*

*Fiduciary Funds*

*June 30, 2012*

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	Private Purpose Trust	
	Scholarship	Agency
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	<u>\$361,112</u>	<u>\$100,273</u>
<b>Liabilities</b>		
Intergovernmental Payable	0	\$13,348
Due to Students	<u>0</u>	<u>86,925</u>
<i>Total Liabilities</i>	<u>0</u>	<u>\$100,273</u>
<b>Net Assets</b>		
Held in Trust for Scholarships	<u>\$361,112</u>	

See accompanying notes to the basic financial statements

**Cuyahoga Heights Local School District**  
*Statement of Changes in Fiduciary Net Assets*  
*Private Purpose Trust Funds*  
*For the Fiscal Year Ended June 30, 2012*

	Scholarship
<b>Additions</b>	
Interest	\$11,090
Contributions and Donations	63,963
<i>Total Additions</i>	75,053
<b>Deductions</b>	
Scholarships Awarded	21,085
<i>Excess of Additions Over Deductions</i>	53,968
<i>Net Assets Beginning of Year</i>	307,144
<i>Net Assets End of Year</i>	\$361,112

See accompanying notes to the basic financial statements

## **Cuyahoga Heights Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

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### **Note 1 – Description of the School District**

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

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

The School District ranks as the 494<sup>th</sup> largest by enrollment among the 612 public school districts in the State. It currently operates one elementary school, one middle school and one comprehensive high school. The School District employs 61 certified (including administrative) and 75 non-certified full-time and part-time employees to provide services to approximately 941 students from pre-school (age 4) to grade 12 and various community groups.

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

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

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

The School District participates in three jointly governed organizations and two public entity risk pools, the Northeast Ohio Network for Educational Technology, Ohio Schools Council, the Cuyahoga Valley Career Center and the Ohio School Boards Association Workers' Compensation Group Rating Plan and the Suburban Health Consortium. These organizations are presented in Notes 19 and 20 to 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 School District also applies Financial Accounting Standards

## **Cuyahoga Heights Local School District**

### *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2012*

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Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities and to its internal service fund unless these pronouncements conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described below.

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

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

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

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

#### ***Fund Accounting***

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

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

## Cuyahoga Heights Local School District

### *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2012*

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

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

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

**Internal Service Fund** The internal service fund accounts for and reports the financing of services provided by one fund, department or agency to other departments or agencies of the School District on a cost reimbursement basis. The School District's only internal service fund is a self insurance fund that accounts for dental and vision insurance benefits of School District employees.

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

#### **Measurement Focus**

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

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

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

**Cuyahoga Heights Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2012*

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

***Basis of Accounting***

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

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

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

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

***Deferred Revenue*** Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2012, but which were levied to finance fiscal year 2013 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

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

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in



## **Cuyahoga Heights Local School District**

### *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2012*

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which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

#### ***Budgetary Data***

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

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

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

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

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

The School District has invested in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2012. 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 does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's net asset value per share which is the price the investment could be sold at June 30, 2012.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements and nonnegotiable certificates of deposit are reported at cost.

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 2012 amounted to \$4,301, which includes \$2,529 assigned from other School District funds.

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

## Cuyahoga Heights Local School District

### *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2012*

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#### ***Restricted Assets***

Assets are reported as restricted when limitations on their use change the nature of normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or the laws of other governments, or imposed by law through constitutional provisions. Restricted assets on the balance sheet represent monies required by State statute to be set aside for the acquisition or construction of capital assets. See Note 22 for additional information regarding set-asides.

#### ***Inventory***

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

#### ***Capital Assets***

All of the School District's capital assets are general capital assets. General capital assets are those assets related to activities reported in the governmental funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets 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 fair market values as of the date received. The School District maintains a capitalization threshold of twenty-five hundred dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

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

#### ***Interfund Balances***

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

## **Cuyahoga Heights Local School District**

### *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2012*

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

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

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

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

For governmental funds, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured compensated absences payable" in the fund from which the employees who have resigned or retired will be paid. The non-current portion of the liability is not reported.

