CUYAHOGA ARTS AND CULTURE
CUYAHOGA COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2018

OHIO AUDITOR OF STATE
KEITH FABER

CUYAHOGA ARTS & CULTURE
CUYAHOGA COUNTY

TABLE OF CONTENTS

TITLE | **PAGE**

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OHIO AUDITOR OF STATE
KEITH FABER

Lausche Building, 12th Floor
615 Superior Avenue, NW
Cleveland, Ohio 44113-1801
(216) 787-3665 or (800) 626-2297
NortheastRegion@ohioauditor.gov

INDEPENDENT AUDITOR'S REPORT

Cuyahoga Arts and Culture
Cuyahoga County
1501 Euclid Avenue, Suite 407
Cleveland, Ohio 44115

To the Board of Trustees:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the general fund of Cuyahoga Arts and Culture, Cuyahoga County, Ohio (the CAC), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the CAC's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of Cuyahoga Arts and Culture, Cuyahoga County, Ohio, as of December 31, 2018, and the respective changes in financial position thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 13 to the financial statements, during 2018, the CAC adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

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

The Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual presents additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 23, 2019, on our consideration of the CAC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the CAC's internal control over financial reporting and compliance.

Keith Faber
Auditor of State

Columbus, Ohio

July 23, 2019

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The discussion and analysis of Cuyahoga Arts & Culture (CAC) financial performance provides an overall review of CAC's financial activities for the year ended December 31, 2018. The intent of this discussion and analysis is to look at CAC's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of CAC's financial performance.

Financial Highlights

Key Financial highlights for 2018 are as follows:

- Cuyahoga Arts & Culture has completed its twelfth year of operations with an increase in net position from the prior year. This increase was the result of lower-than- budgeted spending in some grant program areas in comparison to the Board approved budget. Cigarette tax collections decreased again in 2018.

- Investment revenues increased significantly over 2017 as the investment portfolio matured and interest rates increased in 2018.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are prepared and organized so the reader can understand CAC as a financial whole or as an entire operating entity. The statements then proceed to provide an increasingly detailed look at our specific financial conditions.

The Statement of Net Position and Statement of Activities provide information about the activities of CAC, presenting both an aggregate and a longer-term view of those finances. The Statement of Activities shows a net (expense) revenue and changes to net position related to each department of CAC. Fund financial statements tell how services were financed in the short-term as well as what dollars remain for future spending.

Reporting on the Cuyahoga Arts & Culture as a Whole

Statement of Net Position and the Statement of Activities

The Statement of Net Position and Statement of Activities include all assets and deferred outflows of resources and all liabilities and deferred inflows of resources using the accrual basis of accounting similar to the accounting method used by the private sector. The basis for this accounting takes into account all of the current year's revenues and expenses regardless of when the cash was received or paid.

These two statements report CAC's net position and the changes in that position. The change in net position is important because it tells the reader whether, for CAC as a whole, the financial position of CAC has improved or diminished.

All of CAC's programs and services are reported as Governmental Activities in the Statement of Net Position and the Statement of Activities. Governmental Activities consist of functions that are principally supported by excise tax revenues. Activities include arts and cultural grantmaking and administration.

Reporting on the Most Significant Fund

Governmental Fund

The presentation for CAC's only fund, the general fund, focuses on how resources flow into and out of it and the balance that is left at year end and available for spending in future periods. The general fund is reported using modified accrual accounting which measures cash and all other financial assets that are expected to be readily converted to cash. The governmental fund statements provide a detailed short-term view of CAC's general operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future on services provided to our users. The relationship (or difference) between governmental activities (reported on the Statement of Net Position and the Statement of Activities) and the general fund is reconciled in the financial statements.

Cuyahoga Arts & Culture as a Whole

Recall that the Statement of Net Position looks at CAC as a whole. Table 1 provides a summary of CAC's net position for 2018 as compared to 2017.

Table 1
Net Position

	2018	2017	Change
Assets			
Current and Other Assets	$21,331,297	$20,800,775	$530,522
Depreciable Capital Assets, Net	3,863	5,746	(1,883)
Total Assets	21,335,160	20,806,521	528,639
Deferred Outflows of Resources			
Pension	81,829	108,480	(26,651)
OPEB	62,844	13,218	49,626
Total Deferred Outflows of Resources	144,673	121,698	22,975
Liabilities			
Current and Other Liabilities	1,606,306	1,806,158	199,852
Long-Term Liabilities:			
Due Within One Year	1,907	1,655	(252)
Due in More than One Year			
Net Pension Liability	214,926	271,927	57,001
Net OPEB Liability	452,832	398,963	(53,869)
Other Amounts	13,001	10,741	(2,260)
Total Liabilities	$2,288,972	$2,489,444	$200,472

Table 1
Net Position (continued)

	2018	2017	Change
Deferred Inflows of Resources			
Pension	$77,977	$6,659	($71,318)
OPEB	33,733	0	(33,733)
Total Deferred Inflows of Resources	111,710	6,659	(105,051)
Net Position			
Investment in Capital Assets	3,863	5,746	(1,883)
Unrestricted	19,075,288	18,426,370	648,918
Net Position	$19,079,151	$18,432,116	$647,035

The net pension liability (NPL) is one of the largest single liabilities reported by Cuyahoga Arts and Culture at December 31, 2018 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27." For 2018, Cuyahoga Arts and Culture adopted GASB Statement 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB). For reasons discussed below, many end users of this financial statement will gain a clearer understanding of Cuyahoga Arts and Culture's actual financial condition by adding deferred inflows related to pension and OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting the net pension asset and deferred outflows related to pension and OPEB.

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

GASB 68 and GASB 75 require the net pension liability (asset) and the net OPEB liability to equal Cuyahoga Arts and Culture's proportionate share of each plan's collective:

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

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

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

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

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

As a result of implementing GASB 75, Cuyahoga Arts and Culture is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating net position at December 31, 2017, from $18,817,861 to $18,432,116.

Unrestricted net position is primarily attributed to the collection of the County levied cigarette tax on the sale of cigarettes. At the election held on November 7, 2006, the electors in the County approved the levy of a tax on the sale of cigarettes at wholesale at the rate of 15 mills per cigarette (amounting to 1-1/2 cents per cigarette) for a period of ten years beginning February 1, 2007. The tax is collected at the wholesale level by the Excise and Motor Fuel Tax Division of the Ohio Department of Taxation. The levy was renewed, at the same millage, for an additional ten years by the electors of Cuyahoga Count on November 3, 2015. Tax collections will continue through January 31, 2027. Tax revenues are remitted monthly to CAC.

Total assets increased primarily due to shifting budgeted/planned program costs from 2018 to 2019 because of the timing of grant awards and program activities.

The significant increase in total deferred outflows of resources in 2018 was due to an increase in the difference between projected and actual earnings on investments related to the CAC's net OPEB liability for OPERS.

Current liabilities decreased slightly during 2018 due to a decrease in accounts payable and grants payable as a result of fewer disbursements owed at the end of the year. The net pension liability decrease represents the CAC's proportionate share of the OPERS traditional plan's unfunded benefits.

Table 2 shows the changes in net position for the years ended December 31, 2018 as compared to 2017.

