



Dave Yost • Auditor of State



**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY  
JUNE 30, 2017**

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

Garfield Heights City School District  
Cuyahoga County  
5640 Briarcliff Drive  
Garfield Heights, Ohio 44125

To the Board of Education:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Garfield Heights City School District, Cuyahoga County, Ohio (the District), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

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

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

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

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Garfield Heights City School District, Cuyahoga County, Ohio, as of June 30, 2017, and the respective changes in financial position thereof and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*

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

*Supplementary and Other Information*

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

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2018, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

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

March 26, 2018

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**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(UNAUDITED)**

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

**Financial Highlights**

Key financial highlights for fiscal year 2017 are as follows:

- In total, net position decreased by \$4,762,823.
- Revenues for governmental activities total \$51,342,379 during 2017. Of this total 86 percent consisted of general revenues while program revenues accounted for the balance of 14 percent.
- Program expenses total \$56,105,202. Instructional expenses made up 59 percent of this total while support services accounted for 32 percent. Other expenses rounded out the remaining 9 percent.

**Using this Financial Report**

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

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

**Reporting the School District as a Whole**

*Statement of Net Position and the Statement of Activities*

While these statements contain information about the large number of funds used by the School District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2017?" The Statement of Net Position and the Statement of Activities answer this question. These statements include all non-fiduciary assets and deferred outflows of resources and liabilities and deferred inflows of resources using the accrual basis of accounting, similar to the accounting used by most private sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

The analysis of the School District's major funds begins on page 11. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund and the Bond Retirement Debt Service Fund.

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

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

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**The School District as a Whole**

Recall that the Statement of Net Position provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net position for the fiscal year 2017 compared to fiscal year 2016:

**Table 1- Net Position**

	Governmental Activities	
	2017	2016
<b>ASSETS</b>		
Current and other assets	\$ 37,705,148	\$ 34,162,954
Capital assets, net	50,016,770	51,675,807
<b>Total Assets</b>	<b>87,721,918</b>	<b>85,838,761</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferral on Refunding	1,686,685	1,985,848
Pension	15,014,158	7,334,453
<b>Total Deferred Outflows of Resources</b>	<b>16,700,843</b>	<b>9,320,301</b>
<b>LIABILITIES</b>		
Current and other liabilities	5,230,813	5,416,710
Long-term liabilities:		
Due within one year	6,285,962	3,491,829
Due in more than one year:		
Net Pension Liability	73,081,212	58,795,177
Other Amounts	42,179,910	46,681,602
<b>Total Liabilities</b>	<b>126,777,897</b>	<b>114,385,318</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Property Taxes	15,959,815	10,635,596
Payment in Lieu of Taxes	374,558	331,444
Pension	86,541	3,819,931
<b>Total Deferred Inflows of Resources</b>	<b>16,420,914</b>	<b>14,786,971</b>
<b>NET POSITION</b>		
Net Investment in Capital Assets	11,779,233	10,286,142
Restricted	10,799,415	11,481,514
Unrestricted	(61,354,698)	(55,780,883)
<b>Total Net Position</b>	<b>\$ (38,776,050)</b>	<b>\$ (34,013,227)</b>

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The net pension liability is the largest single liability reported by the School District at June 30, 2017, and is reported pursuant to GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the School District's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB Statement No. 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the new standards required by GASB Statement No. 68, the net pension liability equals the School District's proportionate share of each plan's collective:

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

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the School District is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

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

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In accordance with GASB Statement No. 68, the School District's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows.

As a result of implementing GASB Statement No. 68, the School District is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting.

Total net position decreased \$4,762,823 from the prior fiscal year. The decrease in capital assets is due to current year depreciation. The change in deferred outflows of resources for pension, net pension liability and deferred inflows of resources for pension is due to the fluctuations of amounts accrued under GASB 68. The increase in deferred inflows of resources for property taxes is due to the amount available for advance decreased in fiscal year 2017.

In order to further understand what makes up the changes in net position for the current fiscal year, the following table gives readers further details regarding the results of activities for the current fiscal year. Table 2 shows total revenues, expenses and changes in net position for fiscal years 2017 and 2016.

**Table 2- Changes in Net Position**

	Governmental Activities	
	2017	2016
<b>REVENUES</b>		
Program Revenues:		
Charges for services	\$ 912,520	\$ 898,610
Operating grants and contributions	6,246,613	6,030,254
<b>Total Program Revenues</b>	<b>7,159,133</b>	<b>6,928,864</b>
General Revenues:		
Property taxes	17,702,386	20,593,698
Payments in lieu of taxes	384,588	330,124
Grants and entitlements not restricted to specific programs	25,641,924	23,877,963
Gifts and Donations not restricted to specific programs	5,697	-
Investment income	189,484	180,962
Sale of Capital assets	259	1,798
Miscellaneous	258,908	149,946
<b>Total General Revenues</b>	<b>44,183,246</b>	<b>45,134,491</b>
<b>Total Revenues</b>	<b>51,342,379</b>	<b>52,063,355</b>
<b>EXPENSES</b>		
Program Expenses:		
Instruction:		
Regular	20,641,335	18,026,060
Special	4,514,399	3,643,342
Vocational	994	1,028
Student Intervention Services	7,897,455	6,771,674

*Continued*

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
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**Table 2- Changes in Net Position**

	Governmental Activities	
	2017	2016
Program Expenses ( <i>Continued</i> )		
Supporting Services:		
Pupils	3,477,017	2,972,658
Instructional Staff	2,940,607	2,607,592
Board of Education	69,520	134,105
Administration	4,418,697	4,086,333
Fiscal Services	1,017,141	1,015,750
Business	392,537	400,710
Operation and Maintenance of Plant	3,848,882	3,581,714
Pupil Transportation	1,067,155	984,386
Central	560,450	482,460
Operation of Non-Instructional Services	903,272	725,215
Operation of Food Service	1,768,207	1,662,329
Extracurricular Activities	897,529	706,746
Interest and Fiscal Charges	1,690,005	1,700,019
<b>Total Expenses</b>	<b>56,105,202</b>	<b>49,502,121</b>
Change in Net Position	(4,762,823)	2,561,234
Net Position - Beginning of Year	(34,013,227)	(36,574,461)
<b>Net Position - End of Year</b>	<b>\$ (38,776,050)</b>	<b>\$ (34,013,227)</b>

***Governmental Activities***

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

Thus school districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to the voters to maintain a constant level of service. Property tax revenue remained comparable to the prior fiscal year.

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The School District actively pursues grants and controls expenses while still maintaining the high academic standards the residents expect of the School District. Revenue from property taxes decreased in fiscal year 2017, but this was offset by the increase in unrestricted grants and entitlements. The decrease in property tax was due to the amount available for advance at year end decreasing in fiscal year 2017, and the increase in grants and entitlements was due to federal aid increasing based on the School District's decreasing wealth status. Parents continue to have the opportunity to pay for the student's lunch online. Each student uses his/her personal identification number that accesses his/her account when visiting the cafeteria. The School District also allows parents to pay for any school fees and extracurricular activities online.

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

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

**Table 3- Total and Net Cost of Program Services**

	Governmental Activities			
	Total Cost	Total Cost	Net Cost	Net Cost
	of Services	of Services	of Services	of Services
	2017	2016	2017	2016
Instruction	\$ 33,054,183	\$ 28,442,104	\$ 29,411,329	\$ 24,937,697
Supporting Services:				
Pupils and Instructional Staff	6,417,624	5,580,250	5,704,763	5,087,274
Board of Education, Administration, Business, and Fiscal Services	5,897,895	5,636,898	5,795,908	5,532,569
Operation and Maintenance of Plant	3,848,882	3,581,714	3,791,492	3,528,001
Pupil Transportation	1,067,155	984,386	996,869	931,310
Central	560,450	482,460	554,700	476,981
Operation of Non-Instructional Services	2,671,479	2,387,544	270,023	(142,404)
Extracurricular Activities	897,529	706,746	730,980	521,810
Interest and Fiscal Charges	1,690,005	1,700,019	1,690,005	1,700,019
<b>Total Cost of Services</b>	<b>\$ 56,105,202</b>	<b>\$ 49,502,121</b>	<b>\$ 48,946,069</b>	<b>\$ 42,573,257</b>

**The School District's Funds**

Information regarding the School District's major funds begins on page 17. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$50,395,295 and expenditures of \$53,146,009. The General Fund had a decrease in fund balance mainly due to expenditures exceeding revenues. The Bond Retirement Debt Service Fund had a decrease in fund balance due to a decrease in debt service expenditures. As one can see from the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds, intergovernmental monies from State and Federal grants compose the School District's largest revenue source, accounting for 63.09 percent of total governmental revenue.

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***General Fund Budgeting Highlights***

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

During the course of fiscal year 2017, the School District amended its General Fund budget several times. The School District uses an operational unit budget process and has in place systems that are designed to tightly control expenses but provide flexibility for program based decision and management.

For the General Fund, final budget basis revenue and other financing sources was \$43,396,000, which was above original budget estimates of \$42,500,920. The variance is mainly due to a change in final budgeted intergovernmental revenue.

The School District's actual expenditures and other financing uses was \$102,663 lower than the final budget basis expenditures in the General Fund.

**Capital Assets and Debt Administration**

***Capital Assets***

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

**Table 4- Capital Assets**

	Governmental Activities	
	2017	2016
Land	\$ 1,216,751	\$ 1,216,751
Land Improvements	317,974	358,365
Buildings and Improvements	46,549,781	48,131,079
Furniture and Equipment	1,230,304	1,404,764
Vehicles	701,960	564,848
<b>Total Capital Assets</b>	<b>\$ 50,016,770</b>	<b>\$ 51,675,807</b>

Ohio law requires school districts to set aside three percent of certain revenues for capital improvements. For fiscal year 2017, the set aside amount was \$629,639. See Note 11 to the basic financial statements for additional information on the School District's capital assets and Note 21 for additional information regarding required set-asides.



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**Debt**

Table 5 summarizes the bonds and capital leases outstanding.

**Table 5- Outstanding Debt at Year End**

	Governmental Activities	
	2017	2016
2001 School Improvement Bonds	\$ -	\$ 2,165,000
2006 Energy Conservation Improvement Bonds	640,577	803,599
2006 Refunding Bonds	-	8,543,575
2012 Refunding Bonds	6,112,363	6,267,390
2015 Refunding Bonds	20,885,301	20,799,815
2016 Refunding Bonds	8,336,124	-
2003 QZABs	3,000,000	3,000,000
2004 QZABs	2,000,000	2,000,000
Capital Leases	433,533	633,584
<b>Total Outstanding Debt</b>	<b>\$ 41,407,898</b>	<b>\$ 44,212,963</b>

The 2001 School Improvement Bonds were issued for the purpose of converting the existing high school to a middle school and various other renovations. These bonds have a final maturity in December 2017. The 2006 Energy Conservation Improvement Bonds were issued for the installation, modification and remodeling of school buildings to conserve energy and they have a final maturity in December of 2020. The 2006 Refunding Bonds were issued to refund a portion of the 2001 School Improvement Bonds to take advantage of better interest rates. The refunding bonds have a final maturity in December 2026. The 2012 Refunding Bonds were issued to refund a portion of the 2004 School Improvement Bonds to take advantage of better interest rates. The refunding bonds have a final maturity in December 2024. The 2015 Refunding Bonds were issued to refund a portion of the 2006 Refunding Bonds to take advantage of better interest rates. The refunding bonds have a final maturity in December 2024. The 2016 Refunding Bonds were issued to refund the remaining portion of the 2006 Refunding Bonds to take advantage of better interest rates. The refunding bonds have a final maturity in December 2026. The 2003 and 2004 Qualifying Zone Academy Bonds (QZABs) are for the purpose of various school improvements. The School District has entered into capital leases for HVAC systems, equipment and vehicles. See Note 13 to the basic financial statements for additional information on the School District's long-term obligations.

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**School District Outlook**

The School District relies heavily on its local property taxpayers and the State of Ohio for its funding. The School District has been affected by high property tax delinquencies, changes in the personal property tax structure and commercial business uncertainties. Those issues, along with the State of Ohio's current economy and the fact that it only passes biennial budgets, make it increasingly difficult for the School District to plan for future educational programming needs required for our students. All scenarios require management to plan carefully and prudently to provide the resources to meet student needs over the next several years. All of the School District's financial abilities will be needed to meet the challenges of the future.