#### ***Operating Revenues and Expenses***

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

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

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, insurance premiums, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year.

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

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

## Cuyahoga Heights Local School District

### *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2012*

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

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

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

***Assigned*** Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the School District Board of Education or a School District official delegated that authority by resolution or by a State statute.

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

#### ***Net Assets***

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt 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 assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes include support and instructional services.

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

## **Cuyahoga Heights Local School District**

### *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2012*

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#### ***Internal Activity***

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

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

#### ***Extraordinary and Special Items***

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence.

#### ***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.

#### ***Bond Issuance Costs***

Issuance costs for underwriting fees and issuance for the certificates of participation are being amortized using the straight-line method over the life of the obligations in the School District's governmental activities. The straight-line method of amortization is not materially different from the effective-interest method.

As permitted by State statute, the School District paid bond issuance costs from the bond proceeds and therefore does not consider that portion of the debt to be capital-related debt. That portion of the debt was offset against the unamortized bond issuance costs which were included in the determination of unrestricted net assets. Reporting both within the same element of net assets prevents one classification from being overstated while another is understated by the same amount.

#### ***Bond Premiums***

On the government-wide financial statements, bond premiums are deferred and amortized for the term of the bonds using the straight-line method since the results are not significantly different from the effective interest method. Bond premiums are presented as an increase of the face amount of the bonds payable. On governmental fund statements, bond premiums are receipted in the year the bonds are issued.

**Cuyahoga Heights Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2012*

**Note 3 – Change in Accounting Principles and Restatement of Prior Year’s Fund Balance and Net Assets**

*Change in Accounting Principles*

For fiscal year 2012, the School District has implemented Governmental Accounting Standard Board (GASB) Statement No. 64, “Derivative Instruments: Application of Hedge Accounting Termination Provisions – and amendment of GASB Statement No. 53.” GASB Statement No. 64 clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The implementation of this statement did not result in any change in the School District’s financial statements.

*Restatement of Prior Year’s Fund Balance*

During fiscal year 2012, it was determined that property taxes receivable of \$91,138 was understated in general fund and overstated for the same amount in the other governmental funds. This restatement changed fund balance for general fund at June 30, 2011 from \$1,301,388 to \$1,392,526 and for the other governmental fund balance from \$1,165,237 to \$1,074,099. This restatement had a \$0 effect in total governmental fund balance.

*Restatement of Prior Year’s Net Assets*

During fiscal year 2012, it was determined that payment in lieu of taxes receivable and capital lease obligations were understated in previous years. These restatements had the following effect on net assets as they were previously reported.

	Governmental Funds
Net Assets, June 30, 2011	\$6,017,142
Payment in Lieu of Taxes Receivable	842,573
Capital Leases	(150,300)
Adjusted Net Assets, June 30 2011	\$6,709,415

**Note 4 – Accountability and Compliance**

*Accountability*

At June 30, 2012, the following funds had deficit fund balances:

Fund	Fund Balance
<i>Special Revenue Funds:</i>	
Food Service	\$177
Alternative Schools	44
Improving Teacher Quality	16,011
<i>Capital Projects Fund:</i>	
Permanent Improvements	355

**Cuyahoga Heights Local School District**  
*Notes to the Basic Financial Statements*  
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The deficits in the special revenue funds and permanent improvement capital projects fund are due to adjustments for accrued liabilities. The general fund is liable for any deficit in these funds and provides transfers when cash is required, rather than when accruals occur.

**Compliance**

Ohio Rev. Code § 5705.10(H) provides that money paid into a fund must be used only for the purposes for which such fund has been established. A fund with a negative cash balance signifies that monies from other funds were used to meet their obligations. As of June 30, 2012, the alternative schools special revenue fund had a negative cash fund balance of \$4,776.