Table 2
Changes in Net Position

	2018	2017	Change
Revenues			
General Revenue			
Cigarette Tax	$13,799,929	$14,533,031	($733,102)
Intergovernmental Revenue	8,242	74,901	(66,659)
Investment Earnings	312,486	211,374	101,112
Total Revenues	14,120,657	14,819,306	(698,649)
Program Expenses			
Arts and Culture Grantmaking	12,826,417	15,644,127	2,817,710
General Government	647,205	799,229	152,024
Total Program Expenses	13,473,622	16,443,356	2,969,734
Change in Net Position	647,035	(1,624,050)	2,271,085
Net Position Beginning of Year	18,432,116	N/A	
Net Position End of Year	$19,079,151	$18,432,116	$2,271,085

The information necessary to restate the 2017 beginning balances and the 2017 OPEB expense amounts for the effects of the initial implementation of GASB 75 is not available. Therefore, 2017 functional expenses still include OPEB expense of $13,218 computed under GASB 45. GASB 45 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 75, OPEB expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of OPEB expense. Under GASB 75, the 2018 statements report negative OPEB expense of $52,463. Consequently, in order to compare 2018 total program expenses to 2017, the following adjustments are needed:

Total 2018 program expenses under GASB 75	$13,473,622
Negative OPEB expense under GASB 75	(52,463)
2018 contractually required contribution	14,487
Adjusted 2018 program expenses	13,435,646
Total 2017 program expenses under GASB 45	16,443,356
Decrease in program expenses not related to OPEB	($3,007,710)

The main revenue source for CAC is the collection of the County levied cigarette tax. Collections have declined fairly consistently since the creation of CAC. The voters passed a ten year extension of the current levy on November 3, 2015. The passage of this levy will result in an additional ten years of funding from the 30 cents per pack levied on cigarettes in Cuyahoga County. The purpose of the cigarette tax is to support the operating or capital needs of arts or cultural organizations located in the County and the operations of Cuyahoga Arts & Culture. During 2018 cigarette tax revenue decreased by $733,102 from 2017.

Cuyahoga Arts & Culture Fund

Information about CAC's governmental fund begins on page 14. This fund is accounted for using the modified accrual basis of accounting. CAC had governmental revenues of $14,120,657 and expenditures of $13,445,153. Revenues are primarily attributable to levied County cigarette tax dollars which are tax revenues to Cuyahoga Arts & Culture. The increase in fund balance is due to shifting budgeted/planned program expenses from the 2018 fiscal year to the 2019 fiscal year and budget.

Budgeting Highlights

Although CAC is not legally required to file a budget, the Board of Trustees does appropriate funds annually. The general fund is monitored closely looking for possible revenue shortfalls or any over spending.

Actual revenues for the general fund were lower than original and final budgeted revenues due to a higher-than-anticipated decrease in cigarette tax collections. Actual expenditures were less than the original and final budget expenditures due to the timing of grant awards and program activities as well as the CAC shifting planned projects from 2018 to 2019.

Capital Assets

Table 3 shows the changes in capital assets for the year ended December 31, 2018 and 2017.

Table 3
Capital Assets at December 31
(Net of Depreciation)

	2018	2017	Change
Furniture and Equipment	$2,596	$4,479	($1,883)
Software	1,267	1,267	0
Totals	$3,863	$5,746	($1,883)

Capital assets decreased due to annual depreciation expenses. See Note 7 of the basic financial statements for additional information on capital assets.

Current Financial Related Activities

CAC is governed by a five member Board of Trustees, which is appointed by the Cuyahoga County Executive.

Contacting the Cuyahoga Arts & Culture Fiscal Office

This financial report is designed to provide our citizenry with the general overview of CAC's finances and show CAC's accountability for all money it receives, spends or invests. If you have any questions about this report or need financial information, contact Meg Harris, Director of Administration, Cuyahoga Arts & Culture, 1501 Euclid Avenue, Suite 407, Cleveland, Ohio 44115.

Cuyahoga Arts & Culture, Cuyahoga County
Statement of Net Position
December 31, 2018

	Governmental Activities
Assets	
Cash and Investments	$20,197,523
Accrued Interest Receivable	31,521
Cigarette Tax Receivable	1,036,825
Prepaid Items	10,558
Net Pension Asset	54,870
Capital Assets, Net of Accumulated Depreciation	3,863
Total Assets	21,335,160
Deferred Outflows of Resources	
Pension	81,829
OPEB	62,844
Total Deferred Outflows of Resources	144,673
Liabilities	
Accounts Payable	2,867
Accrued Wages and Benefits	12,253
Intergovernmental Payable	2,204
Grants Payable	1,588,982
Long-Term Liabilities	
Due Within One Year	1,907
Due In More Than One Year:	
Net Pension Liability (See Note 9)	214,926
Net OPEB Liability (See Note 10)	452,832
Other Amounts Due in More than One Year	13,001
Total Liabilities	2,288,972
Deferred Inflows of Resources	
Pension	77,977
OPEB	33,733
Total Deferred Inflows of Resources	111,710
Net Position	
Investment in Capital Assets	3,863
Unrestricted	19,075,288
Total Net Position	$19,079,151

See accompanying notes to the basic financial statements

Cuyahoga Arts & Culture, Cuyahoga County
Statement of Activities
For the Year Ended December 31, 2018

	Governmental Activities
Expenses:	
Arts & Culture Grantmaking:	
Personal Services	$447,150
Contractual Services	12,377,855
Depreciation	1,412
Total Arts & Culture Grantmaking	12,826,417
General Government:	
Personal Services	380,267
Materials and Supplies	83,737
Contractual Services	182,730
Depreciation	471
Total General Government	647,205
Total Program Expenses	13,473,622
General Revenue:	
Cigarette Tax	13,799,929
Intergovernmental Revenue	8,242
Interest	312,486
Total General Revenues	14,120,657
Change in Net Position	647,035
Net Position Beginning of Year (Restated - See Note 13)	18,432,116
Net Position End of Year	$19,079,151

See accompanying notes to the basic financial statements

Cuyahoga Arts & Culture, Cuyahoga County

Balance Sheet

Governmental Fund

December 31, 2018

	General Fund
Assets	
Cash and Investments	$20,197,523
Accrued Interest Receivable	31,521
Cigarette Tax Receivable	1,036,825
Prepaid Items	10,558
Total Assets	$21,276,427
Liabilities	
Accounts Payable	$2,867
Accrued Wages	12,253
Intergovernmental Payable	2,204
Grants Payable	1,588,982
Total Liabilities	1,606,306
Fund Balance	
Nonspendable	10,558
Unassigned	19,659,563
Total Fund Balances	19,670,121
Total Liabilities and Fund Balance	$21,276,427

See accompanying notes to the basic financial statements

Cuyahoga Arts & Culture, Cuyahoga County

Reconciliation of Total Governmental Fund Balance to
Net Position of Governmental Activities
December 31, 2018

Total Governmental Fund Balance		$19,670,121
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		3,863
The net pension asset, net pension liability and net OPEB liability are not due and payable in the current period; therefore, the asset, liability and related deferred inflows/outflows are not reported in the funds:		
Net Pension Asset	54,870	
Deferred Outflows - Pension	81,829	
Deferred Inflows - Pension	(77,977)	
Net Pension Liability	(214,926)	
Deferred Outflows - OPEB	62,844	
Deferred Inflows - OPEB	(33,733)	
Net OPEB Liability	(452,832)	
Totals		(579,925)
Long-term liabilities, such as compensated absences, are not due and payable in the current period and therefore are not reported in the funds.		(14,908)
Net Position of Governmental Activities		$19,079,151