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

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Allen Sluka, Treasurer at Garfield Heights City School District, 5640 Briarcliff Drive, Garfield Heights, Ohio 44125.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT**  
**CUYAHOGA COUNTY, OHIO**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2017**

	Governmental Activities
<b>ASSETS</b>	
Equity in Pooled Cash and Cash Equivalents	\$ 6,158,226
Property Taxes Receivable	25,893,381
Payments in Lieu of Taxes Receivable	374,558
Accounts Receivable	1,152
Accrued Interest Receivable	3,078
Intergovernmental Receivable	690,255
Materials and Supplies Inventory	14,400
Restricted Assets:	
Equity in Pooled Cash and Cash Equivalents	75,300
Cash and Cash Equivalents with Fiscal Agent	4,494,798
Nondepreciable Capital Assets	1,216,751
Depreciable Capital Assets, Net	48,800,019
<b>Total Assets</b>	<b>87,721,918</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferral on Refunding	1,686,685
Pension	15,014,158
<b>Total Deferred Outflows of Resources</b>	<b>16,700,843</b>
<b>LIABILITIES</b>	
Accounts Payable	515,447
Accrued Wages and Benefits	3,845,574
Intergovernmental Payable	646,175
Accrued Interest Payable	37,318
Matured Compensated Absences Payable	186,299
Long-term Liabilities:	
Due within one year	6,285,962
Due in more than one year:	
Net Pension Liability (See Note 17)	73,081,212
Other Amounts	42,179,910
<b>Total Liabilities</b>	<b>126,777,897</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Property Taxes	15,959,815
Payments in Lieu of Taxes	374,558
Pension	86,541
<b>Total Deferred Inflows of Resources</b>	<b>16,420,914</b>
<b>NET POSITION</b>	
Net Investment in Capital Assets	11,779,233
Restricted:	
Capital Projects	712,175
Debt Service	3,400,927
School Improvements	4,494,798
Scholarships	19,401
State Funded Programs	3,354
Federally Funded Programs	14,499
Food Service	1,225,699
Set-Asides	75,300
Other Purposes	853,262
Unrestricted	(61,354,698)
<b>Total Net Position</b>	<b>\$ (38,776,050)</b>

See accompanying notes to the basic financial statements.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Position
				Governmental Activities
<b>Governmental activities:</b>				
Instruction:				
Regular	\$ 20,641,335	\$ 197,112	\$ 198,266	\$ (20,245,957)
Special	4,514,399	24,118	3,088,282	(1,401,999)
Vocational	994	12	47,460	46,478
Student Intervention Services	7,897,455	87,604	-	(7,809,851)
Supporting Services:				
Pupils	3,477,017	32,512	270,491	(3,174,014)
Instructional Staff	2,940,607	24,041	385,817	(2,530,749)
Board of Education	69,520	774	-	(68,746)
Administration	4,418,697	47,574	11,742	(4,359,381)
Fiscal Services	1,017,141	10,618	-	(1,006,523)
Business	392,537	31,279	-	(361,258)
Operation and Maintenance of Plant	3,848,882	57,390	-	(3,791,492)
Pupil Transportation	1,067,155	11,207	59,079	(996,869)
Central	560,450	5,750	-	(554,700)
Operation of Non-Instructional Services	903,272	-	721,071	(182,201)
Operation of Food Service	1,768,207	217,420	1,462,965	(87,822)
Extracurricular Activities	897,529	165,109	1,440	(730,980)
Interest and Fiscal Charges	1,690,005	-	-	(1,690,005)
<b>Total Governmental activities</b>	<b>\$ 56,105,202</b>	<b>\$ 912,520</b>	<b>\$ 6,246,613</b>	<b>(48,946,069)</b>

**General Revenues:**

Property Taxes levied for:		
General Purposes		14,266,927
Debt Service		3,146,190
Capital Outlay		119,549
Other Purposes		169,720
Payments in Lieu of Taxes		384,588
Grants & Entitlements not restricted to specific programs		25,641,924
Gifts and Donations not restricted to specific programs		5,697
Investment Income		189,484
Gain on Sale of Capital Assets		259
Miscellaneous		258,908
<b>Total General Revenues</b>		<b>44,183,246</b>
Change in Net Position		(4,762,823)
Net Position - Beginning of Year		(34,013,227)
<b>Net Position - End of Year</b>		<b>\$ (38,776,050)</b>

See accompanying notes to the basic financial statements.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2017**

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Equity in Pooled Cash and Cash Equivalents	\$ 180,019	\$ 3,123,574	\$ 2,854,633	\$ 6,158,226
Materials and Supplies Inventory	-		14,400	14,400
Accrued Interest Receivable	3,078		-	3,078
Accounts Receivable	1,152	-	-	1,152
Interfund Receivable	1,168,933	-	-	1,168,933
Intergovernmental Receivable	-	-	690,255	690,255
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	75,300		-	75,300
Cash and Cash Equivalents with Fiscal Agent	4,494,798	-	-	4,494,798
Property Taxes Receivable	20,746,324	4,722,655	424,402	25,893,381
Payments in Lieu of Taxes Receivable	374,558	-	-	374,558
<b>Total Assets</b>	<b>\$ 27,044,162</b>	<b>\$ 7,846,229</b>	<b>\$ 3,983,690</b>	<b>\$ 38,874,081</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts Payable	\$ 418,177	\$ -	\$ 97,270	\$ 515,447
Accrued Wages and Benefits	3,580,790	-	264,784	3,845,574
Intergovernmental Payable	576,006	-	70,169	646,175
Matured Compensated Absences Payable	173,806	-	12,493	186,299
Interfund Payable	-	-	1,168,933	1,168,933
<b>Total Liabilities</b>	<b>4,748,779</b>	<b>-</b>	<b>1,613,649</b>	<b>6,362,428</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Property Taxes	12,770,871	2,925,886	263,058	15,959,815
Payments in Lieu of Taxes	374,558	-	-	374,558
Unavailable Revenue-Delinquent Property Taxes	5,221,463	1,190,579	108,484	6,520,526
Unavailable Revenue - Grants	-	-	201,418	201,418
<b>Total Deferred Inflows of Resources</b>	<b>18,366,892</b>	<b>4,116,465</b>	<b>572,960</b>	<b>23,056,317</b>
<b>FUND BALANCES</b>				
Nonspendable	-		14,400	14,400
Restricted	4,573,297	3,729,764	2,815,998	11,119,059
Assigned	537,530	-	-	537,530
Unassigned (Deficits)	(1,182,336)	-	(1,033,317)	(2,215,653)
<b>Total Fund Balances</b>	<b>3,928,491</b>	<b>3,729,764</b>	<b>1,797,081</b>	<b>9,455,336</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$ 27,044,162</b>	<b>\$ 7,846,229</b>	<b>\$ 3,983,690</b>	<b>\$ 38,874,081</b>

See accompanying notes to the basic financial statements.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
 CUYAHOGA COUNTY, OHIO  
 RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
 NET POSITION OF GOVERNMENTAL ACTIVITIES  
 JUNE 30, 2017**

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**Total Governmental Fund Balances** \$ 9,455,336

*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 50,016,770

Other long-term assets are not available to pay for current-period expenditures and, therefore, are unavailable revenue in the funds:

Delinquent Property Taxes	\$ 6,520,526	
Intergovernmental	<u>201,418</u>	
Total		6,721,944

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. (37,318)

Deferred charges on refunding related to the issuance of long-term refunding debt will be amortized over the life of the debt on the statement of net position. 1,686,685

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

Deferred Outflows - Pension	15,014,158	
Deferred Inflows - Pension	(86,541)	
Net Pension Liability	<u>(73,081,212)</u>	
Total		(58,153,595)

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

General Obligation Bonds	(33,315,630)	
Qualified Zone Academy Bonds	(5,000,000)	
Bond Accretion	(1,483,676)	
Capital Appreciation Bonds	(1,175,059)	
Capital Leases	(433,533)	
Early Retirement Incentive	(81,751)	
Compensated Absences	<u>(6,976,223)</u>	
Total		<u>(48,465,872)</u>

**Net Position of Governmental Activities** \$ (38,776,050)

See accompanying notes to the basic financial statements.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Property Taxes	\$ 13,506,359	\$ 3,061,109	\$ 276,541	\$ 16,844,009
Intergovernmental	26,031,679	717,746	5,044,224	31,793,649
Interest	178,532	-	10,952	189,484
Tuition	462,135	-	-	462,135
Extracurricular Activities	64,358	-	100,751	165,109
Rentals	43,817	-	18,000	61,817
Charges for Services	6,039	-	217,420	223,459
Contributions and Donations	5,697	-	6,440	12,137
Payments in Lieu of Taxes	384,588	-	-	384,588
Miscellaneous	251,672	1,523	5,713	258,908
<b>Total Revenues</b>	<u>40,934,876</u>	<u>3,780,378</u>	<u>5,680,041</u>	<u>50,395,295</u>
<b>EXPENDITURES</b>				
Current:				
Instruction:				
Regular	17,218,449	-	280,387	17,498,836
Special	2,140,024	-	1,937,644	4,077,668
Vocational	994	-	-	994
Student Intervention Services	7,684,093	-	1,268	7,685,361
Supporting Services:				
Pupils	2,902,041	-	295,517	3,197,558
Instructional Staff	2,088,710	-	497,263	2,585,973
Board of Education	67,472	-	-	67,472
Administration	4,085,208	-	19,863	4,105,071
Fiscal Services	909,439	17,455	14,125	941,019
Business	382,039	-	-	382,039
Operation and Maintenance of Plant Services	3,263,689	-	186,698	3,450,387
Pupil Transportation	1,014,669	-	64,142	1,078,811
Central	505,492	-	-	505,492
Operation of Non-Instructional Services:				
Food Service Operations	-	-	1,625,876	1,625,876
Other Operations	-	-	731,482	731,482
Extracurricular Activities	442,864	-	250,401	693,265
Capital Outlay	-	-	150,217	150,217
Debt Service:				
Principal Retirement	73,217	2,964,557	126,834	3,164,608
Interest and Fiscal Charges	25,925	1,014,896	12,577	1,053,398
Bond Issuance Costs	-	150,482	-	150,482
<b>Total Expenditures</b>	<u>42,804,325</u>	<u>4,147,390</u>	<u>6,194,294</u>	<u>53,146,009</u>
Excess of Revenues Over (Under) Expenditures	<u>(1,869,449)</u>	<u>(367,012)</u>	<u>(514,253)</u>	<u>(2,750,714)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of Capital Assets	866	-	4,700	5,566
Refunding Debt Issued	-	7,920,000	-	7,920,000
Premium on Bond Issuance	-	590,138	-	590,138
Payment to Refunded Bond Escrow Account	-	(8,359,656)	-	(8,359,656)
Transfers In	-	-	873,691	873,691
Transfers Out	(185,841)	-	(687,850)	(873,691)
<b>Total Other Financing Sources (Uses)</b>	<u>(184,975)</u>	<u>150,482</u>	<u>190,541</u>	<u>156,048</u>
Net Change in Fund Balances	<u>(2,054,424)</u>	<u>(216,530)</u>	<u>(323,712)</u>	<u>(2,594,666)</u>
Fund Balances - Beginning of Year	5,982,915	3,946,294	2,120,793	12,050,002
<b>Fund Balances - End of Year</b>	<u>\$ 3,928,491</u>	<u>\$ 3,729,764</u>	<u>\$ 1,797,081</u>	<u>\$ 9,455,336</u>

See accompanying notes to the basic financial statements.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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**Net Change in Fund Balances-Total Governmental Funds** \$ (2,594,666)

*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 outlays in the current period.

Capital Outlay	\$	347,329	
Depreciation		<u>(2,001,059)</u>	
Total			(1,653,730)

In the Statement of Activities, only the loss on the disposal of capital assets is reported, whereas, in the Governmental Funds, the proceeds from the disposals increase financial resources. Thus, the change in net position differs from the change in fund balance by the net book value of the capital assets. (5,307)

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

Delinquent Property Taxes		858,377	
Intergovernmental		<u>88,448</u>	
Total			946,825

Other financing sources in the Governmental funds increase long-term liabilities in the Statement of Net Position. These sources were attributed to the bond issuance. (7,920,000)

Repayment of bond principal are expenditures in the Governmental funds, but the repayments reduce long-term liabilities in the Statement of Net Position. 11,354,608

Bond premium that increases liabilities in the Statement of Net Assets are not reported in the governmental funds. (590,138)

Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows 3,557,116

Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the Statement of Activities. (6,430,056)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in Governmental funds.