**Note 5 – Fund Balances**

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

Fund Balances	General	Other Governmental Funds	Total
<u>Nonspendable:</u>			
Inventory	\$8,993	\$4,929	\$13,922
<u>Restricted for:</u>			
Debt Service	0	726,633	726,633
Support Services	0	9,453	9,453
Music and Athletics	0	495,241	495,241
Instructional Services	0	5,594	5,594
Capital Improvements	45,676	0	45,676
<i>Total Restricted</i>	<u>45,676</u>	<u>1,236,921</u>	<u>1,282,597</u>
<u>Assigned to:</u>			
Uniform School Supplies	539	0	539
Adult Education	698	0	698
Other Purposes	204,476	0	204,476
<i>Total Assigned</i>	<u>205,713</u>	<u>0</u>	<u>205,713</u>
Unassigned (Deficit)	<u>370,214</u>	<u>(16,587)</u>	<u>353,627</u>
Total Fund Balances	<u>\$630,596</u>	<u>\$1,225,263</u>	<u>\$1,855,859</u>

**Note 6 – Budgetary Basis of Accounting**

While the School District is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-

**Cuyahoga Heights Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2012*

GAAP Basis) and Actual presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a restricted, committed, or assigned fund balance (GAAP basis).
4. Unrecorded cash, which consists of unrecorded interest, is not reported by the School District on the budget basis operating statements, but is reported on the GAAP basis operating statements.
5. Budgetary revenues and expenditures of the uniform school supplies, adult education and public school support funds are reclassified to the general fund for GAAP reporting.
6. Advances in and Advances out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

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

Net Change in Fund Balance	
GAAP Basis	(\$761,930)
Net Adjustment for Revenue Accruals	214,524
Advances In	254,976
Net Adjustment for Expenditure Accruals	(387,016)
Beginning Unrecorded Cash	62
Excess of Revenues and Other Financing Sources and Over (Under) Expenditures and Other Financing Uses:	
Uniform School Supplies	(249)
Public School Support	(8,478)
Adjustments for Encumbrances	(203,729)
Budget Basis	<u><u>(\$891,840)</u></u>

**Note 7 – 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.



## **Cuyahoga Heights Local School District**

### *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2012*

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

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

### **Deposits**

Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$533,958 of the School District's bank balance of \$1,060,713 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

## **Cuyahoga Heights Local School District**

### *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2012*

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

#### **Investments**

Investments are reported at fair value. As of June 30, 2012, the School District had \$1,311,076 invested in STAR Ohio.

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

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

#### **Note 8 – Property Taxes**

Property taxes are levied and assessed on a calendar year basis while the School District's fiscal year runs from July through June. First half tax 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 (used in business) located in the School District. Real property tax revenue received in calendar year 2012 represents collections of calendar year 2011 taxes. Real property taxes received in calendar year 2012 were levied after April 1, 2011 on the assessed value listed as of January 1, 2011, the lien date. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility personal property tax revenue received in calendar year 2012 represents collections of calendar year 2011 taxes. Public utility personal property taxes received in calendar year 2012 became a lien December 31, 2010, were levied after April 1, 2011 and are collected in calendar year 2012 with real property taxes. Public utility real property is assessed at 35 percent of true value.

The School District receives property taxes from Cuyahoga County. The County Fiscal Officer periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the county by June 30, 2012, are available to finance fiscal year 2012 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, 2012, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an

**Cuyahoga Heights Local School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2012*

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 revenue.

The amount available as an advance at June 30, 2012, was \$839,393 in the general fund. The amount available as an advance at June 30, 2011, was \$701,879 in the general fund and \$32,702 in the bond retirement fund.

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

The assessed values upon which the fiscal year 2012 taxes were collected are:

	2011 Second Half Collections		2012 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$311,767,840	91.12 %	\$312,586,860	90.96 %
Public Utility	30,388,320	8.88	31,061,710	9.04
	<u>\$342,156,160</u>	<u>100.00 %</u>	<u>\$343,648,570</u>	<u>100.00 %</u>
Full Tax rate per \$1,000 of assessed valuation		\$28.80		\$27.80

The School District's millage rates were decreased due to an expiration of one mill bond retirement levy in fiscal year 2012.