See accompanying notes to the basic financial statements

Cuyahoga Arts & Culture, Cuyahoga County

Statement of Revenues, Expenditures and Changes
in Governmental Fund Balance
For the Year Ended December 31, 2018

	General Fund
Revenues	
Cigarette Tax	$13,799,929
Intergovernmental Revenue	8,242
Interest	312,486
Total Revenues	14,120,657
Expenditures	
Current:	
Arts & Culture Grantmaking:	
Personal Services	432,173
Contractual Services	12,377,855
Total Arts & Culture Grantmaking	12,810,028
General Government:	
Personal Services	368,658
Materials and Supplies	83,737
Contractual Services	182,730
Total General Government	635,125
Total Expenditures	13,445,153
Net Change in Fund Balance	675,504
Fund Balance Beginning of Year	18,994,617
Fund Balance End of Year	$19,670,121

See accompanying notes to the basic financial statements

Cuyahoga Arts & Culture, Cuyahoga County

Reconciliation of the Statement of Revenues, Expenditures and Changes in Governmental Fund Balance to the Statement of Activities
For the Year Ended December 31, 2018

Net Change in Fund Balances - Total Governmental Fund		$675,504
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.		
Depreciation		(1,883)
Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows.		
Pension	32,447	
OPEB	14,487	
Total		46,934
Except for amounts reported as deferred inflows/outflows, changes in net pension liability are reported as pension/OPEB expense in the statement of activities.		
Pension	(18,545)	
OPEB	(52,463)	
Total		(71,008)
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.		(2,512)
Change in Net Position of Governmental Activities		$647,035

See accompanying notes to the basic financial statements

Note 1 - Reporting Entity and Basis of Presentation

Cuyahoga Arts & Culture (CAC) is a political subdivision of the State and a body corporate, established June 16, 2005, by the Cuyahoga County Commissioners, under the authority of Section 3381.04, Ohio Revised Code.

CAC's governing body is a five member Board of Trustees (the Trustees), who are appointed by the Cuyahoga County Executive. Trustees serve staggered three year terms. Trustees serve on staggered terms from the date of their appointment by the Cuyahoga County Executive and until their replacement has been appointed. CAC is classified as a related organization of Cuyahoga County.

CAC is dedicated to making grants to support the operating or capital expenses of arts and culture organizations located within the County, or acquiring, constructing, equipping, furnishing, repairing, remodeling, renovating, enlarging, improving, or administering artistic or cultural facilities. These activities are directly controlled by the Trustees through the budgetary process and are included within this report.

In evaluating how to define CAC for financial reporting purposes, management has considered all agencies, departments and organizations making up Cuyahoga Arts & Culture and its potential component units consistent with GASB Statement No. 14 "The Financial Reporting Entity" and GASB Statement 61 "The Financial Reporting Entity: Omnibus an amendment to GASB Statements No. 14 and No. 34".

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

Note 2 - Summary of Significant Accounting Policies

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

Basis of Presentation

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

<u>Government-wide Financial Statements</u>

The Statement of Net Position and the Statement of Activities display information about CAC as a whole.

The statement of net position presents the financial condition of the governmental activities of CAC at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of CAC'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 CAC, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program is self-financing or draws from the general revenues of CAC.

Fund Financial Statements

During the year, CAC accounts for its financial activities in a single governmental fund. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. Governmental funds are those through which most governmental functions are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. The difference between governmental fund assets and liabilities is reported as fund balance. CAC's only governmental fund is the general fund which accounts for all financial resources. The general fund balance is available to CAC for any purpose provided it is expended according to the general laws of Ohio.

Measurement Focus

Government-wide Financial Statements

The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of CAC are included on the Statement of Net Position. The Statement of Activities presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position.

Fund Financial Statements

The general fund is accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and deferred outflows of resources and current liabilities and deferred inflows of resources generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balance 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 the general fund.

Basis of Accounting

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

Revenues - Exchange and Nonexchange 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 year in which the resources are measurable and become available. Available means that the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For CAC, available means expected to be received within sixty days of year-end.

Nonexchange transactions, in which CAC receives value without directly giving equal value in return, include grants. Revenue from grants, entitlements and donations is recognized in the 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 CAC must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to CAC on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue source is considered to be both measurable and available at year-end: cigarette tax.

Deferred Outflows/Inflows of Resources

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For CAC, deferred outflows of resources are reported on the government-wide statement of net position for pension and OPEB. The deferred outflows of resources related to pension and OPEB plans are explained in Notes 9 and 10.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For CAC, deferred inflows of resources include pension and OPEB. Deferred inflows of resources related to pension and OPEB plans are reported on the government-wide statement of net position. (See Notes 9 and 10)

Expenses/Expenditures

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

Cash and Cash Equivalents

During 2018, CAC's investments were limited to federal home loan mortgage, federal home loan bank notes, federal national mortgage association notes, commercial paper, money market governmental obligations and STAR Ohio.

CAC's commercial paper is measured at amortized cost as it is a highly liquid debt instrument with a remaining maturity at the time of purchase of less than one year.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. The fair value of the money market fund is determined by the fund's current share price.

During 2018, CAC invested in STAR Ohio. STAR Ohio (the State Treasury Asset Reserve of Ohio), is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants." CAC measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

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

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund amounted to $312,486 during 2018.

Prepaid Items

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

Capital Assets

CAC's only capital assets are general capital assets. General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in the general fund. General capital assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the financial statements of the general fund.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their acquisition value as of the date received. CAC maintains a capitalization threshold of two thousand dollars for furniture and equipment and software.

All capital assets 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	Governmental Activities Estimated Lives
Furniture and Equipment	5 - 7 years
Software	5 years

Accrued Liabilities and Long-term Obligations

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

Pensions/Other Postemployment Benefits (OPEB)

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

Compensated Absences

Exempt and non-exempt staff are eligible for paid time off (PTO). Full-time and part-time staff are granted 25 days or more based on years of service, on a pro-rated basis, per year at the beginning of the calendar year. PTO accruals are pro-rated by the month of employment for people joining CAC during the fiscal year. In the event of separation, employees are paid their accrued PTO in their last paycheck, if they provide a written notice prior to separation. Current year accruals are paid out at the rate of 50 percent if employment terminates between January 1 and June 30 and at 100 percent thereafter.

If an employee does not use their PTO time in a given year, they may carry over the equivalent of ten days. Employees will be compensated for accrued time in excess of ten days in an amount not to exceed ten additional days. Alternately, the Executive Director may approve this additional time to be carried over for use in the next fiscal year. Any unused time in excess of 20 days will be forfeited by the employee.

Full and part-time staff are granted three sick days per year. Sick days may not be carried over, accrued or paid out if unused within the calendar year.

Pensions

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

Fund Balance

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

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

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

Committed The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action of CAC. Those committed amounts cannot be used for any other purpose unless CAC removes or changes the specified use by taking the same type of action 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 CAC for specific purposes but do not meet the criteria to be classified as restricted or committed. In the general fund, assigned amounts represent intended uses established by CAC Trustees or a CAC official delegated that authority by formal action, or by 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.