Compensated Absences		(1,184,923)	
Early Retirement Incentive		87,417	
Accrued Interest		8,599	
Amortization of Bond Premiums		613,116	
Accretion on Bonds		(652,521)	
Deferred Amount on Refunding		<u>(299,163)</u>	
Total			<u>(1,427,475)</u>

**Change in Net Position of Governmental Activities** \$ (4,762,823)

See accompanying notes to the basic financial statements.



**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
 CUYAHOGA COUNTY, OHIO  
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –  
 BUDGET (NON-GAAP BASIS) AND ACTUAL  
 GENERAL FUND  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
<b>Revenues</b>				
Property Taxes	\$ 15,219,840	\$ 15,544,000	\$ 15,562,518	\$ 18,518
Intergovernmental	25,590,050	26,135,080	26,028,950	(106,130)
Interest	44,062	45,000	47,817	2,817
Tuition	479,781	490,000	434,535	(55,465)
Extracurricular Activities	44,062	45,000	40,728	(4,272)
Rentals	48,957	50,000	43,817	(6,183)
Charges for Services	6,364	6,500	6,039	(461)
Payments in Lieu of Taxes	376,971	385,000	384,588	(412)
Miscellaneous	215,413	220,000	253,964	33,964
<b>Total Revenues</b>	<u>42,025,500</u>	<u>42,920,580</u>	<u>42,802,956</u>	<u>(117,624)</u>
<b>Expenditures</b>				
Current:				
Instruction				
Regular	17,234,420	17,174,420	17,244,189	(69,769)
Special	2,568,500	2,238,500	2,161,446	77,054
Vocational	-	-	681	(681)
Other	6,432,700	7,622,700	7,622,698	2
Supporting Services				
Pupils	2,936,200	2,912,200	2,895,873	16,327
Instructional Staff	1,835,575	2,117,575	2,109,513	8,062
Board of Education	60,950	78,950	76,856	2,094
Administration	4,178,195	4,153,195	4,154,301	(1,106)
Fiscal Services	994,500	919,500	924,113	(4,613)
Business	424,700	304,700	339,684	(34,984)
Operation and Maintenance of Plant Services	3,278,600	3,540,600	3,540,205	395
Pupil Transportation	881,500	1,045,500	1,052,703	(7,203)
Central	430,250	521,750	520,572	1,178
Extracurricular Activities	405,200	420,200	413,384	6,816
Debt Service:				
Principal	365,000	365,300	365,156	144
<b>Total Expenditures</b>	<u>42,026,290</u>	<u>43,415,090</u>	<u>43,421,374</u>	<u>(6,284)</u>
Excess of Revenues Over Expenditures	<u>(790)</u>	<u>(494,510)</u>	<u>(618,418)</u>	<u>(123,908)</u>
<b>Other Financing Sources (Uses)</b>				
Sale of Capital Assets	-	-	866	866
Advances In	475,420	475,420	475,420	-
Advances Out	(300,000)	(277,700)	(170,312)	107,388
Transfers Out	(200,000)	(220,000)	(218,441)	1,559
<b>Total Other Financings Sources (Uses)</b>	<u>(24,580)</u>	<u>(22,280)</u>	<u>87,533</u>	<u>109,813</u>
Net Change in Fund Balance	(25,370)	(516,790)	(530,885)	(14,095)
Fund Balance - Beginning of Year	581,522	581,522	581,522	-
Prior Year Encumbrances Appropriated	275,686	275,686	275,686	-
Fund Balance - End of Year	<u>\$ 831,838</u>	<u>\$ 340,418</u>	<u>\$ 326,323</u>	<u>\$ (14,095)</u>

See accompanying notes to the basic financial statements.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO  
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
AGENCY FUNDS  
JUNE 30, 2017**

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	<u>Agency Funds</u>
<b>Assets</b>	
Equity in Pooled Cash, Cash Equivalents, and Investments	<u>\$ 113,721</u>
<b>Liabilities</b>	
Undistributed Monies	\$ 76,553
Due to Students	<u>37,168</u>
<b>Total Liabilities</b>	<u>\$ 113,721</u>

See accompanying notes to the basic financial statements.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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**NOTE 1: DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY**

The Garfield Heights City School District (the School District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The School District operates under a locally-elected five-member Board form of government and provides educational services as mandated by State and Federal agencies. The Board of Education employs 191 classified employees, 279 certificated full and part-time teaching, tutor and nursing personnel, and 25 administrators who provide services to 3,653 students and other community members.

*Reporting Entity*

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

Non-public Schools – Within the School District’s boundaries, there are various non-public schools. Current State legislation provides funding to these non-public schools. These monies are received and disbursed on behalf of the non-public schools by the Treasurer of the School District, as directed by the non-public school. These transactions are reported in a special revenue fund and as a governmental activity of the School District.

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

The School District is associated with three jointly governed organizations and one public entity risk pool. These organizations include Connect, the Cuyahoga Valley Career Center, the Ohio Schools’ Council, and the Suburban Health Consortium. These organizations are presented in Notes 15 and 16 to the basic financial statements.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(CONTINUED)**

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**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

***Basis of Presentation***

The School District's basic financial statements consist of government-wide statements, including a Statement of Net Position and a Statement of Activities and fund financial statements which provide a more detailed level of financial information.

***Government-wide Financial Statements*** The Statement of Net Position and the Statement of Activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. These statements usually distinguish between those activities of the School District that are governmental and those that are considered business-type. However, the School District has only governmental activities; therefore, no business-type activities are presented.

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

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

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(CONTINUED)**

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NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

***Fund Accounting***

The School District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary. The School District has no proprietary funds.

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

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

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

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

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

***Measurement Focus***

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

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(CONTINUED)**

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NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

*Measurement Focus* (Continued)

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

***Basis of Accounting***

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

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

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year in which the taxes are levied (See Note 9). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(CONTINUED)**

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NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

*Basis of Accounting* (Continued)

***Deferred Outflows/Inflows of Resources*** In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School District, deferred outflows of resources are reported on the government-wide Statement of Net Position for deferred charges on refunding and for pension. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred outflows of resources related to pension are explained in Note 17.

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 the School District, deferred inflows of resources include property taxes, payments in lieu of taxes, pension and unavailable revenue. Property taxes and payments in lieu of taxes represent amounts for which there is an enforceable legal claim as of June 30, 2017, but which were levied to finance fiscal year 2018 operations. These amounts have been recorded as a deferred inflow on both the government-wide Statement of Net Position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the School District unavailable revenue includes delinquent property taxes and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension are reported on the government-wide Statement of Net Position (see Note 17).

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

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

***Pensions***

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

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(CONTINUED)**

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NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

*Cash and Cash Equivalents*

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

During fiscal year 2017, investments were limited to Federal Home Loan Mortgage Corporation Notes, Federal National Mortgage Association Notes, Federal Farm Credit Discount Notes, Federal Home Loan Bank Discount Notes, Negotiable Certificates of Deposit, Money Market Mutual Fund, and STAR Ohio.

The School District utilizes a fiscal agent for the sinking fund payments for the School District's two Qualified Zone Academy Bonds. The balance in these accounts of \$4,494,798 is presented on the financial statements as "restricted assets: cash and cash equivalents with fiscal agents", and represents short-term investments.

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

During fiscal year 2017, the School District 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*." The School District measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides a NAV per share that approximates fair value.

For the fiscal year 2017, there were no limitation or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2017 amounted to \$178,532, which includes \$170,771 assigned from other School District funds.



**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
 CUYAHOGA COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
 (CONTINUED)**

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NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

*Cash and Cash Equivalents (Continued)*

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

*Restricted Assets*

Assets are reported as restricted when limitations on their use in nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions. Restricted assets include amounts required by statute to be set-aside for the acquisition or construction of capital assets and amounts for the future repayment of the Qualified Zone Academy Bond (QZAB) held with a fiscal agent until the debt becomes due. See Note 14 for additional information regarding the QZAB and Note 21 for additional information regarding set asides.

*Capital Assets*

The School District's only capital assets are general capital assets. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide Statement of Net Position but are not reported in the fund financial statements.

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

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land Improvements	15-20 years
Buildings and Improvements	10-50 years
Furniture and Fixtures	5-20 years
Vehicles	10 years

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(CONTINUED)**

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NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

***Interfund Balances***

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

***Compensated Absences***

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

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

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

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

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

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

In general, governmental fund payables and accrued liabilities that once incurred, are paid in a timely manner and in full from current financial resources, and are reported as obligations of the funds. However, claims and judgments, compensated absences, and net pension liability that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year. Bonds and capital leases are recognized as a liability on the fund financial statements when due.

***Internal Activity***

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

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(CONTINUED)**

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NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

*Internal Activity* (Continued)

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

*Fund Balance*

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

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

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

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

***Assigned*** Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance includes the remaining amount that is not restricted or committed. These assigned balances are established by the School District’s Board of Education. In the General Fund, assigned amounts represent intended uses established by the School District’s Board of Education or a School District official delegated that authority by State statute. State statute authorizes the Treasurer to assign fund balance for purchases on order provided such amounts have been lawfully appropriated. The School District’s Board of Education assigned fund balance for uniform school supplies and extracurricular activities and to cover a gap between estimated revenues and appropriations in fiscal year 2018’s appropriated budget.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(CONTINUED)**

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NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

***Fund Balance*** (Continued)

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

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

***Net 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 borrowing 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. Net position restricted for other purposes included resources which will be used for non-public schools and network connectivity.

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

***Bond Premiums***

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

***Deferred Charge on Refunding***

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

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(CONTINUED)**

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NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

*Estimates*

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

*Budgetary Data*

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

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

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

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(CONTINUED)**

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**NOTE 3: CHANGE IN ACCOUNTING PRINCIPLES**

During the fiscal year, the District implemented the following Governmental Accounting Standards Board (GASB) Statements:

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The implementation of GASB Statement No. 74 did not have an effect on the financial statements of the District.

GASB Statement No. 77, *Tax Abatement Disclosures*. This Statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The implementation of GASB Statement No. 77 did not have an effect on the financial statements of the District.

GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. The implementation of GASB Statement No. 78 did not have an effect on the financial statements of the District.

GASB Statement No. 80, *Blending Requirements for Certain Component Units-an amendment of GASB Statement No. 14*. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. The implementation of GASB Statement No. 80 did not have an effect on the financial statements of the District.

GASB Statement No. 82, *Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The implementation of GASB Statement No. 82 did not have an effect on the financial statements of the District.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
 CUYAHOGA COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
 (CONTINUED)**

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**NOTE 4: BUDGETARY BASIS OF ACCOUNTING**

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

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Advances-In and Advances Out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).
3. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
4. Budgetary revenues and expenditures of the uniform school supplies and public school support funds are reclassified to the general fund for GAAP Reporting.
5. Encumbrances are treated as expenditures (budget) rather than restricted, committed or assigned fund balance (GAAP).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements:

Net Change in Fund Balance	
GAAP Basis	\$ (2,054,424)
Net Adjustment for Revenue Accruals	1,957,654
Net Adjustments for Expenditure Accruals	(255,351)
Advances In	475,420
Advances Out	(145,602)
Funds with Separate Legally Adopted Budgets	16,065
Adjustment for Encumbrances	(524,647)
Budget Basis	\$ (530,885)

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
 CUYAHOGA COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
 (CONTINUED)**

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NOTE 5: **ACCOUNTABILITY**

The Management Information Systems, IDEA, Part B Special Education, Title I Grant and Class Size Reduction special revenue funds have negative cash fund balances in the amount of \$38, \$199,624, \$405,019 and \$100, respectively. This cash deficit is the result of monies being expended with the expectation that the School District will be reimbursed during fiscal year 2017. Although this cash deficit was not corrected by year end, management has indicated that cash will be closely monitored to prevent future violations.

Fund balances at June 30, 2017, included the following individual fund deficits:

<b><u>Special Revenue Funds</u></b>	
Other Grants	\$ 36,919
Auxiliary Services	737
Public Preschool	65,400
School Net Professional Development	1,041
Alternative Schools	4,529
IDEA, Part B Special Education	231,871
Technology II-D Grant	4,175
Title I School Improvement	143,138
Title I Grant	354,373
Preschool Grant	14,895
Class Size Reduction	176,239

The special revenue funds deficit balances resulted from adjustments for accrued liabilities. The General Fund is liable for any deficit in these funds and provides transfers when cash is required, not when accruals occur.



