



Dave Yost • Auditor of State

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY
JUNE 30, 2017**

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PORTAGE COUNTY
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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

James A. Garfield Local School District
Portage County
10235 State Route 88
Garrettsville, Ohio 44231

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the James A. Garfield Local School District, Portage 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 District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the James A. Garfield Local School District, Portage County, Ohio, as of June 30, 2017, and the respective changes in financial position, 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 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 13, 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 "Y" and "O".

Dave Yost
Auditor of State
Columbus, Ohio

March 13, 2018

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**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

The management's discussion and analysis of the James A. Garfield Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2017. The intent of this discussion and analysis is to look at the 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 District's financial performance.

Financial Highlights

Key financial highlights for 2017 are as follows:

- The District's net position of governmental activities decreased \$1,204,139 which represents a 13.82% decrease from 2016.
- General revenues accounted for \$11,371,877 in revenue or 75.48% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$3,694,057 or 24.52% of total revenues of \$15,065,934.
- The District had \$16,270,073 in expenses related to governmental activities; \$3,694,057 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$11,371,877 were not adequate to provide for these programs.
- The District's major governmental fund is the general fund. The general fund had \$13,446,285 in revenues and other financing sources and \$13,998,303 in expenditures and other financing uses. During fiscal year 2017, the general fund's fund balance decreased \$552,018 from a balance of \$2,797,561 to \$2,245,543.

Using these Basic Financial Statements

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 District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The statement of net position and statement of activities provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the District, the general fund is by far the most significant fund, and the only governmental fund reported as a major fund.

Reporting the District as a Whole

Statement of Net Position and the Statement of Activities

While this document contains the large number of funds used by the 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 2017?" The statement of net position and the statement of activities answer this question. These statements include all assets, deferred outflows, liabilities, deferred inflows, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

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

In the statement of net position and the statement of activities, the governmental activities include the District's programs and services, including instruction, support services, operation of non-instructional services, and extracurricular activities.

The District's statement of net position and statement of activities can be found on pages 17-18 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps you to determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 19-23 of this report.

Reporting the District's Fiduciary Responsibilities

The District acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position on page 24. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 25-59 of this report.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's net pension liability. The required supplementary information can be found on pages 60-66 of this report.

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

The District as a Whole

The statement of net position provides the perspective of the District as a whole. The table below provides a summary of the District's net position for June 30, 2017 and June 30, 2016.

	Net Position	
	Governmental Activities 2017	Governmental Activities 2016
<u>Assets</u>		
Current and other assets	\$ 8,466,934	\$ 8,869,673
Capital assets, net	<u>10,540,961</u>	<u>10,313,058</u>
Total assets	<u>19,007,895</u>	<u>19,182,731</u>
<u>Deferred outflows of resources</u>		
Unamortized deferred charges on debt refunding	-	72,810
Pensions	<u>4,334,810</u>	<u>1,807,562</u>
Total deferred outflows of resources	<u>4,334,810</u>	<u>1,880,372</u>
<u>Liabilities</u>		
Current liabilities	1,808,978	1,627,371
Long-term liabilities:		
Due within one year	593,341	431,206
Due in more than one year:		
Net pension liability	22,487,152	18,249,687
Other amounts	<u>4,023,144</u>	<u>4,023,916</u>
Total liabilities	<u>28,912,615</u>	<u>24,332,180</u>
<u>Deferred inflows of resources</u>		
Property taxes levied for next fiscal year	3,752,557	3,669,157
Unamortized deferred charges on debt refunding	39,329	-
Pensions	<u>555,286</u>	<u>1,774,709</u>
Total deferred inflows of resources	<u>4,347,172</u>	<u>5,443,866</u>
<u>Net position</u>		
Net investment in capital assets	6,826,033	6,760,869
Restricted	464,871	446,098
Unrestricted (deficit)	<u>(17,207,986)</u>	<u>(15,919,910)</u>
Total net position	<u>\$ (9,917,082)</u>	<u>\$ (8,712,943)</u>

During 2015, the District adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27" and GASB Statement 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement 68," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the 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.

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

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 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 standards required by GASB 68, the net pension liability equals the 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 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.

In accordance with GASB 68, the 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.

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2017, the District's liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$9,917,082. Of this total, \$464,871 is restricted in use.

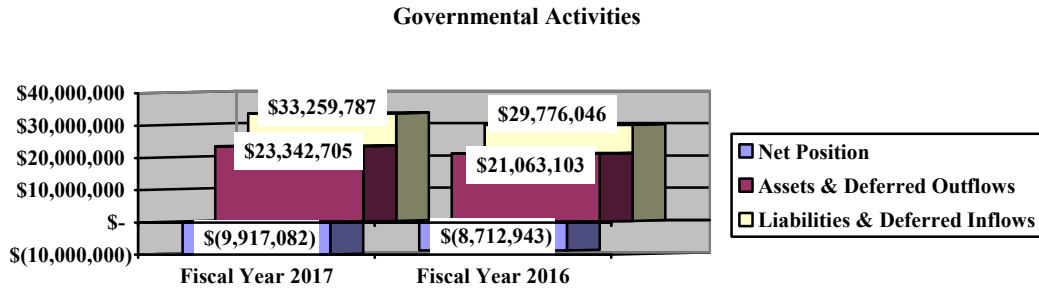
**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

At year-end, capital assets represented 55.46% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture, fixtures and equipment, and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2017, were \$6,826,033. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net position, \$464,871, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position was a deficit of \$17,207,986. The deficit balance in unrestricted net position was the result of reporting the net pension liability required by GASB 68.