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

Net Position

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

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 these estimates.

Note 3 - Fund Balances

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which CAC is bound to observe constraints imposed upon the use of the resources in the government funds. At year end, $10,558 was nonspendable to prepaid assets in the general fund and the remaining of $19,659,563 was unassigned for a total general fund balance of $19,670,121.

Note 4 - Deposits and Investments

CAC has chosen to follow State statutes and classify monies held by CAC into two categories, active and inactive. Active monies are public monies determined to be necessary to meet current demand. Active monies must be maintained either as cash in the treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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

Monies held by the CAC which are not considered active are classified as inactive. Inactive monies may be deposited or invested with certain limitations in the following securities provided the CAC has filed a written investment policy with the Ohio Auditor of State:

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, or any book entry, zero-coupon United States treasury security that is a direct obligation of the United States;

2. Bonds, notes, debentures, or any other obligations or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and the term of the agreement must not exceed thirty days;

4. Bonds and other obligations of this state or the political subdivisions of this state, provided the bonds or other obligations of political subdivisions mature within ten years from the date of settlement;

5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts, in eligible institutions pursuant to ORC sections 135.32;

6. No-load money market mutual funds rated in the highest category at the time of purchase by at least one nationally recognized standard rating service or consisting exclusively of obligations described in (1) or (2) above; commercial paper as described in ORC section 135.143 (6); and repurchase agreements secured by such obligations, provided these investments are made only through eligible institutions;

7. The State Treasurer’s investment pool (STAR Ohio);

8. Securities lending agreements in which the County lends securities and the eligible institution agrees to simultaneously exchange either securities or cash, equal value for equal value, within certain limitations;

9. Up to forty percent of the CAC's average portfolio, if training requirements have been met in either of the following:

    a. Commercial paper notes in entities incorporated under the laws of Ohio, or any other State, that have assets exceeding five hundred million dollars, which are rated in the highest classification established by two nationally recognized standard rating services, which do not exceed ten percent of the value of the outstanding commercial paper of the issuing corporation, which mature within 270 days after purchase, and the investment in commercial paper notes of a single issuer shall not exceed the aggregate five percent of interim monies available for investment at the time of purchase.

    b. Bankers acceptances of banks that are insured by the federal deposit insurance corporation and that mature not later than 180 days after purchase.

10. Up to fifteen percent of the CAC's average portfolio in notes issued by U.S. corporations or by depository institutions doing business under authority granted by the U.S. or any state provided the notes are rated in the three highest categories by at least two nationally recognized standard rating services at the time of purchase and the notes mature not later than three years after purchase; and,

11. Up to two percent of the CAC's average portfolio in debt interests rated at the time of purchase in the three highest categories by two nationally recognized standard rating services and issued by foreign nations diplomatically recognized by the United States government, subject to certain limitations. All interest and principal shall be denominated and payable in United States funds.

Reverse repurchase agreements, investments in derivatives, and investments in stripped principal or interest obligations that are not issued or guaranteed by the United States, are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. Except as noted above, an investment must mature within five years from the date of settlement, unless matched to a specific obligation or debt of the CAC, and must be purchased with the expectation that it will be held to maturity.

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

Investments

Investments are reported at fair value. As of December 31, 2018, CAC had the following investments:

Measurement/Investment	Measurement Amount	Maturity	Standard & Poor's Rating	Percent of Total Investments
Net Asset Value (NAV) Per Share:				
Star Ohio	$4,771,135	44.9 days	N/A	N/A
Amortized Cost:				
Commercial Paper	5,780,545	Less than one year	A-1 to A-1+	28.73%
Fair Value - Level One Inputs:				
Money Market Governmental Obligations	20,529	N/A	N/A	N/A
Fair Value - Level Two Inputs:				
Federal Home Loan Mortgage Notes	969,076	Less than one year	AA+	4.82
Federal Home Loan Bank Notes	509,730	Less than one year	AA+	2.53
Federal National Mortgage Association Notes	8,066,740	Less than three years	AA+	40.10
Total Investments	$20,117,755			

CAC categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The above chart identifies CAC's recurring fair value measurements as of December 31, 2018. The Money Market Governmental Obligation Fund is measured at fair value and is valued using quoted market prices (Level 1 inputs). CAC's remaining investments measured at fair value are valued using methodologies that incorporate market inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data including market research publications. Market indicators and industry and economic events are also monitored, which could require the need to acquire further market data (Level 2 inputs).

Credit Risk. All investments of CAC carry a rating of AA+ and A-1 by Standards & Poor's. CAC has no investment policy that addresses credit risk.

Interest Rate Risk. CAC 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 CAC, and that an investment must be purchased with the expectation that it will be held to maturity.

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

Note 5 – Public Funding

At the election held on November 7, 2006, the electors in Cuyahoga County approved the levy of a tax on the sale of cigarettes at wholesale at the rate of 15 mills per cigarette (amounting to 1-1/2 cents per cigarette) for a period of ten years, beginning February 1, 2007, for the purpose of making grants to support the operating or capital expenses of arts and cultural organizations located in Cuyahoga County, to defray the costs of acquiring, constructing, equipping, furnishing, improving, enlarging, renovating, remodeling, or maintaining an artistic or cultural facility, and to meet the operating expenses of CAC. On November 3, 2015, subsequent to the initial approval of the levy, the electors of Cuyahoga County re-approved the levy for an additional ten years, through January 31, 2027. This is a County tax authorized by Section 5743.021, Ohio Revised Code. The expenditures of the collections from the tax are limited by Section 3381.17, Ohio Revised Code, as follows:

1. The tax must be expended for the purpose of making annual grants to support operating or capital expenses of arts or culture organizations located within the County as the Board of Trustees shall determine;

2. Not more than ten percent of the amount granted in any calendar year from the tax is permitted to be granted to arts or culture organizations that are not qualifying arts or cultural organizations;

3. Prior to making grants in any calendar year, the Board of Trustees shall afford an opportunity for the presentation, either in person or in writing, of the suggestions of the Area Arts Council;

4. Any grant to an arts and cultural organization shall be on such terms and conditions as the Board of Trustees considers advisable.

Note 6 - Receivables

Receivables at December 31, 2018 consisted of a cigarette tax receivable of $1,036,825. The receivable is considered fully collectible and will be received within one year. The cigarette tax receivable represents the proceeds from the County excise tax on the sale of cigarettes. This money is collected and distributed to the County by the State and then to CAC.

Note 7 - Capital Assets

A summary of changes in capital assets during 2018 follows:

	Balance 12/31/2017	Additions	Deletions	Balance 12/31/2018
Governmental Activities				
Depreciable Capital Assets				
Furniture and Equipment	$64,013	$0	$0	$64,013
Software	20,244	0	0	20,244
Total Capital Assets, Being Depreciated	84,257	0	0	84,257
Less Accumulated Depreciation				
Furniture and Equipment	(59,534)	(1,883)	0	(61,417)
Software	(18,977)	0	0	(18,977)
Total Accumulated Depreciation	(78,511)	(1,883)	0	(80,394)
Total Capital Assets Being Depreciated, Net	$5,746	($1,883)	$0	$3,863

Depreciation expense for 2018 was charged to arts and culture grantmaking in the amount of $1,412 and general government in the amount of $471.