**Note 9 – Receivables**

Receivables at June 30, 2012, consisted of taxes, accounts (billings for user charged services and student fees), interfund, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. All receivables, except delinquent property taxes, are expected to be collected within one year. Property taxes, although ultimately collectible, include some portion of delinquents that will not be collected in one year.

A summary of the principal items of intergovernmental receivable follows:

<u>Governmental Activities</u>	<u>Amount</u>
Alternative Education Grant	\$4,776
Improving Teacher Quality	<u>2,021</u>
Total Governmental Activities	<u><u>\$6,797</u></u>

***Payments in Lieu of Taxes***

According to state law, the School District has established several tax incremental financing districts within the School District under which the School District has granted property tax exemptions and agreed to construct certain infrastructure improvements. The property owners have agreed to make

**Cuyahoga Heights Local School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2012*

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payments to the School District to help pay the costs of the infrastructure improvements. The amount of those payments generally reflects all or a portion of the property taxes which the property owners would have paid if the property had not been declared exempt. The property owners' contractual promise to make these payments in lieu of taxes generally continues until the costs of the improvement have been paid or the agreement expires, whichever occurs first. Future development by these owners or others may result in subsequent agreements to make payments in lieu of taxes and may therefore spread the costs of the improvements to a larger number of property owners.

**Note 10 – Contingencies**

***Grants***

The School District received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2012, if applicable, cannot be determined at this time.

***Litigation***

The School District is not a party to any legal proceedings.

**Note 11 – Risk Management**

***Workers' Compensation***

For fiscal year 2012, the School District participated in the Ohio Association of School Business Officials Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 20). The intent of the GRP is to achieve the benefits of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate of the GRP rather than its individual rate. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

***Property and Liability***

The School District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2012, the School District contracted for the following insurance coverage:

**Cuyahoga Heights Local School District**  
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<u>Company</u>	<u>Type of Coverage</u>	<u>Coverage Amount</u>
Arenda Insurance	Treasurer's Bond	\$100,000
	Blanket Bond (per employee)	5,000
Indiana Insurance	Blanket Property	56,445,684
	Inland Marine	3,635,490
	General Liability:	
	Limit	1,000,000
	Aggregate	2,000,000
	Flood and Earthquake:	
	Flood Limit	1,000,000
	Earthquake Limit	1,000,000
	Employee Dishonesty	175,000
	Fleet, Combined Single Unit	1,000,000
	Uninsured Motorists	1,000,000
	Law Enforcement	1,000,000
	Umbrella	6,000,000
	Employee Benefits, Aggregate	3,000,000
	Employee Benefits Limit	1,000,000
	Boiler and Machinery	50,000,000
School Leaders Errors and Omissions:		
Aggregate	1,000,000	
Limit	1,000,000	

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

***Self-Insurance***

Dental and vision insurance is offered to employees through a self-insurance internal service fund. The School District's monthly premiums are paid to the fiscal agent who in turn pays the claims on the School District's behalf. The City utilizes the services of Mutual Health Services Inc., the third party administrator, to review, process, and pay employee claims. The claims liability of \$21,700 reported in the internal service fund at June 30, 2012, is based on an estimate provided by the third party administrator.

The claims liability of \$21,700 reported in the internal service fund at June 30, 2012 is based on the requirements of Governmental Accounting Standards Board Statement No. 30 which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses.

The change in claims activity for the current fiscal year and prior year is as follows:

	<u>Beginning of Year</u>	<u>Claims</u>	<u>Payments</u>	<u>End of Year</u>
2011	\$15,271	\$125,829	\$124,000	\$17,100
2012	17,100	142,461	137,861	21,700

**Cuyahoga Heights Local School District**  
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***Employee Medical Benefits***

The School District participates in the Suburban Health Consortium, a shared risk pool (Note 20) to provide group health insurance coverage. Rates are set or determined by the Board of Directors. The School District pays a monthly contribution which is placed in a reserve fund from which the claims payments are made for all participating districts.