The graph below illustrates the District's governmental activities assets plus deferred outflows, liabilities plus deferred inflows and net position at June 30, 2017 and 2016.



The table below shows the changes in net position for governmental activities between 2017 and 2016.

Change in Net Position

	Governmental Activities 2017	Governmental Activities 2016
Revenues		
Program revenues:		
Charges for services and sales	\$ 2,107,938	\$ 1,833,652
Operating grants and contributions	1,481,657	1,604,511
Capital grants and contributions	104,462	-
General revenues:		
Property taxes	4,542,511	4,881,827
Unrestricted grants and entitlements	6,768,997	6,912,936
Investment earnings	31,429	13,571
Miscellaneous	28,940	24,454
Total revenues	\$ 15,065,934	\$ 15,270,951

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

	Change in Net Position	
	Governmental Activities 2017	Governmental Activities 2016
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 7,908,605	\$ 6,621,629
Special	1,967,400	1,546,946
Other	3,254	-
Support services:		
Pupil	834,435	657,279
Instructional staff	221,147	203,411
Board of education	36,124	37,026
Administration	1,308,448	1,220,353
Fiscal	405,507	342,685
Business	11,513	5,460
Operations and maintenance	1,218,671	1,121,058
Pupil transportation	928,856	846,566
Central	31,909	34,800
Operations of non-instructional services:		
Food service operations	685,171	656,272
Other non-instructional services	29,284	29,089
Extracurricular activities	519,308	477,158
Interest and fiscal charges	160,441	140,726
Total expenses	<u>16,270,073</u>	<u>13,940,458</u>
Change in net position	(1,204,139)	1,330,493
Net position at beginning of year	<u>(8,712,943)</u>	<u>(10,043,436)</u>
Net position at end of year	<u>\$ (9,917,082)</u>	<u>\$ (8,712,943)</u>

Governmental Activities

Net position of the District's governmental activities decreased \$1,204,139. Total governmental expenses of \$16,270,073 were offset by program revenues of \$3,694,057 and general revenues of \$11,371,877. Program revenues supported 22.70% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes and unrestricted grants and entitlements. These revenue sources represent 75.08% of total governmental revenue.

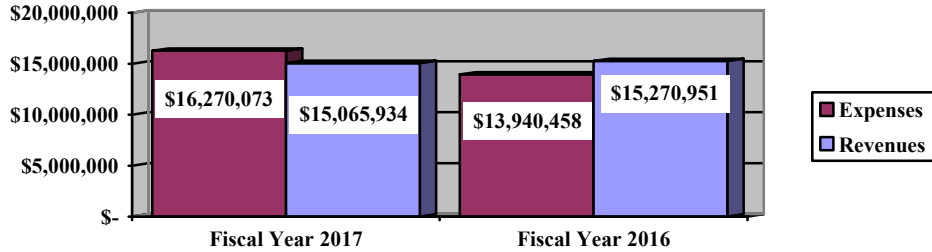
The largest expense of the District is for instructional programs. Instruction expenses totaled \$9,879,259 or 60.72% of total governmental expenses for fiscal 2017.

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2017 and 2016.

Governmental Activities - Revenues and Expenses



The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table 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 grants and entitlements. The following is a comparison of 2017 and 2016.

Governmental Activities

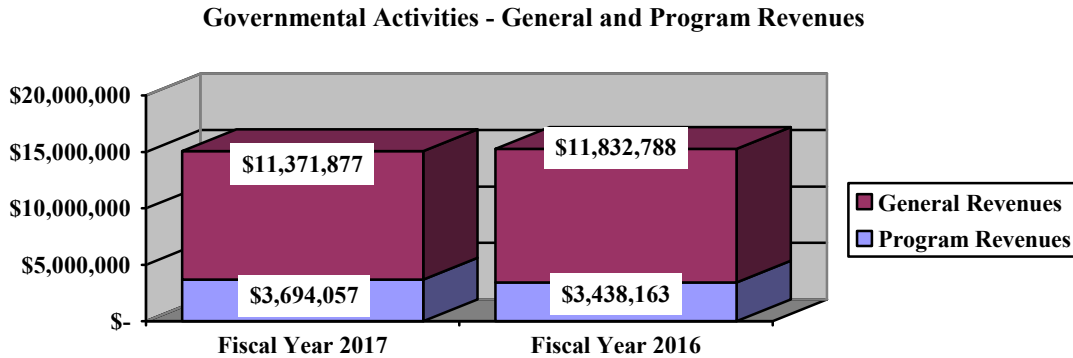
	Total Cost of Services 2017	Net Cost of Services 2017	Total Cost of Services 2016	Net Cost of Services 2016
Program expenses				
Instruction:				
Regular	\$ 7,908,605	\$ 6,367,941	\$ 6,621,629	\$ 5,164,795
Special	1,967,400	802,605	1,546,946	466,664
Other	3,254	3,254	-	-
Support services:				
Pupil	834,435	834,435	657,279	651,603
Instructional staff	221,147	220,154	203,411	200,295
Board of education	36,124	36,124	37,026	37,026
Administration	1,308,448	1,238,460	1,220,353	1,170,124
Fiscal	405,507	381,220	342,685	342,685
Business	11,513	11,513	5,460	5,460
Operations and maintenance	1,218,671	1,112,527	1,121,058	1,118,720
Pupil transportation	928,856	902,689	846,566	805,868
Central	31,909	21,679	34,800	9,304
Operations of non-instructional services:				
Food service operations	685,171	98,056	656,272	14,385
Other non-instructional services	29,284	5,037	29,089	2,333
Extracurricular activities	519,308	379,881	477,158	372,307
Interest and fiscal charges	160,441	160,441	140,726	140,726
Total expenses	<u>\$ 16,270,073</u>	<u>\$ 12,576,016</u>	<u>\$ 13,940,458</u>	<u>\$ 10,502,295</u>