**GARFIELD HEIGHTS CITY SCHOOL DISTRICT**  
**CUYAHOGA COUNTY, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**  
**(CONTINUED)**

**NOTE 6: FUND BALANCES**

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

Fund Balances	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
<i>Nonspendable</i>				
Inventories	\$ -	\$ -	\$ 14,400	\$ 14,400
<i>Restricted for</i>				
Teacher Development	3,199	-	-	3,199
Food Service Operations	-	-	1,315,400	1,315,400
Scholarships	-	-	119,990	119,990
Classroom Facilities Maintenance	-	-	688,933	688,933
Athletics	-	-	5,681	5,681
Auxiliary Services	-	-	-	-
Entry Year Teachers	-	-	183	183
School Improvement	4,494,798	-	687	4,495,485
Community Involvement	-	-	3,088	3,088
Non-Public Schools	-	-	6,119	6,119
Drug Free School	-	-	7,776	7,776
Debt Service Payment	-	3,729,764	-	3,729,764
Capital Improvements	-	-	668,141	668,141
Set-Asides	75,300	-	-	75,300
<i>Total Restricted</i>	<u>4,573,297</u>	<u>3,729,764</u>	<u>2,815,998</u>	<u>11,119,059</u>
<i>Assigned to</i>				
Uniform School Supplies	16	-	-	16
Extracurricular Activities	7,094	-	-	7,094
Purchases on Order:				
Instructional Services	39,439	-	-	39,439
Support Services	212,427	-	-	212,427
Extracurricular Activities	29	-	-	29
Fiscal Year 2018 Operations	278,525	-	-	278,525
<i>Total Assigned</i>	<u>537,530</u>	<u>-</u>	<u>-</u>	<u>537,530</u>
<i>Unassigned (Deficit)</i>	<u>(1,182,336)</u>	<u>-</u>	<u>(1,033,317)</u>	<u>(2,215,653)</u>
<b>Total Fund Balances</b>	<u><u>\$ 3,928,491</u></u>	<u><u>\$ 3,729,764</u></u>	<u><u>\$ 1,797,081</u></u>	<u><u>\$ 9,455,336</u></u>

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
 CUYAHOGA COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
 (CONTINUED)**

**NOTE 7: INTERFUND TRANSACTIONS**

***Interfund Balances***

Interfund balances at June 30, 2017, consisted of the following

<u>Interfund Payable</u>	<u>Interfund Receivable</u>
	<u>General Fund</u>
Other Government Funds:	
Other Grants	\$ 69,200
Public Preschool	56,433
SchoolNet, Professional Development	1,050
Alternative Schools	2,175
Title VI-B	323,374
Technology II-D Grant	4,250
Title I School Improvement	146,100
Title I	410,019
Preschool Grant	12,032
Classroom Size Reduction	144,300
	\$ 1,168,933

These loans were made to support programs and projects in the various special revenue funds pending the receipt of grant money that will be used to repay the loans. These loans are expected to be repaid in one year.

***Interfund Transfers***

Interfund transfers for the fiscal year ended June 30, 2017, were as follows:

<u>Transfers To</u>	<u>Transfers From</u>		<u>Totals</u>
	<u>General Fund</u>	<u>Other Governmental Funds</u>	
<b>Other Governmental Funds:</b>			
Other Grants	\$ 80,900	\$ -	\$ 80,900
District Managed Student Activity	77,800	-	77,800
Public Preschool	6,620	-	6,620
Alternative Schools	4,200	-	4,200
Miscellaneous State Grants	6,015	-	6,015
Preschool Grant	9,340	-	9,340
Classroom Facilities	966	687,850	688,816
	\$ 185,841	\$ 687,850	\$ 873,691

The transfers from the General Fund to nonmajor special revenue and capital projects funds were made to move unrestricted balances to support programs and projects accounted for in other funds. The Classroom Facilities Fund transferred \$687,850 to the Permanent Improvement Fund to close out the project and fund.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
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FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(CONTINUED)**

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**NOTE 8: DEPOSITS AND INVESTMENTS**

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

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

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

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

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

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 NOTES TO THE BASIC FINANCIAL STATEMENTS  
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 (CONTINUED)**

NOTE 8: **DEPOSITS AND INVESTMENTS** (Continued)

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

***Deposits***

***Custodial Credit Risk*** Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, \$310,795 of the School District's bank balance of \$854,852 was uninsured and uncollateralized. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

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

***Investments***

The School District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs. The following table identifies the School District's recurring fair value measurement as of June 30, 2017. Star Ohio is reported at its net asset value. All other investments of the School District are valued using quoted market prices (Level 1 inputs). As of June 30, 2017, the School District had the following investments:

Investment Type	Fair Value/NAV	Maturity	Standard and Poors Rating	Percentage of Total Investments
Federal National Mortgage Association Notes	\$ 157,439	Less than five years	AA+	1.54%
Federal Home Loan Mortgage Corporation Notes	370,802	Less than five years	AA+	3.63%
Federal Farm Credit Discount Notes	168,575	Less than one year	A-1+	1.65%
Federal Home Loan Bank Discount Notes	4,613,510	Less than one year	A-1+	45.18%
Negotiable CD's	551,647	Less than five years	N/A	5.40%
Money Market Mutual Fund	5,031	On Demand	N/A	0.05%
STAR Ohio	4,344,609	On Demand	AAA	42.55%
<b>Total Investments</b>	<b>\$ 10,211,613</b>			

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(CONTINUED)**

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NOTE 8: **DEPOSITS AND INVESTMENTS** (Continued)

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

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

***Custodial Credit Risk.*** For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Federal National Mortgage Association notes, Federal Home Loan Mortgage Corporation notes, Federal Farm Credit Discount Notes, Federal Home Loan Bank Discount Notes, and money market mutual fund are exposed to custodial credit risk in that they are uninsured, unregistered, and held by the counterparty's trust department or agent but not in the School District's name. The School District's investments in negotiable certificates of deposit were fully covered by Federal Depository Insurance. The School District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

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

***Foreign Currency Risk.*** Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. As of June 30, 2017, the School District had no exposure to foreign currency risk.

NOTE 9: **PROPERTY TAXES**

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar year 2017 represents collections of calendar year 2016 taxes. Real property taxes received in calendar year 2017 were levied after April 1, 2016, on the assessed value listed as of January 1, 2016, the lien date. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

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CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(CONTINUED)**

**NOTE 9: PROPERTY TAXES** (Continued)

Public utility property tax revenue received in calendar year 2017 represents collections of calendar year 2016 taxes. Public utility real and tangible personal property taxes received in calendar year 2017 became a lien December 31, 2015, were levied after April 1, 2016, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

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

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

The amount available as an advance at June 30, 2017, was \$2,753,990 in the General Fund, \$31,058 in the Classroom Facilities Maintenance Special Revenue Fund, \$606,190 in the Bond Retirement Fund, and \$21,802 in the Permanent Improvement Capital Projects Fund. The amount available as an advance at June 30, 2016, was \$4,810,150 in the General Fund, \$59,174 in the Classroom Facilities Maintenance Special Revenue Fund, \$1,080,487 in the Bond Retirement Fund, and \$41,308 in the Permanent Improvement Capital Projects Fund.

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

The assessed values upon which the fiscal year 2017 taxes were collected are:

	2016 Second Half Collections		2017 First Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$ 282,218,360	96.14%	\$ 280,866,900	95.88%
Public Utility Personal	11,345,210	3.86%	12,062,970	4.12%
Total	<u>\$ 293,563,570</u>	<u>100.00%</u>	<u>\$ 292,929,870</u>	<u>100.00%</u>
Full Tax Rate per \$1,000 of Assessed Valuation	\$ 81.06		\$ 87.76	

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 CUYAHOGA COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
 (CONTINUED)**

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NOTE 10: **RECEIVABLES**

Receivables at June 30, 2017, consisted of taxes, payments in lieu of taxes, accounts, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables, except for delinquent property taxes, are expected to be collected within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

<u>Intergovernmental Receivables</u>	<u>Amount</u>
Federal Lunch Reimbursement	\$ 143,745
Early Childhood Education	36,369
Alternative Education	1,974
Special Education part B-IDEA	123,789
Early Literacy	51,383
Title I - School Improvement	14,447
Title I	290,119
Title II-A Improving Teacher Quality	28,429
Total Intergovernmental Receivable	<u>\$ 690,255</u>

According to State law, the City of Garfield Heights has established several tax increment financing districts within the City under which the City has granted property tax exemptions and agreed to construct certain infrastructure improvements. The property owners have agreed to make payments to the City to help pay the costs of the infrastructure improvements. The amount of those payments generally reflects all or a portion of the property taxes which the property owners would have paid if the property had not been declared exempt. The property owners' contractual promise to make these payments in lieu of taxes generally continues until the costs of the improvements have been paid or the agreement expires, whichever occurs first. Future development by these owners or others may result in subsequent agreements to make payments in lieu of taxes and may therefore spread the costs of the improvements to a larger number of property owners. The School District agrees to accept a portion of the service payments as compensation for the likely loss of future property tax increases.

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 NOTES TO THE BASIC FINANCIAL STATEMENTS  
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 (CONTINUED)**

**NOTE 11: CAPITAL ASSETS**

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

	Balance 6/30/2016	Additions	Deletions	Balance 6/30/2017
<b><u>Governmental Activities</u></b>				
Capital Assets, not being depreciated:				
Land	\$ 1,216,751	\$ -	\$ -	\$ 1,216,751
Total Capital Assets, not being depreciated	<u>1,216,751</u>	<u>-</u>	<u>-</u>	<u>1,216,751</u>
Capital Assets, being depreciated:				
Land Improvements	1,056,759	-	-	1,056,759
Buildings and Improvements	69,269,476	31,433	-	69,300,909
Furniture and Equipment	3,663,925	60,999	-	3,724,924
Vehicles	1,622,252	254,897	(106,145)	1,771,004
Total Capital Assets, being depreciated	<u>75,612,412</u>	<u>347,329</u>	<u>(106,145)</u>	<u>75,853,596</u>
Less Accumulated Depreciation:				
Land Improvements	(698,394)	(40,391)	-	(738,785)
Buildings and Improvements	(21,138,397)	(1,612,731)	-	(22,751,128)
Furniture and Equipment	(2,259,161)	(235,459)	-	(2,494,620)
Vehicles	(1,057,404)	(112,478)	100,838	(1,069,044)
Total Accumulated Depreciation	<u>(25,153,356)</u>	<u>(2,001,059)</u>	<u>100,838</u>	<u>(27,053,577)</u>
Total Capital Assets being depreciated, Net	<u>50,459,056</u>	<u>(1,653,730)</u>	<u>(5,307)</u>	<u>48,800,019</u>
<b>Governmental Activities</b>				
<b>Capital Assets, Net</b>	<u>\$ 51,675,807</u>	<u>\$ (1,653,730)</u>	<u>\$ (5,307)</u>	<u>\$ 50,016,770</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 1,660,699
Special	7,354
Supporting Services:	
Pupil	2,946
Instructional Staff	16,481
Administration	5,938
Business	2,542
Operation and Maintenance of Plant	165,190
Pupil Transportation	95,977
Operation of Food Service	43,589
Extracurricular Activities	343
<b>Total Depreciation Expense</b>	<u>\$ 2,001,059</u>



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CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(CONTINUED)**

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NOTE 12: **RISK MANAGEMENT**

*Workers' Compensation*

The School District 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.

*Property and Liability*

Property (buildings and contents), boiler and machinery insurance, and casualty and fleet insurance, are provided through Liberty Mutual-Todd Associates, Inc. Blanket limit for the property insurance is \$146,215,451 with \$5,000 deductible. For the casualty and fleet insurance, there is a combined single limit of \$1,000,000, with \$1,000 comprehensive and \$1,000 collision deductibles. The School District also maintains a variety of liability insurance coverages with varying deductibles, including public official and employee liability insurance coverage. The renewal date is July 1, 2018.