**Note 12 – Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	Balance 6/30/11	Additions	Deletions	Balance 6/30/12
<b><i>Capital Assets, not being depreciated:</i></b>				
Land	\$798,600	\$0	\$0	\$798,600
<b><i>Capital Assets, being depreciated:</i></b>				
Land Improvements	1,745,129	0	0	1,745,129
Buildings and Improvements	12,971,146	0	(3,357)	12,967,789
Furniture and Equipment	4,733,079	2,860	(53,880)	4,682,059
Vehicles	1,041,828	0	0	1,041,828
<b><i>Total Capital Assets, being depreciated</i></b>	<b>20,491,182</b>	<b>2,860</b>	<b>(57,237)</b>	<b>20,436,805</b>
Less Accumulated Depreciation:				
Land Improvements	(701,119)	(73,527)	0	(774,646)
Buildings and Improvements	(10,009,092)	(116,314)	3,357	(10,122,049)
Furniture and Equipment	(3,548,330)	(197,523)	50,576	(3,695,277)
Vehicles	(781,523)	(52,389)	0	(833,912)
<b><i>Total Accumulated Depreciation</i></b>	<b>(15,040,064)</b>	<b>(439,753)</b>	<b>53,933</b>	<b>(15,425,884)</b>
<b><i>Total Capital Assets, being depreciated, net</i></b>	<b>5,451,118</b>	<b>(436,893)</b>	<b>(3,304)</b>	<b>5,010,921</b>
Governmental Activities Capital Assets, Net	<u>\$6,249,718</u>	<u>(\$436,893)</u>	<u>(\$3,304)</u>	<u>\$5,809,521</u>

**Cuyahoga Heights Local School District**  
*Notes to the Basic Financial Statements*  
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Depreciation expense was charged to governmental functions as follows:

	Amount
Instruction:	
Regular	\$6,629
Special	2,773
Support Services:	
Pupil	71,830
Instructional Staff	950
Administration	1,388
Fiscal	2,028
Business	3,143
Operation and Maintenance of Plant	192,067
Pupil Transportation	57,351
Central	51,960
Non-Instructional Services	43,919
Extracurricular Activities	5,715
Total Depreciation Expense	\$439,753

**Note 13 – Interfund Transactions**

***Interfund Balances***

As of June 30, 2012, the School District had the following interfund balances:

	Interfund Receivable
Interfund Payable	General Fund
<i>Special Revenue Funds:</i>	
Alternative Schools	\$4,776
Improving Teacher Quality	16,723
<i>Capital Projects Fund:</i>	
Permanent Improvements	23,266
	\$44,765

The advances from the general fund to the special revenue funds were to support the funds programs pending the receipts of grant money. The advance from the general fund to the permanent improvement capital projects fund was to support its activities due to prior year's improvement projects associated with High School lap top and smart boards program. All advances are payable to the general fund and are expected to be repaid in fiscal year 2013.

***Interfund Transfers***

During fiscal year 2012, the general fund transferred \$70,000 and \$57,000 to food service and music and athletics special revenue funds, respectively. The transfers were to move unrestricted balances to support programs and projects accounted for in other funds.

**Cuyahoga Heights Local School District**  
*Notes to the Basic Financial Statements*  
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**Note 14 – Defined Benefit Pension Plans**

***School Employees Retirement System***

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

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 advices of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For the fiscal year ended June 30, 2012, the allocation to pension and death benefits is 12.70 percent. The remaining 1.30 percent of the 14 percent employer contributions rate is allocated to the Health Care and Medicare B funds. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2012, 2011, and 2010 were \$300,980, \$292,258, and \$307,705, respectively. For fiscal year 2012, 96.43 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010.

***State Teachers Retirement System***

Plan Description – The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that can be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at [www.strsoh.org](http://www.strsoh.org).

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. 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, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50. Benefits are established by Ohio Revised Code Chapter 3307.



## **Cuyahoga Heights Local School District**

### *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2012*

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A DB or Combined Plan member with five or more years of credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor 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 - Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon the recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. For the fiscal year ended June 30, 2012, plan members were required to contribute 10 percent of their annual covered salary. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations.