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

The dependence upon tax and other general revenues for governmental activities is apparent, 72.62% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 77.30% and 75.34% for fiscal years 2017 and 2016, respectively. The District's taxpayers and unrestricted grants from the State are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal year 2017 and 2016.



The District's Funds

The District's governmental funds reported a combined fund balance of \$2,668,405, which is less than last year's balance of \$3,142,007. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2017 and 2016.

	Fund Balance <u>June 30, 2017</u>	Fund Balance <u>June 30, 2016</u>	<u>Change</u>	Percentage <u>Change</u>
General	\$ 2,245,543	\$ 2,797,561	\$ (552,018)	(19.73) %
Other Governmental	<u>422,862</u>	<u>344,446</u>	<u>78,416</u>	22.77 %
Total	<u>\$ 2,668,405</u>	<u>\$ 3,142,007</u>	<u>\$ (473,602)</u>	(15.07) %

General Fund

The District's general fund balance decreased \$552,018. The table that follows assists in illustrating the financial activities of the general fund.

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

	2017 <u>Amount</u>	2016 <u>Amount</u>	Increase <u>(Decrease)</u>	Percentage <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 4,200,763	\$ 4,486,580	\$ (285,817)	(6.37) %
Tuition	1,615,725	1,388,724	227,001	16.35 %
Earnings on investments	31,429	13,571	17,858	131.59 %
Intergovernmental	7,384,498	7,561,198	(176,700)	(2.34) %
Other revenues	<u>119,047</u>	<u>101,807</u>	<u>17,240</u>	16.93 %
Total	<u>\$ 13,351,462</u>	<u>\$ 13,551,880</u>	<u>\$ (200,418)</u>	(1.48) %
<u>Expenditures</u>				
Instruction	\$ 8,660,482	\$ 7,546,403	\$ 1,114,079	14.76 %
Support services	4,797,257	4,340,662	456,595	10.52 %
Non-instructional services	-	5,786	(5,786)	(100.00) %
Extracurricular activities	397,445	395,950	1,495	0.38 %
Capital outlay	70,450	-	70,450	100.00 %
Debt service	<u>24,875</u>	<u>42,450</u>	<u>(17,575)</u>	(41.40) %
Total	<u>\$ 13,950,509</u>	<u>\$ 12,331,251</u>	<u>\$ 1,619,258</u>	13.13 %

Tax revenue decreased \$285,817 or 6.37% from fiscal year 2016. Tuition revenue increased \$277,001 or 16.35% from fiscal year 2016 due to greater revenue from open enrollment. Intergovernmental revenue decreased \$176,700 or 2.34% from fiscal year 2016 due to less revenue received from the State. Overall, revenue decreased \$200,418 or 1.48% from fiscal year 2016. Instructional expenditures increased \$1,114,079 or 14.76% from fiscal year 2016. Support services expenditures increased \$456,595 or 10.52% from fiscal year 2016. These increases are mainly due to customary wage and benefit increases. Overall, expenditures increased \$1,619,258 or 13.13% from fiscal year 2016.

General Fund Budgeting Highlights

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

During the course of fiscal year 2017, the District amended its general fund budget a few times. For the general fund, original budgeted revenues and other financing sources were \$13,016,295 and final budgeted revenues and other financing sources were \$13,443,153. Actual revenues and other financing sources for fiscal 2017 were \$13,338,309. This represents a \$104,844 decrease from final budgeted revenues and other financing sources.

General fund original appropriations (appropriated expenditures including other financing uses) of \$13,255,845 were increased to \$14,334,856 in the final appropriations. The actual budget basis expenditures and other financing uses for fiscal year 2017 totaled \$13,977,252, which was \$357,604 below the final budget appropriations.

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2017, the District had \$10,540,961 invested in land, land improvements, buildings and improvements, furniture, fixtures and equipment, and vehicles. This entire amount is reported in governmental activities.

**Capital Assets at June 30
(Net of Depreciation)**

	Governmental Activities	
	2017	2016
Land	\$ 137,302	\$ 137,302
Land improvements	55,584	-
Building and improvements	9,664,048	9,526,387
Furniture, fixtures and equipment	421,687	368,516
Vehicles	262,340	280,853
Total	<u>\$ 10,540,961</u>	<u>\$ 10,313,058</u>

The overall increase in capital assets of \$227,903 is due to capital outlays of \$682,759 being greater than depreciation expense of \$442,365 and disposals of \$12,491 (net of accumulated depreciation) in the current fiscal year.

See Note 8 to the basic financial statements for additional information on the District's capital assets.