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**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(CONTINUED)**

**NOTE 13: LONG-TERM LIABILITIES**

Changes in long-term obligations of the School District during fiscal year 2017 were as follows:

	Principal Outstanding 6/30/2016	Additions	Deductions	Principal Outstanding 6/30/2017	Amount Due in One Year
<b>Governmental Activities</b>					
<b>General Obligation Bonds</b>					
School Improvement Bonds - 2001					
Term Bonds	\$ 2,165,000	\$ -	\$ (2,165,000)	\$ -	\$ -
Total School Improvement Bonds - 2001	2,165,000	-	(2,165,000)	-	-
Energy Conservation Improvement Bonds - 2006					
Serial Bonds	790,000	-	(160,000)	630,000	170,000
Premium on Bond	13,599	-	(3,022)	10,577	-
Total Energy Conservation Improvement Bonds -2006	803,599	-	(163,022)	640,577	170,000
Refunding School Improvement Bonds - 2006					
Serial Bonds	1,870,000	-	(1,870,000)	-	-
Term Bonds	6,355,000	-	(6,355,000)	-	-
Premium on Bond	318,575	-	(318,575)	-	-
Total Refunded Bonds - 2006	8,543,575	-	(8,543,575)	-	-
Refunding School Improvement Bonds - 2012					
Serial Bonds- 6,820,000 @ 2%-2.75%	5,580,000	-	-	5,580,000	-
Premium on Bond	65,364	-	(6,301)	59,063	-
Capital Appreciation Bonds - \$74,719 @1.72%-2.19%	74,719	-	(34,557)	40,162	22,749
CAB Accretion - \$605,281@46.5%	317,425	142,902	(180,443)	279,884	192,251
Premium on CAB	229,882	-	(76,628)	153,254	-
Total Refunded Bonds - 2012	6,267,390	142,902	(297,929)	6,112,363	215,000
Refunding School Improvement Bonds - 2015					
Serial Bonds - 18,020,000 @ .65% - 3.1%	17,805,000	-	(455,000)	17,350,000	-
Capital Appreciation Bonds - \$1,134,897 @ 1.5%	1,134,897	-	-	1,134,897	1,134,897
CAB Accretion - \$1,635,103 @ 38.56%	513,730	690,062	-	1,203,792	1,203,792
Premium on CAB	1,346,188	-	(149,576)	1,196,612	-
Total Refunded Bonds - 2015	20,799,815	690,062	(604,576)	20,885,301	2,338,689
Refunding School Improvement Bonds - 2016					
Serial Bonds - 7,920,000 @ 1%-3%	-	7,920,000	(115,000)	7,805,000	75,000
Premium on Bond	-	590,138	(59,014)	531,124	-
Total Refunded Bonds - 2016	-	8,510,138	(174,014)	8,336,124	75,000
<i>Total General Obligation Bonds</i>	38,579,379	9,343,102	(11,948,116)	35,974,365	2,798,689
<b>Net Pension Liability</b>					
SERS	10,533,627	2,828,337	-	13,361,964	-
STRS	48,261,550	11,457,698	-	59,719,248	-
<i>Total Net Pension Liability</i>	58,795,177	14,286,035	-	73,081,212	-
<b>Other Long-term Obligations</b>					
Compensated Absences	5,791,300	1,349,653	(164,730)	6,976,223	212,509
2003 QZAB	3,000,000	-	-	3,000,000	3,000,000
2004 QZAB	2,000,000	-	-	2,000,000	-
Early Retirement Incentive	169,168	81,751	(169,168)	81,751	67,084
Capital leases	633,584	-	(200,051)	433,533	207,680
<i>Total Other Long-term Obligations</i>	11,594,052	1,431,404	(533,949)	12,491,507	3,487,273
<i>Total Governmental Activities Long-Term Liabilities</i>	\$ 108,968,608	\$ 25,060,541	\$ (12,482,065)	\$ 121,547,084	\$ 6,285,962

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(CONTINUED)**

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NOTE 13: **LONG-TERM LIABILITIES** (Continued)

The School District pays obligations related to employee compensation from the fund benefitting from their service. For additional information related to pension see Note 17. General obligation bonds will be paid from the General Obligation Bond Retirement Fund. Compensated absences will be paid from the General Fund and the Food Service, Other Grants, District Managed Student Activities, Auxiliary Services, Public Preschool, Alternative Schools, Title VI-B, Title I, IDEA Preschool Grant for the Handicapped, and Improving Teacher Quality Special Revenue funds. The early retirement incentive will be paid from the General Fund. Capital leases will be paid from the General Fund and the Permanent Improvement Capital Projects Fund. The QZABs sinking fund payments requirements are being paid from the General Fund.

***2006 Energy Conservation Improvement Bonds***

On July 14, 2005, the School District issued \$2,050,000 energy conservation improvement bonds for the purpose of installing, modifying and remodeling school buildings to conserve energy. The bonds were issued at a premium of \$83,354. The bonds mature on June 1 and December 1 of each of the years 2005 through 2020. Interest payments of 4.8 percent per year are due on June 1 and December 1 of each year, until the principal amount is paid.

***2012 Refunding Bonds***

On July 31, 2012, the School District issued general obligation bonds in the amount of \$6,894,719 for the purpose of refunding \$6,895,000 of the School District's outstanding 2004 school improvement bonds. The bond issue consists of \$6,820,000 of serial bonds and \$74,719 of capital appreciation bonds. The bonds were issued with interest payments varying from 2 percent to 2.75 percent. The bonds were issued for a 15 year period with final maturity during fiscal year 2027. The bonds will be retired through the Bond Retirement Fund.

The bonds were sold at a premium of \$616,714. Proceeds of \$7,362,218 were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, \$6,465,000 of these bonds are considered defeased and the liability for the refunded bonds has been removed from the School District's financial statements.

The serial bonds were issued for a twelve year period with a final maturity date of December 15, 2026.

The capital appreciation bonds remained outstanding at June 30, 2017. The capital appreciation bonds were originally sold at a discount of \$605,281, which is being accreted annually until the point of maturity of the capital appreciation bonds, which is 2019.

The maturity amount of outstanding capital appreciation bonds at June 30, 2017, is \$40,162. The accretion recorded for 2017 was \$279,884, for a total outstanding bond liability of \$320,046 at June 30, 2017.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(CONTINUED)**

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NOTE 13: **LONG-TERM LIABILITIES** (Continued)

***2015 Refunding Bonds***

On June 4, 2015, the School District issued \$19,154,897 in general obligation bonds for the purpose of refunding \$19,155,000 of the 2006 refunding bonds in order to take advantage of lower interest rates. The bond issue consists of \$18,020,000 of serial bonds and \$1,134,897 of capital appreciation bonds. The bonds were issued with interest rates varying from 0.65 percent to 3.1 percent. The bonds were issued for a 10 year period with final maturity during fiscal year 2025. The bonds will be retired through the Bond Retirement Fund.

**2006 Refunding Bonds**

Serial Bonds Outstanding at June 30, 2014	\$ 22,660,000
Principal Payment on Non-Refunded Portion	(1,600,000)
Amount Refunded	<u>(19,155,000)</u>
Serial Bonds Outstanding at June 30, 2015	<u>\$ 1,905,000</u>

Net proceeds of \$20,427,169 (including a \$1,495,764 premium and after payments of \$223,492 in issuance costs) and the bond retirement fund contribution of \$478,875 were deposited in an irrevocable trust with an escrow agent to provide for all future debt payments on the refunded 2006 refunding bonds. As a result, \$19,155,000 of these bonds are considered defeased and the liability for the refunded bonds has been removed from the School District's financial statements.

**2006 Refunding Bonds**

Serial Bonds	\$ 21,060,000
Premium on Bonds	<u>1,461,612</u>
Total 2006 Refunding Bonds	22,521,612
Non-Refunded Portion of Serial Bonds	(1,905,000)
Non-Refunded Portion of Premium on Bonds	(440,376)
Payment to Refunded Bond Escrow Agent - Debt Service	(478,875)
Payment to Refunded Bond Escrow Agent - Other Financing Use	<u>(20,427,169)</u>
2015 Refunding Accounting Loss	<u>\$ (729,808)</u>

Although the refunding will result in the recognition of an accounting loss of \$729,808, the School District in effect decreased its aggregated debt service payments by \$1,263,120 over the next ten years and obtained an economic gain (difference between the present values of the old and new debt service payments) of \$619,738.

The serial bonds were issued for a ten year period with a final maturity date of December 15, 2024.

The capital appreciation bonds were originally sold at a discount of \$1,635,103, which is being accreted annually until the point of maturity of the capital appreciation bonds, which is December 15, 2017.

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CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(CONTINUED)**

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NOTE 13: **LONG-TERM LIABILITIES** (Continued)

***2015 Refunding Bonds*** (Continued)

The maturity amount of outstanding capital appreciation bonds at June 30, 2017, is \$1,134,897. The accretion recorded for 2017 was \$1,203,792, for a total outstanding bond liability of \$2,338,689 at June 30, 2017.

***2016 Refunding Bonds***

On October 19, 2016, the School District issued general obligation bonds in the amount of \$7,920,000 for the purpose of refunding \$8,190,000 of the School District's outstanding 2006 refunding bonds. The bond issue consists of \$7,920,000 of serial bonds. The bonds were issued with interest payments varying from 1 percent to 3 percent. The bonds were issued for a 10 year period with final maturity during fiscal year 2027. The bonds will be retired through the Bond Retirement Fund.

**2006 Refunding Bonds**

Serial Bonds Outstanding at June 30, 2016	\$ 1,870,000
Term Bonds Outstanding at June 30, 2016	\$ 6,355,000
Principal Payment on Non-Refunded Portion	(35,000)
Amount Refunded	<u>(8,190,000)</u>
2006 Refunding Bonds Outstanding at June 30, 2017	<u>\$ -</u>

Net proceeds of \$8,359,656 (including a \$590,138 premium and after payments of \$150,482 in issuance costs) were deposited in an irrevocable trust with an escrow agent to provide for all future debt payments on the refunded 2006 refunding bonds. As a result, \$8,190,000 of these bonds are considered defeased and the liability for the refunding bonds has been removed from the School District's financial statements.

**2006 Refunding Bonds**

Serial Bonds	\$ 1,870,000
Term Bonds	\$ 6,355,000
Premium on Bonds	<u>318,575</u>
Total 2006 Refunding Bonds	8,543,575
Non-Refunded Portion of Serial Bonds	(35,000)
Non-Refunded Portion of Premium on Bonds	(35,525)
Payment to Refunded Bond Escrow Agent - Other Financing Use	<u>(8,359,656)</u>
2016 Refunding Accounting Gain	<u>\$ 113,394</u>

The refunding will result in the recognition of an accounting gain of \$113,394, and the School District in effect decreased its aggregated debt service payments by \$1,369,395 over the next ten years and obtained an economic gain (difference between the present values of the old and new debt service payments) of \$1,235,856.

The serial bonds were issued for a ten year period with a final maturity date of December 15, 2026.

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(CONTINUED)**

**NOTE 13: LONG-TERM LIABILITIES** (Continued)

The overall debt margin of the School District as of June 30, 2017, was \$0 with an unvoted debt margin of \$0. The Ohio Revised Code further provides that when a Board of Education declares a resolution that the student population is not adequately served by existing facilities, and that insufficient capacity exists within the nine percent limit to finance additional facilities, the State Department of Education may declare that school district a “special needs” school district. This permits the incurrence of additional debt based upon projected 5-year growth of the school district’s assessed valuation. The Garfield Heights City School District was determined to be a “special needs” school district by the State Superintendent.

Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2017, are as follows:

Fiscal Year Ending June 30	School Improvement Bonds			
	Serial Bonds		Capital Appreciation Bonds	
	Principal	Interest	Principal	Interest
2018	\$ 245,000	\$ 843,869	\$ 1,157,646	\$ 1,827,654
2019	3,130,000	811,652	17,413	232,587
2020	2,950,000	743,672	0	0
2021	3,175,000	663,675	0	0
2022	3,255,000	585,142	0	0
2023-2027	18,610,000	1,302,822	0	0
Total	<u>\$ 31,365,000</u>	<u>\$ 4,950,832</u>	<u>\$ 1,175,059</u>	<u>\$ 2,060,241</u>

**NOTE 14: CAPITAL LEASES**

**Equipment Lease**

In prior years, the School District entered into a lease for HVAC systems. The lease obligation meets the criteria of a capital lease and has been recorded on the government-wide statements. The original amount capitalized for the capital lease and the book value as of June 30, 2017, follows:

<u>Asset</u>	<u>Amounts</u>
Equipment	\$ 1,295,650
Less: Accumulated Depreciation	(1,096,319)
Current Book Value	<u>\$ 199,331</u>

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2017.