The School District's required contributions to STRS Ohio for the DB Plan and for the defined benefit portion of the Combined Plan were \$755,524 and \$8,304 for the fiscal year ended June 30, 2012, \$775,999 and \$15,681 for the fiscal year ended June 30, 2011, and \$800,368 and \$7,112 for the fiscal year ended June 30, 2010. For fiscal year 2012, 84.05 percent has been contributed for the DB Plan and the Combined Plan, with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2011 and 2010.

Contributions made to STRS Ohio for the DC Plan for fiscal year 2012 were \$0 made by the School District and \$0 made by the plan members. In addition, member contributions of \$5,932 were made for fiscal year 2012 for the defined contribution portion of the Combined Plan.

#### ***Social Security System***

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2012, three members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages.

### **Note 15 – Postemployment Benefits**

#### ***School Employees Retirement System***

Plan Description – The School District participates in two cost-sharing multiple-employer defined benefit other postemployment benefit (OPEB) plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligation to contribute are established by SERS based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care

## **Cuyahoga Heights Local School District**

### *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2012*

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Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For the fiscal year ended June 30, 2012, 0.55 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for the year ended June 30, 2012, this amount was \$35,800. During fiscal year 2012, the School District paid \$86,445 in surcharge.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The School District's contributions for health care for the fiscal years ended June 30, 2012, 2011, and 2010 were \$13,035, \$18,807, and \$18,299, respectively. For fiscal year 2012, 96.43 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For the fiscal year ended June 30, 2012, this actuarially required allocation was 0.75 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010 were \$17,774, \$72,690, and \$47,135, respectively. For fiscal year 2012, 96.43 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010.

#### ***State Teachers Retirement System***

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2012, STRS Ohio allocated employer contributions equal to one percent of covered payroll to post-employment health care. The School District's contributions for health care for the fiscal years ended June 30, 2012, 2011, and 2010 were \$58,117, \$59,692, and \$61,567, respectively. For fiscal year 2012, 84.05 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal year 2011 and 2010.

#### **Note 16 – Employee Benefits**

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

***Classified Employees*** Classified employees earn ten to twenty five days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment. Classified employees earn sick leave at the rate of one and one-quarter day per month to a

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

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

**Note 17 – Long-Term Obligations**

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

	Amount Outstanding 6/30/11	Additions	Reductions	Amount Outstanding 6/30/12	Amount Due in One Year
<b>General Obligation Bonds:</b>					
2004 Current Interest Construction Bonds					
Serial Bonds	\$370,000	\$0	(\$370,000)	\$0	\$0
Capital Appreciation Bonds	110,000	0	0	110,000	110,000
Accretion	195,614	44,662	0	240,276	240,276
Premium	15,491	0	(7,746)	7,745	0
<b>Total General Obligation Bonds</b>	<b>691,105</b>	<b>44,662</b>	<b>(377,746)</b>	<b>358,021</b>	<b>350,276</b>
<b>Other Long-term Obligations:</b>					
Capital Leases	1,919,498	0	(174,071)	1,745,427	180,302
Compensated Absences	1,205,725	238,736	(441,707)	1,002,754	398,359
<b>Total Other Long-term Obligations</b>	<b>3,125,223</b>	<b>238,736</b>	<b>(615,778)</b>	<b>2,748,181</b>	<b>578,661</b>
<b>Total Governmental Activities</b>					
<b>Long-Term Liabilities</b>	<b>\$3,816,328</b>	<b>\$283,398</b>	<b>(\$993,524)</b>	<b>\$3,106,202</b>	<b>\$928,937</b>

The 2004 current interest construction refunding general obligation bonds were issued to advance refund the 1993 current interest construction bonds, which were originally issued for the acquisition and construction of equipment and facilities in the School District. These bonds include serial and capital appreciation bonds in the amount of \$2,795,000 and \$110,000, respectively. The bonds will be paid from the bond retirement debt service fund. The serial bonds were paid in full during fiscal year 2012.

Interest on the capital appreciation bonds will be accreted annually until the point of maturity of the capital appreciation bonds, which is 2013. The final maturity amount of outstanding capital appreciation

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bonds at June 30, 2012, is \$110,000. The accretion recorded for 2012 was \$44,662, for a total outstanding bond liability of \$350,276.