Debt Administration

At June 30, 2017, the District had \$3,165,000 in general obligation bonds, \$520,000 in lease purchase obligations and \$56,530 in capital lease obligations outstanding. Of the total obligations, \$487,051 is due within one year and \$3,254,479 is due in more than one year. The following table summarizes the debt outstanding.

Outstanding Debt, at Year End

	Governmental Activities	
	2017	2016
General obligation bonds	\$ 3,165,000	\$ 3,495,000
Lease purchase obligation	520,000	-
Capital lease obligations	56,530	3,514
Total	<u>\$ 3,741,530</u>	<u>\$ 3,498,514</u>

See Note 10 to the basic financial statements for additional information on the District's debt administration.

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

Current Financial Related Activities

The Board of Education and administration closely monitor revenue and expenditures in accordance with the financial forecast. The District has communicated to its community the reliance upon their support for its operations, and that it will continue to work diligently to plan expenses, staying carefully within the District's five-year financial plan.

The Board resolved to maintain a minimum general fund cash balance equivalent to at least 10% of the prior year general fund operating expenses. The budget reserve calculation for FY 2017 based on FY 2016 expenditures is calculated as follows: FY 2016 line 4.50 total expenses - \$12,410,204, 10% - \$1,241,020. Per the May 2017 five year forecast submission, the District ending balance will fall below this threshold in FY 2019.

The current five (5) year emergency levy expires at the end of calendar year 2019. The District has not asked for new funds since November 2004, but given the cash flow circumstances noted below, the District will begin levy planning for a request for new funds. In addition, the current association contracts expire on June 30, 2018. The District anticipates negotiations will begin early calendar year 2018.

Five Year Forecast - Simplified Statement	Fiscal Year 2017	Fiscal Year 2018	Fiscal Year 2019	Fiscal Year 2020	Fiscal Year 2021
Beginning Balance	3,293,021	2,678,099	1,489,106	101,866	(1,787,863)
+ Revenue	14,217,055	14,115,664	14,168,724	13,260,820	12,418,673
+ Proposed Renew/Replacement Levies	-	-	-	440,644	881,237
+ Proposed New Levies	-	-	-	-	-
- Expenditures	(14,831,977)	(15,304,657)	(15,555,964)	(15,591,193)	(15,305,896)
= Revenue Surplus or Deficit	(614,922)	(1,188,993)	(1,387,240)	(1,889,729)	(2,005,986)
Ending Balance	2,678,099	1,489,106	101,866	(1,787,863)	(3,793,849)
Revenue Surplus or Deficit w/o Levies	(614,922)	(1,188,993)	(1,387,240)	(2,330,373)	(2,887,222)
Ending Balance w/o Levies	2,678,099	1,489,106	101,866	(2,228,507)	(5,115,730)

The District was awarded a \$5,000,000 Straight A Grant from the State of Ohio in December 2013. The grant, themed the Campus of Excellence, specified an addition to the elementary school to house fifth and sixth grade students, technology upgrades including a 1:1 chromebook program for grades 7 to 12, and developing new community partners to repurpose the former intermediate school building. All three targets were met for the start of the 2014/2015 school year. The 2016/2017 school year was the third year of the initiative and the District continues to look for ways to expand the program. The District continues to partner with the Greater Cleveland YMCA to offer programs in the former intermediate school building.

In conclusion, the budgeting and internal controls utilized by the District are well regarded. The District is committed to living within its financial means, and working with the community it serves in order to garner adequate resources to support a quality educational program.

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)**

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact: Ms. Tracy Knauer, Treasurer, James A. Garfield Local School District, 10235 State Route 88, Garrettsville, Ohio 44231.

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

STATEMENT OF NET POSITION
JUNE 30, 2017

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 3,396,167
Receivables:	
Taxes	4,740,790
Accounts.	518
Intergovernmental	235,497
Prepayments	50,391
Materials and supplies inventory.	36,596
Inventory held for resale.	6,975
Capital assets:	
Nondepreciable capital assets	137,302
Depreciable capital assets, net.	10,403,659
Capital assets, net	10,540,961
Total assets.	19,007,895
Deferred outflows of resources:	
Pension - STRS	3,094,149
Pension - SERS	1,240,661
Total deferred outflows of resources	4,334,810
Liabilities:	
Accounts payable.	88,391
Accrued wages and benefits payable.	1,419,872
Compensated absences payable.	13,416
Retirement incentive payable.	25,606
Intergovernmental payable	42,468
Pension & postemployment obligation payable	210,946
Accrued interest payable	5,137
Unearned revenue	3,142
Long-term liabilities:	
Due within one year.	593,341
Due in more than one year:	
Net pension liability.	22,487,152
Other amounts due in more than one year	4,023,144
Total liabilities	28,912,615
Deferred inflows of resources:	
Property taxes levied for the next fiscal year.	3,752,557
Unamortized deferred charges on debt refunding	39,329
Pension - STRS.	436,619
Pension - SERS.	118,667
Total deferred inflows of resources	4,347,172
Net position:	
Net investment in capital assets	6,826,033
Restricted for:	
Capital projects	104,462
Debt service.	286,129
Locally funded programs	2,000
Student activities	39,642
Other purposes	32,638
Unrestricted (deficit)	(17,207,986)
Total net position.	\$ (9,917,082)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