	<u>Amounts</u>
2018	139,411
2019	69,699
Total Minimum Lease Payments	209,110
Less: Amount Representing Interest	(8,581)
Present Value of Minimum Lease Payments	<u>\$ 200,529</u>

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
 CUYAHOGA COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
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 (CONTINUED)**

NOTE 14: **CAPITAL LEASES** (Continued)

Capital lease payments have been reclassified and reflected as debt service in the fund financial statements for the Permanent Improvement Fund. These expenditures are reflected as program expenditures on a budgetary basis.

**2003 QZABs**

The School District entered into a capital lease for the improvement of several buildings in the School District. The lease obligation meets the criteria of a capital lease and has been recorded on the government-wide statements. As part of this agreement, the Bank of New York, as lessor, deposited \$3,000,000 into the School District's account. The School District will be making annual interest payments over a 15 year period to Bank of New York, its escrow agent, which will pay the annual interest and invest the sinking fund dollars at an interest rate that will generate at least \$909,800 over the lease period, the difference between the sinking payments and the lease principal payment. At June 30, 2017, the market value of the escrow account with fiscal agent is \$2,788,217. It is the assumption of the School District that the money in the sinking fund will be invested and earn enough interest to allow the lease to be paid in full in March 2018. The following is a schedule of the future long-term minimum lease payments required under the capital lease and present value of the minimum lease payments is as follows:

Year Ending	Building Lease
2018	\$ 3,000,000
Less: Amount Representing Interest	0
Present Value of Minimum Lease Payments	\$ 3,000,000

The following is a schedule of the interest and sinking fund payments required under the lease and escrow agreements:

Year Ending June 30	Principal	Total Lease Payment
2018	3,000,000	3,000,000
	\$ 3,000,000	\$ 3,000,000

**2004 QZABs**

The School District entered into a capital lease for the improvement of several buildings in the School District. The lease obligation meets the criteria of a capital lease and has been recorded on the government-wide statements. As part of this agreement, U.S. Bank, as lessor, deposited \$2,000,000 into the School District's account. The School District will be making annual interest payments over a 14 year period to U.S. Bank, its escrow agent, which will pay the annual interest and invest the sinking fund dollars at an interest rate that will generate at least \$482,720 over the lease period, the difference between the sinking payments and the lease principal payment. At June 30, 2017, the market value of the escrow account with fiscal agent is \$1,706,581. It is the assumption of the School District that the money in the sinking fund will be invested and earn enough interest to allow the lease to be paid in full in September 2018.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
 CUYAHOGA COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
 (CONTINUED)**

NOTE 14: **CAPITAL LEASES** (Continued)

**2004 QZABs** (Continued)

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

	Amounts
2018	16,800
2019	2,016,800
Total Minimum Lease Payments	2,033,600
Less: Amount Representing Interest	(33,600)
Present Value of Minimum Lease Payments	\$ 2,000,000

The following is a schedule of the interest and sinking fund payments required under the lease and escrow agreements:

Year Ending June 30	Principal	Interest	Sinking Fund Payments	Total Lease Payments
2018	0	16,800	116,714	133,514
2019	2,000,000	16,800	0	2,016,800
	\$ 2,000,000	\$ 33,600	\$ 116,714	\$ 2,150,314

**2015 Equipment and Vehicles Lease**

In prior years, the School District entered into a capital lease for the purchase of several pieces of equipment and vehicles. As part of this agreement, First Merit Bank, as lessor, deposited \$377,319 into the School District's account.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2017.

	Amounts
2018	82,342
2019	82,342
2020	82,342
Total Minimum Lease Payments	247,026
Less: Amount Representing Interest	(14,022)
Present Value of Minimum Lease Payments	\$ 233,004



**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
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**NOTE 15: JOINTLY GOVERNED ORGANIZATIONS**

**Connect**

Connect (formerly known as North Coast Council) is a jointly governed computer service bureau owned and operated by 3 educational service centers and 26 public school districts. The primary function of Connect is to provide to its members the support and leadership which enables organizations to achieve their objectives through innovative and cost effective shared technology solutions. Major areas of service provided by Connect include accounting, payroll, inventory, career guidance services, handicapped student tracking, pupil scheduling, attendance reporting and grade reporting. Connect is wholly owned by its member districts and is governed by a Board of Directors. Connect's current membership includes the Educational Service Center of Cuyahoga County, Educational Service Center of Lorain County, Educational Service Center of Medina County, and 26 school districts in Cuyahoga, Lorain, and Medina counties. Each year, the Board of Directors elects a Chairman, a Vice Chairman and a Recording Secretary. The Treasurer of the fiscal agent is a nonvoting, ex-officio member of the Board of Directors. The Educational Service Center of Cuyahoga County serves as the fiscal agent of Connect. The degree of control exercised by any participating school district is limited to its representation on the Board. Each school district supports Connect based upon a per pupil charge dependent upon the software packages used. In fiscal year 2017, the School District paid \$107,800 to Connect. Financial information can be obtained by contacting the Treasurer of the fiscal agent at 5700 West Canal Road, Valley View, Ohio 44125.

**Cuyahoga Valley Career Center**

The Cuyahoga Valley Career Center (a joint vocational school district) is a distinct political subdivision of the State of Ohio operated under the direction of a Board, consisting of representatives from each participating school district's elected board, which possess its own budgeting and taxing authority. Accordingly, the Cuyahoga Valley Career Center is not part of the School District and its operations are not included as part of the reporting entity. The degree of control exercised by any participating school district is limited to its representation on the Board. The School District made no contributions to the Cuyahoga Valley Career Center during fiscal year 2017. Financial information can be obtained by contacting the Treasurer at the Cuyahoga Valley Career Center, 8001 Brecksville Road, Brecksville, Ohio 44141.

**Ohio Schools' Council**

The Ohio Schools Council (Council) is a jointly governed organization among 203 school districts. The jointly governed organization was created by school districts for the purpose of saving money through volume purchases. Each district supports the Council by paying an annual participation fee. Each school district member's superintendent serves as a representative of the Assembly. The Assembly elects five of the Council's Board members and the remaining four are representatives of the Greater Cleveland School Superintendents' Association. The Council operates under a nine-member Board of Directors (the Board). The Board is the policy making authority of the Council. The Board meets monthly September to June. The Board appoints an Executive Director who is responsible for receiving and disbursing funds, investing available funds, preparing financial reports for the Board and Assembly and carrying out such other responsibilities as designated by the Board. The degree of control exercised by any participating school district is limited to its representation on the Board. In fiscal year 2017, the School District paid \$155,054 to the Council.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(CONTINUED)**

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**NOTE 15: JOINTLY GOVERNED ORGANIZATIONS**

**Ohio Schools' Council** (Continued)

Financial information can be obtained by contacting William Zelei, the Executive Director of the Ohio Schools' Council at 6393 Oak Tree Boulevard, Suite 377, Independence, Ohio 44131.

The School District participates in the natural gas purchase program. This program allows the School District to purchase natural gas at reduced rates. Constellation New Energy (formerly Compass) serves as the supplier and program manager through June 30, 2018. There are currently 151 participants in the program including the Garfield Heights City School District. The participants make monthly payments based on estimated usage. Each September, these estimated payments are compared to their actual usage for the year (July to June). Districts that paid more in estimated billings than their actual billings are issued credits on future billings beginning in September until the credits are exhausted and districts that did not pay enough on estimated billings are invoiced for the difference on the September monthly estimated billing.

**NOTE 16: PUBLIC ENTITY RISK POOL**

**Suburban Health Consortium**

The Suburban Health Consortium ("the Consortium") is a shared health risk pool created on October 1, 2001, formed by the Boards of Education of several school districts in northeast Ohio, for the purposes of maximizing benefits and/or reducing costs of group health, life, dental and/or other insurance coverages for their employees and the eligible dependents and designated beneficiaries of such employees. The Consortium was formed and operates as a legally separate entity under Ohio Revised Code Section 9.833. The Board of Directors is the governing body of the Consortium. The Board of Education of each Consortium Member appoints its Superintendent or such Superintendent's designee to be its representative on the Board of Directors. The officers of the Board of Directors consist of a Chairman, Vice-Chairman and Recording Secretary, who are elected at the annual meeting of the Board of Directors and serve until the next annual meeting. All of the authority of the Consortium is exercised by or under the direction of the Board of Directors.

The Board of Directors also sets all premiums and other amounts to be paid by the Consortium members, and the Board of Directors have the authority to waive premiums and other payments. All members of the Board of Directors serve without compensation.

The Fiscal Agent shall be the Board of Education responsible for administering the financial transactions of the Consortium (Orange City School District). The Fiscal Agent shall carry out the responsibilities of the Consortium Fund, enter into contracts on behalf of the Consortium as authorized by the Directors and carry out such other responsibilities as approved by the Directors and agreed to by the Fiscal Agent. Each District Member enrolled in a benefit program may require contributions from its employees toward the cost of any benefit program being offered by such District Member, and such contributions shall be included in the payments from such District Member to the Fiscal Agent for such benefit program.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(CONTINUED)**

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NOTE 16: **PUBLIC ENTITY RISK POOL** (Continued)

**Suburban Health Consortium** (Continued)

Contributions are to be submitted by each District Member, to the Fiscal Agent, required under the terms of the Consortium Agreement and any benefit program in which such District Member is enrolled to the Fiscal Agent on a monthly basis, or as otherwise required in accordance with any benefit program in which such District Member is enrolled. All general administrative costs incurred by the Consortium that are not covered by the premium payments shall be shared equally by the Consortium Members as approved by the Directors, and shall be paid by each Consortium Member upon receipt of notice from the Fiscal Agent that such payment is due. It is the express intention of the Consortium Members that the Consortium Agreement and the Consortium shall continue for an indefinite term, but may be terminated as provided in the Consortium Agreement.

Any Consortium Member wishing to withdraw from participation in the Consortium or any benefit program shall notify the Fiscal Agent at least one hundred eighty (180) days prior to the effective date of withdrawal. Upon withdrawal of a Consortium Member, the Consortium shall pay the run out of all claims for such Consortium Member provided such Consortium Member has paid to the Consortium, prior to the effective date of withdrawal a withdrawal fee in the amount equal to two months' premiums at the Consortium Member's current rate. Payment of the withdrawal fee does not extend insurance coverage for two months. Upon automatic withdrawal, for non-payment of premiums required by the Consortium Agreement, the Consortium shall pay the run out of all claims for such Consortium Member provided that the Consortium has received from such Consortium Member all outstanding and unpaid premiums and other amounts and the withdrawal fee equal to two months' premiums at the Consortium Member's current rates. Any Consortium Member which withdraws from the Consortium pursuant to the Consortium Agreement shall have no claim to the Consortium's assets. Financial information for the Consortium can be obtained from the Treasurer of the Orange City School District (the Fiscal Agent) at 32000 Chagrin Boulevard, Pepper Pike, Ohio 44124-5974.

NOTE 17: **DEFINED BENEFIT PENSION PLANS**

***Net Pension Liability***

The net pension liability reported on the Statement of Net Position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred. The net pension liability represents the School District's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
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 (CONTINUED)**

NOTE 17: **DEFINED BENEFIT PENSION PLANS** (Continued)

*Net Pension Liability* (Continued)

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

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan’s board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

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

***Plan Description – School Employees Retirement System (SERS)***

School District non-teaching employees participate in SERS, a cost-sharing, multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability, and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries.

Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information, and detailed information about SERS’ fiduciary net position. That report can be obtained by visiting the SERS website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources. Age and service requirements for retirement are as follows:

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

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

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(CONTINUED)**

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NOTE 17: **DEFINED BENEFIT PENSION PLANS** (Continued)

*Plan Description – School Employees Retirement System (SERS)* (Continued)

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on years of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over thirty. Final average salary is the average of the highest three years of salary. One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

**Funding Policy** – Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2017, the allocation to pension, death benefits, and Medicare B was 14.00 percent. No allocation was made to the Health Care Fund.

The School District's contractually required contribution to SERS was \$792,242 for fiscal year 2017. Of this amount \$40,950 is reported as an intergovernmental payable.