Note 8 - Risk Management

CAC 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 2018, CAC contracted with several companies for various types of insurance as follows:

Company	Type	Coverage
Hartford Fire and Casualty	General Liability	$4,000,000
	Automobile Liability	2,000,000
	Employers Liability	500,000
	Accounts Receivable	25,000
	Property	20,000
	Computers and Media	15,000
Chubb Insurance	Directors and Officers	1,000,000
Ohio Casualty Insurance	Employee Dishonesty Bond	100,000

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

Workers' compensation coverage is provided by the State. CAC pays the State Workers' Compensation System a premium based on a rate per $100 of salaries. This rate is calculated based on accident history and administrative costs.

Note 9 - Defined Benefit Pension Plans

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

Net Pension Liability/Net OPEB Liability

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

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

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

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

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension/OBEB liability* on the accrual basis of accounting. Any liability for the contractually-required pension/OPEB contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting. The remainder of this note includes the required pension disclosures. See Note 10 for the required OPEB disclosures.

Plan Description – Ohio Public Employees Retirement System (OPERS)

Plan Description - CAC employees, other than full-time police and firefighters, participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional pension plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan and the combined plan is a combination cost-sharing, multiple-employer defined benefit/defined contribution pension plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional and combined plans. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting https://www.opers.org/financial/reports.shtml, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members in the tradition and combined plans were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the traditional and combined plans as per the reduced benefits adopted by SB 343 (see OPERS CAFR referenced above for additional information, including requirements for reduced and unreduced benefits):

Group A Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	**Group B** 20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	**Group C** Members not in other Groups and members hired on or after January 7, 2013
State and Local	**State and Local**	**State and Local**
Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	**Age and Service Requirements:** Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	**Age and Service Requirements:** Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
Traditional Plan Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	**Traditional Plan Formula:** 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	**Traditional Plan Formula:** 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35
Combined Plan Formula: 1% of FAS multiplied by years of service for the first 30 years and 1.25% for service years in excess of 30	**Combined Plan Formula:** 1% of FAS multiplied by years of service for the first 30 years and 1.25% for service years in excess of 30	**Combined Plan Formula:** 1% of FAS multiplied by years of service for the first 35 years and 1.25% for service years in excess of 35

Final average Salary (FAS) represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career.

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

When a traditional plan benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. Members retiring under the combined plan receive a cost–of–living adjustment of the defined benefit portion of their pension benefit. For those retiring prior to January 7, 2013, the COLA will continue to be a 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

Defined contribution plan benefits are established in the plan documents, which may be amended by the Board. Member-directed plan and combined plan members who have met the retirement eligibility requirements may apply for retirement benefits. The amount available for defined contribution benefits in the combined plan consists of the member's contributions plus or minus the investment gains or losses resulting from the member's investment selections. Combined plan members wishing to receive benefits must meet the requirements for both the defined benefit and defined contribution plans. Member-directed participants must have attained the age of 55, have money on deposit in the defined contribution plan and have terminated public service to apply for retirement benefits. The amount available for defined contribution benefits in the member-directed plan consists of the members' contributions, vested employer contributions and investment gains or losses resulting from the members' investment selections. Employer contributions and associated investment earnings vest over a five-year period, at a rate of 20 percent each year. At retirement, members may select one of several distribution options for payment of the vested balance in their individual OPERS accounts. Options include the purchase of a monthly defined benefit annuity from OPERS (which includes joint and survivor options), partial lump-sum payments (subject to limitations), a rollover of the vested account balance to another financial institution, receipt of entire account balance, net of taxes withheld, or a combination of these options.

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

	State and Local
2018 Statutory Maximum Contribution Rates	
Employer	14.0 %
Employee *	10.0 %
2018 Actual Contribution Rates	
Employer:	
Pension **	14.0 %
Post-employment Health Care Benefits **	0.0
Total Employer	14.0 %
Employee	10.0 %

* Member contributions within the combined plan are not used to fund the defined benefit retirement allowance.

** These pension and employer health care rates are for the traditional and combined plans. The employer contributions rate for the member-directed plan is allocated 4 percent for health care with the remainder going to pension.

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll.

For 2018, CAC's contractually required contribution was $21,781 for the traditional plan, $10,666 for the combined plan and $36,217 for the member-directed plan. Of these amounts, $531 is reported as an intergovernmental payable for the traditional plan, $260 for the combined plan and $882 for the member-directed plan.

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

The net pension liability for OPERS was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. CAC's proportion of the net pension liability was based on CAC's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense of CAC's defined benefit pension plans:

	OPERS Traditional Plan	OPERS Combined Plan	Total
Proportion of the Net Pension Liability/Asset:			
Current Measurement Date	0.00137000%	0.04030700%	
Prior Measurement Date	0.00121100%	0.03991300%	
Change in Proportionate Share	0.00015900%	0.00039400%	
Proportionate Share of the:			
Net Pension Liability	$214,926	$0	$214,926
Net Pension Asset	0	54,870	54,870
Pension Expense	53,017	(34,472)	18,545

2018 pension expense for the member-directed defined contribution plan was $14,487.

At December 31, 2018, CAC reported deferred outflows of resources and deferred inflows of resources related to defined benefit pensions from the following sources:

	OPERS Traditional Plan	OPERS Combined Plan	Total
Deferred Outflows of Resources			
Differences between expected and actual experience	$220	$0	$220
Changes of assumptions	25,685	4,796	30,481
Changes in proportion and differences between CAC contributions and proportionate share of contributions	18,681	0	18,681
CAC contributions subsequent to the measurement date	21,781	10,666	32,447
Total Deferred Outflows of Resources	$66,367	$15,462	$81,829
Deferred Inflows of Resources			
Differences between expected and actual experience	$4,236	$16,346	$20,582
Net difference between projected and actual earnings on pension plan investments	46,142	8,657	54,799
Changes in proportion and differences between CAC contributions and proportionate share of contributions	2,405	191	2,596
Total Deferred Inflows of Resources	$52,783	$25,194	$77,977

$32,447 reported as deferred outflows of resources related to pension resulting from CAC contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	OPERS Traditional Plan	OPERS Combined Plan	Total
Year Ending December 31:			
2019	$26,588	($2,775)	$23,813
2020	4,495	(3,012)	1,483
2021	(20,318)	(4,952)	(25,270)
2022	(18,962)	(4,747)	(23,709)
2023	0	(1,708)	(1,708)
Thereafter	0	(3,204)	(3,204)
Total	($8,197)	($20,398)	($28,595)

Actuarial Assumptions - OPERS

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability was determined by an actuarial valuation as of December 31, 2017, using the following actuarial assumptions applied to all periods included in the measurement in accordance with the requirements of GASB 67. Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, prepared as of December 31, 2017, are presented below.

	OPERS Traditional Plan	OPERS Combined Plan
Wage Inflation	3.25 percent	3.25 percent
Future Salary Increases, including inflation	3.25 to 10.75 percent including wage inflation	3.25 to 8.25 percent including wage inflation
COLA or Ad Hoc COLA:		
Pre-January 7, 2013 Retirees	3 percent, simple	3 percent, simple
Post-January 7, 2013 Retirees	3 percent, simple through 2018, then 2.15 percent, simple	3 percent, simple through 2018, then 2.15 percent, simple
Investment Rate of Return	7.5 percent	7.5 percent
Actuarial Cost Method	Individual Entry Age	Individual Entry Age

Pre-retirement mortality rates are based on the RP-2014 Employees mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates are based on the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates for disabled retirees are based on the RP-2014 Disabled mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to all of the above described tables.