		Program Revenues				Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
Governmental activities:						
Instruction:						
Regular	\$ 7,908,605	\$ 1,483,644	\$ 57,020	\$ -		\$ (6,367,941)
Special	1,967,400	173,469	991,326	-		(802,605)
Other	3,254	-	-	-		(3,254)
Support services:						
Pupil	834,435	-	-	-		(834,435)
Instructional staff	221,147	-	993	-		(220,154)
Board of education	36,124	-	-	-		(36,124)
Administration	1,308,448	21,832	48,156	-		(1,238,460)
Fiscal	405,507	-	24,287	-		(381,220)
Business	11,513	-	-	-		(11,513)
Operations and maintenance	1,218,671	1,682	-	104,462		(1,112,527)
Pupil transportation	928,856	2,620	23,547	-		(902,689)
Central	31,909	10,230	-	-		(21,679)
Operation of non-instructional services:						
Food service operations	685,171	275,034	312,081	-		(98,056)
Other non-instructional services	29,284	-	24,247	-		(5,037)
Extracurricular activities	519,308	139,427	-	-		(379,881)
Interest and fiscal charges	160,441	-	-	-		(160,441)
Total governmental activities	\$ 16,270,073	\$ 2,107,938	\$ 1,481,657	\$ 104,462		(12,576,016)
General revenues:						
Property taxes levied for:						
General purposes						4,164,263
Debt service						378,248
Grants and entitlements not restricted						
to specific programs						6,768,997
Investment earnings						31,429
Miscellaneous						28,940
Total general revenues						11,371,877
Change in net position						(1,204,139)
Net position at beginning of year						(8,712,943)
Net position at end of year						\$ (9,917,082)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash and cash equivalents	\$ 2,947,588	\$ 448,579	\$ 3,396,167
Receivables:			
Taxes	4,355,003	385,787	4,740,790
Accounts	518	-	518
Intergovernmental	89,290	146,207	235,497
Prepayments	48,683	1,708	50,391
Materials and supplies inventory	34,975	1,621	36,596
Inventory held for resale	-	6,975	6,975
Due from other funds	74,349	-	74,349
Total assets	<u>\$ 7,550,406</u>	<u>\$ 990,877</u>	<u>\$ 8,541,283</u>
Liabilities:			
Accounts payable	\$ 87,789	\$ 602	\$ 88,391
Accrued wages and benefits payable	1,295,039	124,833	1,419,872
Compensated absences payable	13,416	-	13,416
Retirement incentive payable	15,000	10,606	25,606
Intergovernmental payable	41,004	1,464	42,468
Pension & postemployment obligation payable	210,946	-	210,946
Due to other funds	-	74,349	74,349
Unearned revenue	3,142	-	3,142
Total liabilities	<u>1,666,336</u>	<u>211,854</u>	<u>1,878,190</u>
Deferred inflows of resources:			
Property taxes levied for the next fiscal year	3,453,818	298,739	3,752,557
Delinquent property tax revenue not available	135,251	13,068	148,319
Intergovernmental revenue not available	49,458	44,354	93,812
Total deferred inflows of resources	<u>3,638,527</u>	<u>356,161</u>	<u>3,994,688</u>
Fund balances:			
Nonspendable:			
Materials and supplies inventory	34,975	1,621	36,596
Prepays	48,683	1,708	50,391
Restricted:			
Debt service	-	277,288	277,288
Capital improvements	-	170,393	170,393
Extracurricular activities	-	39,642	39,642
Other purposes	-	34,638	34,638
Committed:			
Other purposes	11,000	-	11,000
Assigned:			
Student instruction	102,626	-	102,626
Student and staff support	82,419	-	82,419
Extracurricular activities	467	-	467
Subsequent year's appropriations	1,306,777	-	1,306,777
Other purposes	77,337	-	77,337
Unassigned (deficit)	<u>581,259</u>	<u>(102,428)</u>	<u>478,831</u>
Total fund balances	<u>2,245,543</u>	<u>422,862</u>	<u>2,668,405</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 7,550,406</u>	<u>\$ 990,877</u>	<u>\$ 8,541,283</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2017