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

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

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(CONTINUED)**

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NOTE 17: **DEFINED BENEFIT PENSION PLANS** (Continued)

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

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

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 11.5 of the 13.0 percent member rates goes to the DC Plan and 1.5 percent goes to the DB plan. Member contributions to the DC plan are allocated among investment choices by the member, and contributions to the DB plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

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

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

**Funding Policy** – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2017, plan members were required to contribute 14 percent of their annual covered salary. The School District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

The School District's contractually required contribution to STRS was \$2,764,874 for fiscal year 2017. Of this amount \$460,916 is reported as an intergovernmental payable.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
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 NOTES TO THE BASIC FINANCIAL STATEMENTS  
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 (CONTINUED)**

NOTE 17: **DEFINED BENEFIT PENSION PLANS** (Continued)

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

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net Pension Liability Prior Measurement Date	0.1846030%	0.17462611%	
Proportion of the Net Pension Liability Current Measurement Date	<u>0.1825635%</u>	<u>0.17841013%</u>	
Change in Proportionate Share	<u>-0.0020395%</u>	<u>0.0037840%</u>	
Proportionate share of the Net Pension Liability	\$13,361,964	\$59,719,248	\$ 73,081,212
Pension Expense	\$1,695,608	\$4,734,448	\$6,430,056

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<b>Deferred Outflows of Resources</b>			
Differences between expected and actual experience	\$180,221	\$2,412,944	\$2,593,165
Changes of assumptions	891,985	0	891,985
Net difference between projected and actual earnings on pension plan investments	1,102,169	4,958,304	6,060,473
Changes in proportion and differences between School District contributions and proportionate share of contributions	689,382	1,222,037	1,911,419
School District contributions subsequent to the measurement date	<u>792,242</u>	<u>2,764,874</u>	<u>3,557,116</u>
Total Deferred Outflows of Resources	<u>\$3,655,999</u>	<u>\$11,358,159</u>	<u>\$15,014,158</u>
<b>Deferred Inflows of Resources</b>			
Changes in proportion and differences between School District contributions and proportionate share of contributions	<u>\$86,541</u>	<u>\$0</u>	<u>\$86,541</u>

\$3,557,116 reported as deferred outflows of resources related to pension resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2018.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
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 (CONTINUED)**

NOTE 17: **DEFINED BENEFIT PENSION PLANS** (Continued)

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

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Fiscal Year Ending June 30:	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
2018	\$ 855,726	\$ 1,502,881	\$ 2,358,607
2019	854,933	1,502,882	2,357,815
2020	749,729	3,405,521	4,155,250
2021	316,828	2,182,001	2,498,829
Total	<u>\$ 2,777,216</u>	<u>\$ 8,593,285</u>	<u>\$ 11,370,501</u>

***Actuarial Assumptions – SERS***

SERS’ total pension liability was determined by their actuaries in accordance with GASB Statement No. 67 as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

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

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



**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
 CUYAHOGA COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
 (CONTINUED)**

NOTE 17: **DEFINED BENEFIT PENSION PLANS** (Continued)

*Actuarial Assumptions – SERS* (Continued)

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2016, are presented below:

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

The RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, 120% of male rates and 110% of female rates is used to evaluate allowances to be paid. The RP-2000 Disabled Mortality Table with 90% for male rates and 100% for female rates set back five years is used for the period after disability retirement.

The most recent experience study was completed June 30, 2015.

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	1.00 %	0.00 %
US Stocks	22.50	4.75
Non-US Stocks	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	10.00	3.00
Total	<u>100.00 %</u>	

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

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
 CUYAHOGA COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
 (CONTINUED)**

NOTE 17: **DEFINED BENEFIT PENSION PLANS** (Continued)

*Actuarial Assumptions – SERS* (Continued)

Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

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

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
School District's proportionate share of the net pension liability	\$17,690,407	\$13,361,964	\$9,738,876

*Actuarial Assumptions – STRS*

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

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

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males’ ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

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

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
 CUYAHOGA COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
 (CONTINUED)**

NOTE 17: **DEFINED BENEFIT PENSION PLANS** (Continued)

*Actuarial Assumptions – STRS* (Continued)

The 10 year expected real rate of return on pension plan investments was determined by STRS' investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	<u>1.00</u>	3.00
Total	<u>100.00 %</u>	

**Discount Rate** – The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2016. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2016.

**Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** – The following table presents the School District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent) or one percentage point higher (8.75 percent) than the current rate:

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
 CUYAHOGA COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
 (CONTINUED)**

NOTE 17: **DEFINED BENEFIT PENSION PLANS** (Continued)

*Actuarial Assumptions – STRS* (Continued)

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$79,362,031	\$59,719,248	\$43,149,407

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

NOTE 18: **POST-EMPLOYMENT BENEFITS**

*School Employees Retirement System*

**Plan Description** – In addition to a cost-sharing multiple-employer defined benefit pension plan described in Note 17, the School Employees Retirement System (SERS) administers two postemployment benefit plans.

**Health Care Plan** – Sections 3309.375 and 3309.69 of the Ohio Revised Code permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMOs, PPOs, Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The Ohio Revised Code provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plan.

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer 14% contribution to the Health Care Fund in accordance with the funding policy. For the year ended June 30, 2017, the health care allocation is 0.00%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. By statute no employer shall pay a health care surcharge greater than 2.0% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2017, the minimum compensation level was established at \$23,500.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(CONTINUED)**

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NOTE 18: **POST-EMPLOYMENT BENEFITS** (Continued)

*School Employees Retirement System* (Continued)

The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The School District's contributions for health care for the fiscal years ended June 30, 2017, 2016, and 2015, were \$97,449, \$93,449, and \$45,842, respectively. For fiscal year 2017, the full amount is reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2016 and 2015.

*State Teachers Retirement System*

**Plan Description** – STRS Ohio administers a pension plan that is comprised of a Defined Benefit Plan; a self-directed Defined Contribution Plan, and a Combined Plan that is a hybrid of the Defined Benefit Plan and the Defined Contribution Plan.

Ohio law authorizes STRS Ohio to offer a cost-sharing, multiple employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the Defined Benefit or Combined Plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums.

Pursuant to Chapter 3307 of the Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium.

STRS Ohio issues a stand-alone financial report. Interested parties can view the most recent *Comprehensive Annual Financial Report* by visiting [www.strsoh.org](http://www.strsoh.org) or by requesting a copy by calling toll-free 1-888-227-7877.

**Funding Policy** – Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14.00 percent employer contribution rate, no allocation was made to post-employment health care for the years ended June 30, 2017, June 30, 2016, and June 30, 2015. The 14.00 percent employer contribution rate is the maximum rate established under Ohio law.

NOTE 19: **OTHER EMPLOYEE BENEFITS**

*Compensated Absences*

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

**Vacation Leave** - Classified employees accumulate vacation leave depending upon length of service. Vacation days are credited to classified employees each July 1<sup>st</sup> of the contract year. Accumulated unused vacation time is paid to classified employees upon termination of employment with some restrictions. Teachers do not earn vacation time.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(CONTINUED)**

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NOTE 19: **OTHER EMPLOYEE BENEFITS** (Continued)

*Compensated Absences* (Continued)

**Sick Leave** - Each professional staff member is entitled to fifteen (15) days sick leave with pay for each year under contract. The sick leave accrues at the rate of one and one fourth (1 1/4) days for each calendar month under contract. An employee is paid a severance benefit in accordance with negotiated agreement not to exceed 77 days, calculated at current wage per diem rates, upon retirement.

**Personal Leave** - All employees are entitled to three days of personal leave, with pay, each school year. The three days of personal leave cannot be carried forward into the next fiscal year. Unused personal leave rolls over to sick leave in the next fiscal year.

*Life Insurance Benefits*

The School District provides life insurance and accidental death and dismemberment insurance to most employees through Ohio Schools' Council. Coverage is \$10,000 for part-time classified employees, \$20,000 for full time classified employees, and \$50,000 for the certified qualified and exempt staff not including administrators whose life insurance amounts are based on their salary.

*Health Insurance Benefits*

The School District provides employee medical, prescription drug, dental, and vision insurance through Medical Mutual of Ohio. Certified qualified, exempt and administrative employees contribute ten percent of their monthly premium, and classified employees contribute eleven percent of their monthly premium. The insurance plans include no deductibles for network family or single coverage, with the exception of \$50 for emergency room services.

*Retirement Incentive*

**Certified Employees** - Any bargaining unit member who first becomes eligible for retirement during a school year, as defined below, accrues the right to an additional 100 days of severance pay at a per diem rate of \$350 if they actually retire between the end of the school year and July 10 of the school year in which the employee first becomes eligible. Any eligible employee who wishes to participate in this incentive must elect to participate by providing written notice to the Superintendent's office prior to March 1<sup>st</sup> of the school year in which they retire. A bargaining unit member shall be eligible for this incentive to retire when they first meet any one of the following three criteria as defined by State Teachers Retirement System's criteria for retirement eligibility:

1. Any age with 30 or more years of service credit; or
2. Age 55 or older with 25 or more years of service credit; or
3. Age 60 or older with five or more years of service credit.

Half payment will be made in one lump sum within sixty days after proof of retirement, and half deferred to July 1<sup>st</sup> after the calendar year in which they retire.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(CONTINUED)**

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NOTE 19: **OTHER EMPLOYEE BENEFITS** (Continued)

*Retirement Incentive* (Continued)

**Classified Employees** - A bargaining unit member shall be eligible for the Early Retirement Incentive Program on the date they become eligible under one of the School Employees Retirement System's criteria. This criteria is defined as:

1. At least five years of service for a pension at 60 or later;
2. At least 25 years of service to retire between 55 and 60; or
3. At least 30 years of service to retire at any age.

The first time a bargaining unit member becomes eligible to retire, they shall receive 100 percent of the retirement incentive amount if they elect to retire at that time as shown on the schedule. The second time a bargaining unit member becomes eligible to retire; they shall receive 50 percent of the retirement incentive amount if they elect to retire at that time.

If a bargaining unit member passes on the first two eligibility criterion, they will no longer be eligible for the incentive. The retirement incentive amounts are determined using the retired employee's current base salary for classification and years of service. Any eligible employee who wishes to participate in this incentive program must elect in writing stating they want to participate prior to the school year end in which they retire. This incentive will be payable in two payments on or near July 1<sup>st</sup> following their retirement date.

NOTE 20: **CONTINGENCIES**

*Grants*

The School District received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2017.

*School Foundation*

School District foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end. As of the date of this report, additional ODE adjustments for fiscal year 2017 have been finalized.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
 CUYAHOGA COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
 (CONTINUED)**

NOTE 20: **CONTINGENCIES** (Continued)

*Litigation*

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

NOTE 21: **SET-ASIDES**

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

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

	<u>Capital Improvements Reserve</u>
Set-Aside Balance as of June 30, 2016	\$ 197,867
Current Year Set-Aside Requirements	629,639
Qualifying Disbursements	(315,545)
Qualifying Offsets	(436,661)
Total	<u>\$ 75,300</u>
Set-Aside Balance Carried Forward to Future Fiscal Years	<u>\$ 75,300</u>
Set-Aside Balance as of June 30, 2017	<u>\$ 75,300</u>

NOTE 22: **ENCUMBRANCES**

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

	<u>Outstanding Encumbrances</u>
General Fund	\$ 256,108
Nonmajor governmental funds	136,538
	<u>\$ 392,646</u>



**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(CONTINUED)**

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**NOTE 23: TAX ABATEMENTS**

The City of Garfield Heights has entered into agreements with third parties that abate taxes otherwise payable to the District. The City provides tax abatements through Community Reinvestment Area programs. Pursuant to Ohio Revised Code Chapter 5709, the City established two Community Reinvestment Area Program districts targeting specific portions of the City for development and redevelopment. The City provides administrative approval of tax abatement for qualifying investments. For fiscal year 2017, the School District's value of the property taxes forgone amounted to \$1,178,113 (tax year 2015, collection year 2016) and \$1,273,230 (tax year 2016, collection year 2017).