The most recent experience study was completed for the five year period ended December 31, 2015.

The long-term rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

During 2017, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio, and the Defined Contribution portfolio. The Defined Benefit portfolio contains the investment assets for the Traditional Pension Plan, the defined benefit component of the Combined Plan and the annuitized accounts of the Member-Directed Plan. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Defined Benefit portfolio was 16.82 percent for 2017.

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2017 and the long-term expected real rates of return:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	23.00 %	2.20 %
Domestic Equities	19.00	6.37
Real Estate	10.00	5.26
Private Equity	10.00	8.97
International Equities	20.00	7.88
Other investments	18.00	5.26
Total	100.00 %	5.66 %

Discount Rate The discount rate used to measure the total pension liability was 7.5 percent for the traditional plan and the combined plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the CAC's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the CAC's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.5 percent, as well as what the CAC's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.5 percent) or one-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
CAC's proportionate share of the net pension liability (asset)			
OPERS Traditional Plan	$381,655	$214,926	$75,925
OPERS Combined Plan	(29,827)	(54,870)	(72,150)

Changes between Measurement Date and Report Date

In October 2018, the OPERS Board adopted a change in the investment return assumption, reducing it from 7.5 percent to 7.2 percent. This change will be effective for the 2018 valuation. The exact amount of the impact to the CAC's net pension liability is not known.

Note 10 - Defined Benefit OPEB Plans

See Note 9 for a description of the net OPEB liability

Plan Description – Ohio Public Employees Retirement System (OPERS)

Plan Description - The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: the traditional pension plan, a cost-sharing, multiple-employer defined benefit pension plan; the member-directed plan, a defined contribution plan; and the combined plan, a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care trust, which funds multiple health care plans including medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both the traditional pension and the combined plans. This trust is also used to fund health care for member-directed plan participants, in the form of a Retiree Medical Account (RMA). At retirement or refund, member directed plan participants may be eligible for reimbursement of qualified medical expenses from their vested RMA balance.

In order to qualify for postemployment health care coverage, age and service retirees under the traditional pension and combined plans must have twenty or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 75. See OPERS' CAFR referenced below for additional information.

The Ohio Revised Code permits, but does not require OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the Board in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report. Interested parties may obtain a copy by visiting https://www.opers.org/financial/reports.shtml, by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or 800-222-7377.

Funding Policy - The Ohio Revised Code provides the statutory authority requiring public employers to fund postemployment health care through their contributions to OPERS. When funding is approved by OPERS Board of Trustees, a portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2018, state and local employers contributed at a rate of 14.0 percent of earnable salary and public safety and law enforcement employers contributed at 18.1 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 1.0 percent during calendar year 2017. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2018 decreased to 0 percent for both plans. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited into the RMA for participants in the Member-Directed Plan for 2018 was 4.0 percent.

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The CAC's contractually required contribution was $14,487 for 2018. Of this amount, $353 is reported as an intergovernmental payable.

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

The net OPEB liability and total OPEB liability for OPERS were determined by an actuarial valuation as of December 31, 2016, rolled forward to the measurement date of December 31, 2017, by incorporating the expected value of health care cost accruals, the actual health care payment, and interest accruals during the year. CAC's proportion of the net OPEB liability was based on CAC's share of contributions to the retirement plan relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

	OPERS
Proportion of the Net OPEB Liability:	
Current Measurement Date	0.004170%
Prior Measurement Date	0.003950%
Change in Proportionate Share	0.0002200%
Proportionate Share of the Net Pension Liability	$452,832
OPEB Expense	$52,463

At December 31, 2018, CAC reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	OPERS
Deferred Outflows of Resources	
Differences between expected and actual experience	$353
Changes of assumptions	32,971
Changes in proportion and differences between CAC contributions and proportionate share of contributions	15,033
CAC contributions subsequent to the measurement date	14,487
Total Deferred Outflows of Resources	$62,844
Deferred Inflows of Resources	
Net difference between projected and actual earnings on OPEB plan investments	$33,733
Total Deferred Inflows of Resources	$33,733

$14,487 reported as deferred outflows of resources related to OPEB resulting from CAC contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending December 31:	OPERS
2019	$14,687
2020	14,687
2021	(6,316)
2022	(8,434)
2023	0
Thereafter	0
Total	$14,624

Actuarial Assumptions - OPERS

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of coverage provided at the time of each valuation and the historical pattern of sharing of costs between OPERS and plan members. The total OPEB liability was determined by an actuarial valuation as of December 31, 2016, rolled forward to the measurement date of December 31, 2017. The actuarial valuation used the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB 74:

Wage Inflation	3.25 percent
Projected Salary Increases, including inflation	3.25 to 10.75 percent including wage inflation
Single Discount Rate:	
Current measurement date	3.85 percent
Prior Measurement date	4.23 percent
Investment Rate of Return	6.50 percent
Municipal Bond Rate	3.31 percent
Health Care Cost Trend Rate	7.5 percent, initial 3.25 percent, ultimate in 2028
Actuarial Cost Method	Individual Entry Age

Pre-retirement mortality rates are based on the RP-2014 Employees mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates are based on the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates for disabled retirees are based on the RP-2014 Disabled mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to all of the above described tables.

The most recent experience study was completed for the five year period ended December 31, 2015.

The long-term expected rate of return on health care investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

During 2017, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio and the Defined Contribution portfolio. The Health Care portfolio includes the assets for health care expenses for the Traditional Pension Plan, Combined Plan and Member-Directed Plan eligible members. Within the Health Care portfolio, contributions into the plans are assumed to be received continuously throughout the year based on the actual payroll payable at the time contributions are made, and health care-related payments are assumed to occur mid-year. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Health Care portfolio is 15.2 percent for 2017.

The allocation of investment assets with the Health Care portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Assets are managed on a total return basis with a long-term objective of continuing to offer a sustainable health care program for current and future retirees. OPERS' primary goal is to achieve and maintain a fully funded status for the benefits provided through the defined pension plans. Health care is a discretionary benefit. The table below displays the Board-approved asset allocation policy for 2017 and the long-term expected real rates of return:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	34.00 %	1.88 %
Domestic Equities	21.00	6.37
Real Estate Investment Trust	6.00	5.91
International Equities	22.00	7.88
Other investments	17.00	5.39
Total	100.00 %	4.98 %

Discount Rate A single discount rate of 3.85 percent was used to measure the OPEB liability on the measurement date of December 31, 2017. A single discount rate of 4.23 percent was used to measure the OPEB liability on the measurement date of December 31, 2016. Projected benefit payments are required to be discounted to their actuarial present value using a single discount rate that reflects (1) a long-term expected rate of return on OPEB plan investments (to the extent that the health care fiduciary net position is projected to be sufficient to pay benefits), and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate are not met). This single discount rate was based on an expected rate of return on the health care investment portfolio of 6.50 percent and a municipal bond rate of 3.31 percent. The projection of cash flows used to determine this single discount rate assumed that employer contributions will be made at rates equal to the actuarially determined contribution rate. Based on these assumptions, the health care fiduciary net position and future contributions were sufficient to finance health care costs through 2034. As a result, the long-term expected rate of return on health care investments was applied to projected costs through the year 2034, and the municipal bond rate was applied to all health care costs after that date.