Total governmental fund balances		\$	2,668,405
<i>Amounts reported for governmental activities on the statement of net position are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			10,540,961
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows in the funds.			
Property taxes receivable	\$	148,319	
Intergovernmental receivable		93,812	
Total		<u>242,131</u>	242,131
Unamortized amounts on refundings are not recognized in the funds.			(39,329)
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.			(5,137)
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		4,334,810	
Deferred inflows - pension		(555,286)	
Net pension liability		<u>(22,487,152)</u>	
Total			(18,707,628)
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		(3,165,000)	
Capital lease obligations		(56,530)	
Compensated absences		(874,955)	
Lease purchase agreement		<u>(520,000)</u>	
Total			<u>(4,616,485)</u>
Net position of governmental activities		\$	<u>(9,917,082)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Taxes	\$ 4,200,763	\$ 383,243	\$ 4,584,006
Tuition	1,615,725	-	1,615,725
Transportation fees	2,620	-	2,620
Earnings on investments	31,429	133	31,562
Charges for services	-	272,833	272,833
Extracurricular	21,093	127,072	148,165
Classroom materials and fees	24,719	-	24,719
Other local revenues	70,615	131,777	202,392
Intergovernmental - intermediate	-	2,000	2,000
Intergovernmental - state	7,101,158	78,275	7,179,433
Intergovernmental - federal	283,340	919,796	1,203,136
Total revenues	<u>13,351,462</u>	<u>1,915,129</u>	<u>15,266,591</u>
Expenditures:			
Current:			
Instruction:			
Regular	7,246,414	83,493	7,329,907
Special	1,410,981	498,030	1,909,011
Other	3,087	-	3,087
Support services:			
Pupil	813,186	-	813,186
Instructional staff	201,368	1,145	202,513
Board of education	36,124	-	36,124
Administration	1,197,688	50,737	1,248,425
Fiscal	359,211	35,603	394,814
Business	11,513	-	11,513
Operations and maintenance	1,252,719	440,069	1,692,788
Pupil transportation	893,539	-	893,539
Central	31,909	-	31,909
Operation of non-instructional services:			
Food service operations	-	653,872	653,872
Other non-instructional services	-	29,284	29,284
Extracurricular activities	397,445	108,415	505,860
Capital outlay	70,450	-	70,450
Debt service:			
Principal retirement	17,434	330,000	347,434
Interest and fiscal charges	7,441	106,375	113,816
Issuance costs	-	67,484	67,484
Total expenditures	<u>13,950,509</u>	<u>2,404,507</u>	<u>16,355,016</u>
Excess of expenditures over revenues	<u>(599,047)</u>	<u>(489,378)</u>	<u>(1,088,425)</u>
Other financing sources (uses):			
Sale of refunding bonds	-	3,165,000	3,165,000
Sale of capital assets	24,373	-	24,373
Lease purchase transaction	-	520,000	520,000
Transfers in	-	47,794	47,794
Transfers (out)	(47,794)	-	(47,794)
Capital lease transaction	70,450	-	70,450
Payment to refunded bond escrow agent	-	(3,165,000)	(3,165,000)
Total other financing sources (uses)	<u>47,029</u>	<u>567,794</u>	<u>614,823</u>
Net change in fund balances	(552,018)	78,416	(473,602)
Fund balances at beginning of year	<u>2,797,561</u>	<u>344,446</u>	<u>3,142,007</u>
Fund balances at end of year	<u>\$ 2,245,543</u>	<u>\$ 422,862</u>	<u>\$ 2,668,405</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE 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

Net change in fund balances - total governmental funds	\$	(473,602)
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Capital asset additions	\$ 682,759	
Current year depreciation	(442,365)	
Total		240,394
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net position.		
		(12,491)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Property taxes	(41,495)	
Intergovernmental	(159,162)	
Total		(200,657)
Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net position.		
		347,434
Issuance of long-term obligations are recorded as other financing sources in the funds; however, in the statement of activities, they are not reported as other financing sources as they increase liabilities on the statement of net position.		
		(3,755,450)
Payment to refunded bond escrow agent for the retirement of bonds is an other financing use in the governmental funds but the payment reduces long-term liabilities on the statement of net position. Deferred charges related to bond refundings are amortized over the life of the issuance in the statement of activities. The following refunding transactions occurred during the year:		
Carrying amount of bonds refunded	3,218,675	
Deferred charges on refundings	(42,422)	
Total		3,176,253
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. The following items resulted in additional interest being reported in the statement of activities:		
Decrease in accrued interest payable	6,513	
Amortization of deferred charges	3,093	
Total		9,606
Contractually required pension contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows.		
		1,125,192
Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.		
		(1,615,986)
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		(44,832)
Change in net position of governmental activities	\$	(1,204,139)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 3,313,865	\$ 3,422,540	\$ 3,422,540	\$ -
Tuition.	1,585,781	1,637,785	1,618,777	(19,008)
Transportation fees.	2,537	2,620	2,620	-
Earnings on investments	30,984	32,000	31,429	(571)
Classroom materials and fees	1,452	1,500	361	(1,139)
Other local revenues	32,378	33,440	32,049	(1,391)
Intergovernmental - state	6,787,162	7,009,741	6,939,178	(70,563)
Intergovernmental - federal	272,654	281,595	281,595	-
Total revenues	<u>12,026,813</u>	<u>12,421,221</u>	<u>12,328,549</u>	<u>(92,672)</u>
Expenditures:				
Current:				
Instruction:				
Regular	6,760,690	7,311,002	7,192,467	118,535
Special.	1,424,770	1,540,744	1,512,654	28,090
Other.	7,287	7,880	3,087	4,793
Support services:				
Pupil.	756,700	818,295	804,121	14,174
Instructional staff	199,488	215,726	209,368	6,358
Board of education	34,376	37,174	36,192	982
Administration.	1,139,240	1,231,973	1,211,788	20,185
Fiscal	349,761	378,231	339,149	39,082
Business	14,788	15,992	15,711	281
Operations and maintenance.	1,263,700	1,366,564	1,282,784	83,780
Pupil transportation	857,355	927,142	891,871	35,271
Extracurricular activities.	356,579	385,604	380,884	4,720
Debt service:				
Interest and fiscal charges.	5,021	5,430	5,430	-
Total expenditures	<u>13,169,755</u>	<u>14,241,757</u>	<u>13,885,506</u>	<u>356,251</u>
Excess of expenditures over revenues.	<u>(1,142,942)</u>	<u>(1,820,536)</u>	<u>(1,556,957)</u>	<u>263,579</u>
Other financing sources (uses):				
Refund of prior year's expenditures	16,460	17,000	17,000	-
Refund of prior year's receipts.	(18)	(20)	(20)	-
Transfers in	906,279	936,000	924,455	(11,545)
Transfers (out).	(44,196)	(47,794)	(47,794)	-
Advances in.	42,537	43,932	43,932	-
Advances (out)	(41,876)	(45,285)	(43,932)	1,353
Sale of capital assets	24,206	25,000	24,373	(627)
Total other financing sources (uses)	<u>903,392</u>	<u>928,833</u>	<u>918,014</u>	<u>(10,819)</u>
Net change in fund balance	(239,550)	(891,703)	(638,943)	252,760
Fund balance at beginning of year	3,191,174	3,191,174	3,191,174	-
Prior year encumbrances appropriated	101,846	101,846	101,846	-
Fund balance at end of year	<u>\$ 3,053,470</u>	<u>\$ 2,401,317</u>	<u>\$ 2,654,077</u>	<u>\$ 252,760</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUND
JUNE 30, 2017