## **REQUIRED SUPPLEMENTARY INFORMATION**

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
 CUYAHOGA COUNTY, OHIO  
 SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF  
 THE NET PENSION LIABILITY  
 SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO  
 LAST FOUR (1) FISCAL YEARS**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
School District's Proportion of the Net Pension Liability	0.1825635%	0.1846030%	0.1832370%	0.1559850%
School District's Proportionate Share of the Net Pension Liability	\$ 13,361,964	\$ 10,533,627	\$ 9,273,521	\$ 9,275,906
School District's Covered Payroll	\$ 5,650,514	\$ 5,590,463	\$ 5,326,335	\$ 4,540,715
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	236.47%	188.42%	174.11%	204.28%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	62.98%	69.16%	71.70%	65.52%

(1) Information prior to 2013 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

Amounts presented as of the School District's measurement date which is the prior fiscal period end.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
 CUYAHOGA COUNTY, OHIO  
 SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF  
 THE NET PENSION LIABILITY  
 STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO  
 LAST FOUR (1) FISCAL YEARS**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
School District's Proportion of the Net Pension Liability	0.17841013%	0.17462611%	0.17250775%	0.17250775%
School District's Proportionate Share of the Net Pension Liability	\$ 59,719,248	\$ 48,261,550	\$ 41,959,856	\$ 49,982,305
School District's Covered Payroll	\$ 18,973,843	\$ 18,250,150	\$ 17,812,092	\$ 16,590,738
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	314.75%	264.44%	235.57%	301.27%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.80%	72.10%	74.70%	69.30%

(1) Information prior to 2013 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

Amounts presented as of the School District's measurement date which is the prior fiscal period end.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
 CUYAHOGA COUNTY, OHIO  
 SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF DISTRICT CONTRIBUTIONS  
 SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO  
 LAST TEN FISCAL YEARS**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Contractually Required Contribution	\$ 792,242	\$ 791,072	\$ 736,823	\$ 738,230	\$ 628,435	\$ 666,775	\$ 793,957	\$ 1,038,457	\$ 732,534	\$ 700,081
Contributions in Relation to the Contractually Required Contribution	<u>(792,242)</u>	<u>(791,072)</u>	<u>(736,823)</u>	<u>(738,230)</u>	<u>(628,435)</u>	<u>(666,775)</u>	<u>(793,957)</u>	<u>(1,038,457)</u>	<u>(732,534)</u>	<u>(700,081)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School District Covered Payroll	\$ 5,658,871	\$ 5,650,514	\$ 5,590,463	\$ 5,326,335	\$ 4,540,715	\$ 4,957,435	\$ 6,316,285	\$ 7,669,549	\$ 7,444,451	\$ 7,129,134
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	13.18%	13.86%	13.84%	13.45%	12.57%	13.54%	9.84%	9.82%

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
 CUYAHOGA COUNTY, OHIO  
 SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF DISTRICT CONTRIBUTIONS  
 STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO  
 LAST TEN FISCAL YEARS**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Contractually Required Contribution	\$ 2,764,874	\$ 2,656,338	\$ 2,555,021	\$ 2,315,572	\$ 2,156,796	\$ 2,158,654	\$ 2,154,403	\$ 2,256,236	\$ 2,076,719	\$ 2,053,863
Contributions in Relation to the Contractually Required Contribution	<u>(2,764,874)</u>	<u>(2,656,338)</u>	<u>(2,555,021)</u>	<u>(2,315,572)</u>	<u>(2,156,796)</u>	<u>(2,158,654)</u>	<u>(2,154,403)</u>	<u>(2,256,236)</u>	<u>(2,076,719)</u>	<u>(2,053,863)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School District Covered Payroll	\$ 19,749,100	\$ 18,973,843	\$ 18,250,150	\$ 17,812,092	\$ 16,590,738	\$ 16,605,031	\$ 16,572,331	\$ 17,355,662	\$ 15,974,762	\$ 15,798,946
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	14.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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**SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO**

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014-2017.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2016. For fiscal year 2017, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) Rates of withdrawal, retirement and disability were updated to reflect recent experience, (e) mortality among active members was updated to RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females, (f) mortality among service retired members, and beneficiaries was updated to the following RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates and (g) mortality among disable member was updated to RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

**STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO**

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014-2017.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2017. See the notes to the basic financial statements for the methods and assumptions in this calculation.

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**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

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

<b>FEDERAL GRANTOR Pass Through Grantor Program / Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Federal Expenditures</b>	<b>Non-Cash Federal Expenditures</b>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
<i>Passed Through Ohio Department of Education</i>			
Child Nutrition Cluster:			
School Breakfast Program - 2017	10.553	\$ 433,485	\$ -
National School Lunch Program - 2017	10.555	976,198	118,094
Total Child Nutrition Cluster		<u>1,409,683</u>	<u>118,094</u>
Total U.S. Department of Agriculture		<u><b>1,409,683</b></u>	<u><b>118,094</b></u>
<b>U.S. DEPARTMENT OF EDUCATION</b>			
<i>Passed Through Ohio Department of Education</i>			
Title I Grants to Local Education Agencies - 2016	84.010	143,824	-
Title I Grants to Local Education Agencies - 2017	84.010	1,256,484	-
Total Title I Grants to Local Education Agencies		<u>1,400,308</u>	-
Special Education Cluster:			
Special Education Grants to States - 2016	84.027	26,933	-
Special Education Grants to States - 2017	84.027	1,016,386	-
Total Special Education Grants to States		<u>1,043,319</u>	-
Special Education Preschool Grants - 2017	84.173	35,364	-
Total Special Education Cluster		<u>1,078,683</u>	-
Supporting Effective Instruction State Grants - 2016	84.367	16,355	-
Supporting Effective Instruction State Grants - 2017	84.367	118,488	-
Total Improving Teacher Quality State Grants		<u>134,843</u>	-
Total U.S. Department of Education		<u><b>2,613,834</b></u>	-
<b>Total Expenditures of Federal Awards</b>		<u><b>\$ 4,023,517</b></u>	<u><b>\$ 118,094</b></u>

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

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

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

**NOTE A – BASIS OF PRESENTATION**

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

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

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

**NOTE C - CHILD NUTRITION CLUSTER**

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

**NOTE D – FOOD DONATION PROGRAM**

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



# Dave Yost • Auditor of State

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

Garfield Heights City School District  
Cuyahoga County  
5640 Briarcliff Drive  
Garfield Heights, Ohio 44125

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Garfield Heights City School District, Cuyahoga County, (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 26, 2018.

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

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

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

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

***Compliance and Other Matters***

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

***Purpose of this Report***

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

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

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

March 26, 2018



# Dave Yost • Auditor of State

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

Garfield Heights City School District  
Cuyahoga County  
5640 Briarcliff Drive  
Garfield Heights, Ohio 44125

To the Board of Education:

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

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

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

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

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

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

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

***Basis for Qualified Opinion on the Child Nutrition Cluster***

As described in finding 2017-001 in the accompanying schedule of findings , the District did not comply with requirements regarding Special Tests and Provisions – Paid Lunch Equity applicable to its Child Nutrition Cluster major federal program. Compliance with this requirement is necessary, in our opinion, for the District to comply with requirements applicable to this program.

***Qualified Opinion on the Child Nutrition Cluster***

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on the Child Nutrition Cluster* paragraph, the Garfield Heights City School District complied, in all material respects, with the requirements referred to above that could directly and materially affect its Child Nutrition Cluster for the year ended June 30, 2017.

***Unmodified Opinion on the Other Major Federal Programs***

In our opinion, the Garfield Heights City School District complied in all material respects with the requirements referred to above that could directly and materially affect each of its other major federal programs identified in the *Summary of Auditor's Results* section of the accompanying schedule of findings for the year ended June 30, 2017.

***Other Matter***

The District's response to our noncompliance finding is described in the accompanying schedule of findings and corrective action plan. We did not audit the District's response and, accordingly, we express no opinion on it.

***Report on Internal Control over Compliance***

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. Therefore, we cannot assure we have identified all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. However, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness, described in the accompanying schedule of findings as item 2017-001.

The District's response to our internal control over compliance finding is described in the accompanying schedule of findings and corrective action plan. We did not audit the District's response and, accordingly, we express no opinion on it.

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

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

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

March 26, 2018

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**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

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

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

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unmodified
<i>(d)(1)(ii)</i>	Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material weaknesses in internal control reported for major federal programs?	Yes
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Qualified on Child Nutrition Cluster, Unmodified on Special Education Cluster and Title I
<i>(d)(1)(vi)</i>	Are there any reportable findings under 2 CFR § 200.516(a)?	Yes
<i>(d)(1)(vii)</i>	Major Programs:	Child Nutrition Cluster – CFDA #10.553, 10.555  Title I – CFDA #84.010  Special Education Cluster – CFDA #84.027, 84.173
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 750,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee under 2 CFR §200.520?	No

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

None

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

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

<b>3. FINDING FOR FEDERAL AWARDS</b>
--------------------------------------

**Price Equity Calculation**

<b>Finding Number</b>	2017-001		
<b>CFDA Title and Number</b>	Child Nutrition Cluster – CFDA #10.553, 10.555		
<b>Federal Award Identification Number / Year</b>	2017		
<b>Federal Agency</b>	United States Department of Agriculture		
<b>Compliance Requirement</b>	Special Tests and Provisions – Paid Lunch Equity		
<b>Pass-Through Entity</b>	Ohio Department of Education		
<b>Repeat Finding from Prior Audit?</b>	Yes	<b>Finding Number (if repeat)</b>	2016-002

**Noncompliance and Material Weakness**

7 CFR 210.14(e) requires school food authorities (SFAs) participating in the National School Lunch Program to ensure sufficient funds are provided to the nonprofit school food service account for meals served to students not eligible for free or reduced price meals.

7 CFR 210.14(e) further states, each school food authority shall complete the following calculation procedures:

1. Determine the average price of paid lunches. The average shall be determined based on the total number of paid lunches claimed for the month of October in the previous school year, at each different price charged by the school food authority;
2. Calculate the difference between the per meal Federal reimbursement for paid and free lunches received by the school food authority in the previous school year (i.e., the reimbursement difference); and
3. Compare the average price of a paid lunch under paragraph (e)(1)(i) of this section to the difference between reimbursement rates under paragraph (e)(1)(ii) of this section.

When the SFA's average paid lunch price is less than the difference between the current free and paid Federal Reimbursement rates, the SFA would be noncompliant and therefore must determine how they will meet the requirements. This may be done by increasing their average paid lunch price or providing funds from non-federal sources.

The price equity calculation we completed showed the District needed to raise lunch prices for the 2016-2017 school year to meet the requisite weighted average price. The District did not complete this calculation for fiscal year 2017, and therefore did not know they were failing to meet the required price.

Failure to complete the price equity calculation annually resulted in the District charging a price below the difference between the current free and paid federal reimbursement rates.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

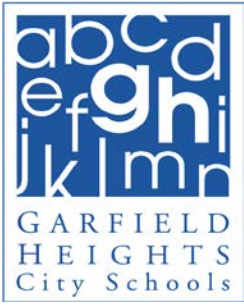
**SCHEDULE OF FINDINGS  
2 CFR § 200.515  
JUNE 30, 2017  
(Continued)**

<p><b>3. FINDING FOR FEDERAL AWARDS (Continued)</b></p>
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**Price Equity Calculation (Continued)**

The District should complete and maintain evidence that an annual review of their paid lunch equity has been performed, as required by the National School Lunch Program.

**Officials' Response:** The District obtained a waiver from the Ohio Department of Education for the 2017-2018 school year price equity determination to rectify this issue.



**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**2 CFR 200.511(b)**  
**JUNE 30, 2017**

<b>Finding Number</b>	<b>Finding Summary</b>	<b>Status</b>	<b>Additional Information</b>
2016-001	Excluded Parties List System	Corrective Action Taken and Finding is Fully Corrected	None
2016-002	Price Equity Calculation	Not Corrected	Re-Issued as Finding 2017-001

**Terrance Olszewski**  
 Superintendent of Schools

**Allen D. Sluka**  
 Treasurer/CFO/Business Services

**Board of Education**

**Gary Wolske**  
 President

**Christine A. Kitson**  
 Vice President

**Robert A. Dobies, Sr.**

**Joan Chamberlin**

**Joseph M. Juby**



**Board of Education Offices**  
 5640 Briarcliff Drive  
 Garfield Heights, Ohio 44125

Telephone: 216.475.8100  
 Facsimile: 216.475.1824



**CORRECTIVE ACTION PLAN**  
**2 CFR § 200.511(c)**  
**JUNE 30, 2017**

<b>Finding Number</b>	<b>Planned Corrective Action</b>	<b>Anticipated Correction Date</b>	<b>Responsible Contact Person</b>
2017-001	The District obtained a waiver from the Ohio Department of Education for the 2017-2018 school year price equity determination to rectify this issue.	Immediately	Allen Sluka, Treasurer

**Terrance Olszewski**  
 Superintendent of Schools

**Allen D. Sluka**  
 Treasurer/CFO/Business Services

**Board of Education**

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 President

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# Dave Yost • Auditor of State

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT**

**CUYAHOGA COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MARCH 29, 2018**