Sensitivity of CAC's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate The following table presents CAC's proportionate share of the net OPEB liability calculated using the single discount rate of 3.85 percent, as well as what CAC's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower (2.85 percent) or one-percentage-point higher (4.85 percent) than the current rate:

	1% Decrease (2.85%)	Current Discount Rate (3.85%)	1% Increase (4.85%)
CAC's proportionate share of the net OPEB liability	$601,606	$452,832	$332,474

Sensitivity of CAC's Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate Changes in the health care cost trend rate may also have a significant impact on the net OPEB liability. The following table presents the net OPEB liability calculated using the assumed trend rates, and the expected net OPEB liability if it were calculated using a health care cost trend rate that is 1.0 percent lower or 1.0 percent higher than the current rate.

Retiree health care valuations use a health care cost-trend assumption that changes over several years built into the assumption. The near-term rates reflect increases in the current cost of health care; the trend starting in 2018 is 7.50 percent. If this trend continues for future years, the projection indicates that years from now virtually all expenditures will be for health care. A more reasonable alternative is that in the not-too-distant future, the health plan cost trend will decrease to a level at, or near, wage inflation. On this basis, the actuaries project premium rate increases will continue to exceed wage inflation for approximately the next decade, but by less each year, until leveling off at an ultimate rate, assumed to be 3.25 percent in the most recent valuation.

	1% Decrease	Current Health Care Cost Trend Rate Assumption	1% Increase
CAC's proportionate share of the net OPEB liability	$433,263	$452,832	$473,045

Changes between Measurement Date and Report Date

In October 2018, the OPERS Board adopted a change in the investment return assumption, reducing it from 6.5 percent to 6.0 percent. This change will be effective for the 2018 valuation. The exact amount of the impact to the CAC's net OPEB liability is not known.

Note 11 – Other Employee Benefits

Compensated Absences

The criteria for determining paid time off (PTO) liabilities are derived from the compensation policies set by the Board of Trustees. Full-time and part-time staff is granted 25 days or more based on years of service, on a pro-rated basis, per year at the beginning of the calendar year. PTO accruals are pro-rated by the month of employment for people joining CAC during the year. In the event of separation, employees are paid their accrued PTO in their last paycheck, if they provide written notice to CAC. Current year accruals are paid out at the rate of 50 percent if employment terminates between January 1 and June 30 and at 100 percent thereafter.

If an employee does not use their PTO time in a given year, they may carry over the equivalent of ten days. Employees will be compensated for accrued time in excess of ten days in an amount not to exceed ten additional days. Alternately, the Executive Director may approve this additional time to be carried over for use in the next year. Any unused time in excess of 20 days will be forfeited by the employee.

The table below list the amount of PTO based on years of service:

Full Years of Service	Paid Time Off Annual Accumulation
0 - 5 years	25 Days
6 - 15 years	30 Days
15 or more years	35 Days

Full-time and part-time staff are granted three paid sick days per year at the beginning of the calendar year. Sick days may not be carried over, accrued or paid out if unused within the calendar year.

Medical, Prescription Drug and Dental Insurance

CAC provides medical, prescription drug, vision and dental benefits to all full-time employees and to part-time employees working a minimum of 25 hours per week. Medical, prescription drug benefits and dental are provided through Medical Mutual and vision benefits through VSP Vision. Due to CAC's small group status, each employee and their dependents receives their own rating based on pre-specified age ranges. CAC's portion of the monthly medical and prescription drug premium ranges from $181 to $1,864 and $33 to $126 for the monthly dental premium. The vision premium, fully paid by CAC, is $6.32 per member. CAC employees contribute a portion of the premium for the medical, prescription and dental plans.

Note 12 – Long-Term Obligations

A schedule of changes in bonds and other long-term obligations of CAC during 2018 follows:

	Balance 12/31/2017	Additions	Deletions	Balance 12/31/2018	Due in One Year
Compensated Absences	$12,396	$45,992	$43,480	$14,908	$1,907
Net Pension Liability OPERS	271,927	0	57,001	214,926	0
Net OPEB Liability OPERS	398,963	53,869	0	452,832	0
Total	$683,286	$99,861	$100,481	$682,666	$1,907

Compensated absences will paid from the general fund. CAC pays obligations related to employee compensation from the fund benefitting from their service.

Note 13 – Change in Accounting Principle and Restatement of Net Position

For 2018, CAC implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions.* GASB 75 established standards for measuring and recognizing Postemployment benefit liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditure. The implementation of this pronouncement had the following effect on net position as reported December 31, 2017:

	Governmental Activities
Net Position December 31, 2017	$18,817,861
Adjustments:	
Net OPEB Liability	(398,963)
Deferred Outflow - Payments Subsequent to Measurement Date	13,218
Restated Net Position December 31, 2017	$18,432,116

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

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Required Supplementary Information

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Cuyahoga Arts & Culture, Cuyahoga County
Required Supplementary Information
Schedule of Cuyahoga Arts & Culture's Proportionate Share of the Net Pension Liability
Ohio Public Employees Retirement System - Traditional Plan
Last Five Years (1)

	2018	2017	2016	2015	2014
Cuyahoga Arts & Culture's Proportion of the Net Pension Liability	0.0013700%	0.0012110%	0.0012880%	0.0013010%	0.0013010%
Cuyahoga Arts & Culture's Proportionate Share of the Net Pension Liability	$214,926	$271,927	$223,097	$156,915	$153,371
Cuyahoga Arts & Culture's Covered Payroll	$181,046	$156,574	$160,364	$159,492	$158,513
Cuyahoga Arts & Culture's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	118.71%	173.67%	139.12%	98.38%	96.76%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	84.66%	77.25%	81.08%	86.45%	86.36%

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

Amounts presented for each year were determined as of CAC's measurement date which is the prior year end.

See notes to required supplementary information

Cuyahoga Arts & Culture, Cuyahoga County

Required Supplementary Information

Schedule of Cuyahoga Arts & Culture's Proportionate Share of the Net Pension Liability

Ohio Public Employees Retirement System - Combined Plan

2018 (1)

	2018
Cuyahoga Arts & Culture's Proportion of the Net Pension Liability	0.0403070%
Cuyahoga Arts & Culture's Proportionate Share of the Net Pension Liability	$54,870
Cuyahoga Arts & Culture's Covered Payroll	$165,077
Cuyahoga Arts & Culture's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	-33.24%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	137.28%

(1) Amounts for the combined plan are not presented prior to 2018 as the CAC's participation in this plan was considered immaterial in previous years.

Amounts presented for each year were determined as of CAC's measurement date which is the prior year end.

See notes to required supplementary information

Cuyahoga Arts & Culture, Cuyahoga County

Required Supplementary Information

Schedule of Cuyahoga Arts & Culture's Proportionate Share of the Net OPEB Liability

Ohio Public Employees Retirement System - OPEB Plan

Last Two Years (1)

	2018	2017
Cuyahoga Arts & Culture's Proportion of the Net OPEB Liability	0.0041700%	0.0039500%
Cuyahoga Arts & Culture's Proportionate Share of the Net OPEB Liability	$452,832	$398,963
Cuyahoga Arts & Culture's Covered Payroll	$593,940	$590,048
Cuyahoga Arts & Culture's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	-76.24%	-67.62%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	54.14%	54.04%

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

Amounts presented for each year were determined as of CAC's measurement date which is the prior year end.