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 30,799
Total assets.	<u>\$ 30,799</u>
Liabilities:	
Due to students.	\$ 30,799
Total liabilities	<u>\$ 30,799</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The James A. Garfield Local School District (the "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 District serves an area of approximately fifty-six square miles in Portage County including the Village of Garrettsville and portions of the surrounding townships of Freedom, Nelson, Hiram and Charlestown.

The District operates under a locally elected five-member Board form of government and provides educational services as mandated by State and/or federal agencies. The Board controls the District's three instructional/support facilities staffed by 61 non-certified, 101 certified personnel and 10 administrators who provide services to 1,420 students and other community members.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (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.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units" and GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34". The reporting entity is composed of the primary government and component units. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's Governing Board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary government's financial statements incomplete or misleading. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government).

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The following organizations are described due to their relationship to the District:

The District is associated with the Stark Portage Area Computer Consortium, Portage County Schools Consortium, and Maplewood Career Center, which are defined as jointly governed organizations. Jointly governed organizations are governed by representatives from each of the governments that create the organizations, but there is no ongoing financial interest or responsibility by the participating governments. Information regarding these organizations is presented below.

JOINTLY GOVERNED ORGANIZATIONS

Stark Portage Area Computer Consortium (SPARCC)

SPARCC is a data consortium of 35 school districts. SPARCC was formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to the administrative and instructional functions among member districts. Each of the governments of these schools supports SPARCC based upon a per pupil charge, dependent upon the software package utilized. In the event of dissolution of the organization, all current members will share in net obligations or asset liquidations in a ratio proportionate to their last 12 months' financial contribution. SPARCC is governed by a Board of Directors consisting of superintendents of the member school districts. The degree of control exercised by any school district is limited to its representation on the Board. In accordance with GASB Statement No. 14, the District does not have any equity interest in SPARCC because a residual interest in the net resources of a joint venture upon dissolution is not equivalent to an equity interest.

Financial information can be obtained from the Treasurer for the Stark County Educational Service Center, who serves as fiscal agent, at 2100, 38th Street NW, Canton, Ohio 44709-2300.

Portage County School Consortium (the "Consortium")

Portage County School Consortium is an insurance group-purchasing consortium made up of 25 school districts in Columbiana, Portage and Mahoning Counties. All member districts pay an insurance premium directly to the Consortium. The District paid \$2,122,357 in the form of health care premiums to the Consortium for the current fiscal year.

Maplewood Career Center

The Maplewood Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of two representatives from each of the ten participating school districts' elected Boards, which possess its own budgeting and taxing authority. The jointly governed organization was formed for the purpose of providing vocational instruction to juniors and seniors in the participating districts. To obtain financial information, write to the Maplewood Career Center, Michelle Seckman, who serves as Treasurer, at 7075 State Route 88, Ravenna, Ohio 44266-9131.

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Fund Accounting

The 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 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, deferred outflows and liabilities and deferred inflows is reported as fund balance. The following are the District's major governmental funds:

General fund - The general fund is used to account for and report all financial resources not accounted for and reported in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

Other governmental funds of the District are used to account for (a) specific revenue sources that are restricted or committed to an expenditure for specified purposes other than debt service or capital projects and (b) financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

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 District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities.

C. Basis of Presentation and Measurement Focus

Government-wide Financial Statements - The statement of net position and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. 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 amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The government-wide financial statements are prepared using the economic resources measurement focus. All assets, deferred outflows, liabilities and deferred inflows associated with the operation of the District are included on the statement of net position.

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

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

Agency funds do not report a measurement focus as they do not report operations.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting.

Revenues - Exchange and Nonexchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Measurable means the amount of the transaction can be determined, and 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 District, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 6).

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

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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, student fees and rentals.

Deferred Outflows of Resources and Deferred Inflows of Resources - In addition to assets, the government-wide statement of net position will report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the District, see Note 13 for deferred outflows of resources related the District's net pension liability.

In addition to liabilities, both the government-wide statement of net position and the governmental fund financial statements 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 District, deferred inflows of resources include property taxes and unavailable revenue. Property 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 of resources 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 District unavailable revenue includes, but is not limited to, delinquent property taxes and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

See Note 13 for deferred inflows of resources related to the District's net pension liability. This deferred inflow of resources is only reported on the government-wide statement of net position. In addition, deferred inflows of resources include a deferred gain on debt refunding. A deferred gain 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.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The entitlement value of donated commodities used during the year is reported in the fund financial statements as intergovernmental revenue and an expenditure of food service operations. In addition, this amount is reported in the statement of activities as an expense with a like amount reported within the "operating grants and contributions" program revenue account.