Compensated absences will be paid from the general fund and the food service special revenue fund.

The School District's overall debt margin was \$31,665,004 with an unvoted debt margin of \$343,649 at June 30, 2012. Principal and accretion requirements to retire the 2004 capital appreciation bonds during 2013 are \$110,000 and \$265,000, respectively.

**Note 18 - Capital Leases**

In previous years, the School District entered into capitalized lease obligations for the purchase of a new synthetic turf playing field, goal posts, various improvements to School District buildings, bus, phone system and printers. The leases meet the criteria for capital leases as defined by the Statement of Financial Accounting Standards No. 13 "Accounting for Lease" and have been recorded on the government-wide statements. The original amounts capitalized for the capital leases and their book values as of June 30, 2012 are as follows:

	Amounts
Assets:	
Land Improvements	\$668,150
Buildings and Improvements	1,553,000
Vehicles	78,690
Equipments	69,540
Total Assets	2,369,380
Less: Accumulated Depreciation	(295,090)
Current Book Value	\$2,074,290

The following is a schedule of the future minimum leases payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2012.

Capital Leases	
	Amounts
2013	\$242,821
2014	412,599
2015	505,084
2016	152,708
2017	152,708
2018-2022	497,428
2023	49,323
Total Minimum Lease Payments	2,012,671
Less: Amount Representing Interest	(267,244)
Present Value of Minimum Lease Payments	\$1,745,427

**Cuyahoga Heights Local School District**  
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**Note 19 – Jointly Governed Organizations**

***Northeast Ohio Network for Educational Technology***

The Northeast Ohio Network for Educational Technology (NEONET) is the computer service organization or Information Technology Center (ITC) used by the School District. NEONET is an association of public school districts in a geographic area determined by the Ohio Department of Education. The Summit County Educational Service Center acts as the fiscal agent for the consortium. The purpose of the consortium is to develop and employ a computer system efficiently and effectively for the needs of the member Boards of Education. All districts in the consortium are required to pay fees, charges, and assessments as charged. A board made up of superintendents from all of the participating districts governs NEONET. An elected Executive Board consisting of five members of the governing board is the managerial body of the consortium and meets on a monthly basis. Payments to NEONET are made from the general fund. The School District paid \$47,736 in contributions to NEONET in fiscal year 2012. Financial information can be obtained by contacting the Treasurer at the Summit County Educational Service Center, who serves as the fiscal agent, at 420 Washington Avenue, Suite 200, Cuyahoga Falls, Ohio 44221.

***Ohio Schools Council***

The Ohio Schools Council (Council) is a jointly governed organization among 158 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 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 2012, the School District paid \$2,485 to the Council. Financial information can be obtained by contacting Dr. David A. Cottrell, the Executive Director at 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. Compass Energy has been selected as the new supplier and program manager for the period from October 1, 2010 through March 31, 2013. There are currently 147 participants in the program including the Cuyahoga Heights Local School District. The participants make monthly payments based on estimated usage. Each September, these estimated payments are compared to their actual usage for the year (July to June). Districts that paid more in estimated billings than their actual billings are issued credits on future billings beginning in September until the credits are exhausted and districts that did not pay enough on estimated billings are invoiced for the difference on the September monthly estimated billing.

The School District also participates in the Council's current electric purchase program. In September/October 2009, 110 school districts joined a new OSC electricity discount program, Energy for Education III. The Energy for Education III Program provides a fixed price rate for electricity supplied by Duke Retail Energy Sales, Inc. of \$0.051 per kwh for the generation of electricity which cannot be increased until June 2011 meter reading. School districts are not charged a fee by OSC to participate in this program. School districts pay the utility (Ohio Edison, Toledo Edison or Cleveland Electric Illuminating Co.) directly and receive a discount for the fixed price of generation.