See notes to required supplementary information

Cuyahoga Arts & Culture, Cuyahoga County
Required Supplementary Information
Schedule of Cuyahoga Arts & Culture Contributions
Ohio Public Employees Retirement System
Last Six Years (1)

	2018	2017	2016	2015	2014	2013
Net Pension Liability - Traditional Plan						
Contractually Required Contribution	$21,781	$23,536	$18,789	$19,244	$19,139	$20,607
Contributions in Relation to the Contractually Required Contribution	(21,781)	(23,536)	(18,789)	(19,244)	(19,139)	(20,607)
Contribution Deficiency (Excess)	$0	$0	$0	$0	$0	$0
Cuyahoga Arts & Culture Covered Payroll	$155,579	$181,043	$156,575	$160,364	$159,492	$158,513
Pension Contributions as a Percentage of Covered Payroll	14.00%	13.00%	12.00%	12.00%	12.00%	13.00%
Net Pension Liability - Combined Plan						
Contractually Required Contribution	$10,666	$21,460				
Contributions in Relation to the Contractually Required Contribution	(10,666)	(21,460)				
Contribution Deficiency (Excess)	$0	$0				
Cuyahoga Arts & Culture Covered Payroll	$76,186	$165,077				
Pension Contributions as a Percentage of Covered Payroll	14.00%	13.00%				
Net OPEB Liability - OPEB Plan						
Contractually Required Contribution	$14,487	$13,218				
Contributions in Relation to the Contractually Required Contribution	(14,487)	(13,218)				
Contribution Deficiency (Excess)	$0	$0				
Cuyahoga Arts & Culture Covered Payroll (2)	$593,940	$590,048				
OPEB Contributions as a Percentage of Covered Payroll	2.44%	2.24%				

(1) Information for the traditional pension plan is not available prior to 2013. Information for the combined pension plan and the OPEB plan is not available prior to 2017.
(2) The OPEB plan includes the members from the traditional plan, the combined plan and the member directed plan. The member directed pension plan is a defined contribution pension plan; therefore, the pension side is not included above.

See notes to required supplementary information

Changes in Assumptions – OPERS Pension

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

	2017	2016 and prior
Wage Inflation	3.25 percent	3.75 percent
Future Salary Increases, including inflation	3.25 to 10.75 percent including wage inflation	4.25 to 10.05 percent including wage inflation
COLA or Ad Hoc COLA:		
Pre-January 7, 2013 Retirees	3 percent, simple	3 percent, simple
Post-January 7, 2013 Retirees	3 percent, simple through 2018, then 2.15 percent, simple	3 percent, simple through 2018, then 2.8 percent, simple
Investment Rate of Return	7.5 percent	8 percent
Actuarial Cost Method	Individual Entry Age	Individual Entry Age

Amounts reported beginning in 2017 use mortality rates based on the RP-2014 Healthy Annuitant mortality table. For males, Healthy Annuitant Mortality tables were used, adjusted for mortality improvement back to the observation period base of 2006 and then established the base year as 2015. For females, Healthy Annuitant Mortality tables were used, adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010. The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the above described tables.

Amounts reported for 2016 and prior use mortality rates based on the RP-2000 Mortality Table projected 20 years using Projection Scale AA. For males, 105 percent of the combined healthy male mortality rates were used. For females, 100 percent of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based on the RP-2000 mortality table with no projections. For males 120 percent of the disabled female mortality rates were used set forward two years. For females, 100 percent of the disabled female mortality rates were used.

Changes in Assumptions – OPERS OPEB

For 2018, the single discount rate changed from 4.23 percent to 3.85 percent.

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Additional Supplementary Information

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Cuyahoga Arts & Culture, Cuyahoga County
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Year Ended December 31, 2018

	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual	(Negative)
Revenues				
Cigarette Tax	$14,200,000	$14,200,000	$13,808,335	($391,665)
Intergovernmental Revenue	0	0	8,242	8,242
Interest	200,000	200,000	267,677	67,677
Total Revenues	14,400,000	14,400,000	14,084,254	(315,746)
Expenditures				
Current:				
Arts & Culture Grantmaking:				
Personal Services	457,725	457,725	431,779	25,946
Contractual Services	13,319,833	13,319,833	12,571,912	747,921
Total Arts & Culture Grantmaking	13,777,558	13,777,558	13,003,691	773,867
General Government:				
Personal Services	397,381	397,381	367,476	29,905
Materials and Supplies	90,650	90,650	83,737	6,913
Contractual Services	205,410	205,410	189,980	15,430
Total General Government	693,441	693,441	641,193	52,248
Total Expenditures	14,470,999	14,470,999	13,644,884	826,115
Net Change in Fund Balance	(70,999)	(70,999)	439,370	510,369
Fund Balance Beginning of Year	19,879,358	19,879,358	19,879,358	0
Fund Balance End of Year	$19,808,359	$19,808,359	$20,318,728	$510,369

See accompanying notes to the additional supplementary information

Note 1 – Budgetary Basis of Accounting

Budgetary Process

CAC is not required under State statute to file budgetary information with the County Fiscal Officer. However, CAC does follow the budgetary process for control purposes. The Trustee's set limits on expenditures plus encumbrances at the program level.

The Executive Director reviews the prior year's revenues and factors in the wages expected to be charged and the intergovernmental revenue anticipated to be received in order to determine the estimated resources for the current year. The estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Executive Director. The amounts reported as the original budgeted amounts in the budgetary schedules reflect amounts of the estimated resources approved by the Trustees when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary schedules reflect the amounts of the estimated resources that were in effect at the time the final appropriations were passed by the Trustees.

Budgetary Basis of Accounting

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP basis), the budgetary basis is based upon accounting for transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual, general fund, is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget and to demonstrate compliance with State statute. The major differences between the budget basis and the GAAP basis (generally accepted accounting principles) are:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).

2. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).

3. Investments are reported at cost (budget) rather than fair value (GAAP).

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

Net Change in Fund Balance

GAAP Basis	$675,504
Net Adjustment for Revenue Accruals	14,552
Beginning Fair Value Adjustment for Investments	(172,160)
Ending Fair Value Adjustment for Investments	121,205
Net Adjustment for Expenditure Accruals	(199,731)
Budget Basis	$439,370

OHIO AUDITOR OF STATE
KEITH FABER

Lausche Building, 12th Floor
615 Superior Avenue, NW
Cleveland, Ohio 44113-1801
(216) 787-3665 or (800) 626-2297
NortheastRegion@ohioauditor.gov

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

Cuyahoga Arts and Culture
Cuyahoga County
1501 Euclid Avenue, Suite 407
Cleveland, Ohio 44115

To the Board of Trustees:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities and the general fund of the Cuyahoga Arts and Culture, Cuyahoga County, (the CAC) as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the CAC's basic financial statements and have issued our report thereon dated July 23, 2019, wherein we noted the CAC adopted Government Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Keith Faber
Auditor of State

Columbus, Ohio

July 23, 2019

OHIO AUDITOR OF STATE
KEITH FABER

CUYAHOGA ARTS AND CULTURE

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
AUGUST 6, 2019