## **Cuyahoga Heights Local School District**

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### ***Cuyahoga Valley Career Center***

The Cuyahoga Valley Career Center (a joint vocational school) is a district political subdivision of the State of Ohio operated under the direction of a Board, consisting of representatives from each participating school district's elected board, which possess its own budgeting and taxing authority. Accordingly, the Cuyahoga Valley Career Center is not part of the School District and its operations are not included as part of the reporting entity. The School District made no contributions to the Cuyahoga Valley Career Center during fiscal year 2012. Financial information can be obtained by contacting the Treasurer at the Cuyahoga Valley Career Center, 8001 Brecksville Road, Brecksville, Ohio 44141.

### **Note 20 - Public Entity Risk Pools**

#### ***Ohio School Boards Association Workers' Compensation Group Rating Plan***

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

#### ***Suburban Health Consortium***

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

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

**Cuyahoga Heights Local School District**  
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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.

**Note 21 – Significant Commitments**

***Encumbrances***

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

General fund	\$203,729
Nonmajor funds	20,418
Total	\$224,147

**Note 22 – Set-Asides**

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the acquisition and construction of capital improvements. Amounts not spent by fiscal year end or offset by similarly restricted resources received during the year must be held in cash at fiscal year end and carried forward to be used for the same purposes in future years. At June 30, 2012, capital improvements continue to be set-aside.

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.

**Cuyahoga Heights Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2012*

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	Capital Improvements
Set-Aside Reserve Balance as of June 30, 2011	\$0
Current Year Set-Aside Requirement	154,716
Qualifying Disbursements	(110,155)
Totals	\$44,561
Set-Aside Balance Carried Forward to Future Fiscal Years	\$44,561
Set-Aside Reserve Balance as of June 30, 2012	\$44,561

The total reserve balance for the capital improvement set-aside at the end of the fiscal year was \$44,561.

**Note 23 – Subsequent Event**

On October 16, 2012, in accordance with the foregoing facts and pursuant to Ohio Revised Code Section 117.28, Auditor of State Dave Yost’s Office issued a finding for recovery for public money for \$4.2 million in favor of the Cuyahoga Heights Local School District. This special audit focused on payments made to vendors for IT equipment by former School District IT Director Joseph Palazzo. Auditors reviewed records from July 1, 2007 through February 22, 2011. According to audit findings, Palazzo authorized 436 payments totaling to \$3,844,155 to seven companies from which the School District received no goods or services. Ten findings for recovery were issued against various vendors and individuals for the total amount of \$3,844,155. Another 179 transactions totaling \$336,495 were found to be made for goods or services that cannot be located by the School District. A finding for recovery was issued against Joseph Palazzo in the amount of \$336,495, with additional individuals held jointly and severally liable for portions of the amount. Additionally, a review of bank records revealed payments totaling \$1,308,194 were made directly to Joseph Palazzo from four of the seven vendors after they received their payments from the School District. The findings in this special audit have been forwarded to the Cuyahoga County Prosecutor’s office.





# Dave Yost • Auditor of State

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

Cuyahoga Heights Local School District  
Cuyahoga County  
4820 East 71<sup>st</sup> Street  
Cuyahoga Heights, Ohio 44125

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Cuyahoga Heights Local School District, Cuyahoga County, (the District) as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 14, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

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 more than a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

### **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, providing an opinion 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*.

We did note certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated May 14, 2013.

We intend this report solely for the information and use of management, the Board of Education, and others within the District. We intend it for no one other than these specified parties.

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

**Dave Yost**  
Auditor of State

May 14, 2013

CUYAHOGA HEIGHTS LOCAL SCHOOL DISTRICT  
CUYAHOGA COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2012

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2011-01	Purchasing Procedures IT Department	Yes	

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURE

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

To the Board of Education:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether Cuyahoga Heights Local School District (the District) has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board amended its anti-harassment policy at its meeting on March 16, 2011 to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost".

**Dave Yost**  
Auditor of State

May 14, 2013

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# Dave Yost • Auditor of State

CUYAHOGA HEIGHTS LOCAL SCHOOL DISTRICT

CUYAHOGA COUNTY

## CLERK'S CERTIFICATION

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

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
MAY 28, 2013