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.

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

E. Budgetary Data

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the fund level for all funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

The amounts reported as the original budget revenue in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted revenue amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2017. The amounts reported as the original budgeted expenditure amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted expenditure amounts represent the final appropriation amounts passed by the Board during the year.

At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

F. Cash and Investments

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

During fiscal year 2017, investments were limited to investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices.

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

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

For fiscal year 2017, there were no limitations 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.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. 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 \$31,429, which includes \$4,475 assigned from other District funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the District's investment account at year end is provided in Note 4.

G. Inventory

On government-wide and fund financial statements, purchased inventories are presented at the lower of cost or market and donated commodities at their entitlement value. Inventories are recorded on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method.

Inventory consists of expendable supplies held for consumption, donated food and purchased food.

H. Capital Assets

General capital assets are those assets specifically related to governmental activities. 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. Donated capital assets are recorded at their acquisition values as of the date received. The District maintains a capitalization threshold of \$2,000. The 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 capitalized. It is the policy of the District to not capitalize interest costs incurred as part of construction.

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:

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

<u>Description</u>	Governmental Activities <u>Estimated Lives</u>
Land improvements	5 years
Buildings	30 - 50 years
Furniture fixtures and equipment	5 - 20 years
Vehicles	5 - 20 years

I. Interfund Balances

Payables resulting from workers' compensation liabilities and certain pension liabilities in the nonmajor governmental funds and amounts to cover negative cash balances are recorded as "due to other funds" and a corresponding receivable recorded as "due from other funds" in the general fund. These amounts are eliminated in the governmental activities column on the statement of net position.

J. Compensated Absences

The District reports compensated absences in accordance with the provisions of GASB No. 16, "Accounting for Compensated Absences". Vacation benefits are accrued as a liability as the benefits are earned if the employee's rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent it is probable that benefits will result in termination (severance) payments. The liability is an estimate based on the District's past experience of making termination (severance) payments.

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

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements.

K. Unamortized Bond Premium and Discount/Deferred Charge on Refunding

Bond premiums are deferred and amortized over the term of the bonds using the straight-line method, which approximates the effective interest method. Bond premiums are presented as an addition to the face amount of the bonds.

For bond refundings resulting in the defeasance of the debt reported in the government-wide financial statements, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense. This deferred charge on refunding is amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter, and is presented as a deferred outflow of resources or a deferred inflow of resources.

On the governmental fund financial statements, bond premiums and discounts are recognized in the current period. A reconciliation between the bonds face value and the amount reported on the statement of net position is presented in Note 10.A.

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

L. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the 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 classification includes amounts that cannot be spent because they are not in spendable form or legally 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 are placed on the use of resources that are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

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

Assigned - Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the District Board of Education, which includes giving the Treasurer the authority to constrain monies for intended purposes.

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 only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The District applies restricted resources first when expenditures are incurred for purposes for which restricted and unrestricted (committed, assigned, and unassigned) fund balance is 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.

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

M. Net Position

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net position component “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. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The amount restricted for other purposes represents amounts restricted for special trusts.

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

N. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the statement of net position and the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed. At fiscal year end, because prepayments are not available to finance future governmental fund expenditures, the fund balance is offset by a nonspendable amount equal to the carrying value of the asset on the fund financial statements.

O. Estimates

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

P. Stabilization Arrangement

The Board of Education has \$50,662 of unassigned fund balance in the general fund set aside to be used for budget stabilization. The Board has set aside these funds to cover emergency situations or when revenue shortages or budgetary imbalances arise. The budget stabilization arrangement may be removed by action of the Board of Education at any time.

Q. Interfund Activity

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 basic financial statements.

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

R. 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.

S. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2017.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2017, the District has implemented GASB Statement No. 77, "*Tax Abatement Disclosures*", GASB Statement No. 78, "*Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*", GASB Statement No. 80, "*Blending Requirements for Certain Component Units - An Amendment of GASB Statement No. 14*" and GASB Statement No. 82, "*Pension Issues - An Amendment of GASB Statements No. 67, No. 68 and No. 73*".

GASB Statement No. 77 requires governments that enter into tax abatement agreements to disclose certain information about the agreement. GASB Statement No. 77 also requires disclosures related to tax abatement agreements that have been entered into by other governments 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 establishes accounting and financial reporting standards for defined benefit pensions provided to the employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan (cost-sharing pension plan) that meets the criteria in paragraph 4 of Statement 68 and that (a) is not a state or local governmental pension plan, (b) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (c) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). The implementation of GASB Statement No. 78 did not have an effect on the financial statements of the District.

GASB Statement No. 80 improves the financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement applies to component units that are organized as not-for-profit corporations in which the primary government is the sole corporate member. The implementation of GASB Statement No. 80 did not have an effect on the financial statements of the District.

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

GASB Statement No. 82 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.

B. Deficit Fund Balances

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

<u>Nonmajor funds</u>	<u>Deficit</u>
Food service operations	\$ 50,234
Title VI-B	25,036
Title I	18,213
Improving teacher quality	5,616

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

NOTE 4 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the District into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the 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 of Education 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 may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, 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, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate note interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

A. Deposits with Financial Institutions

At June 30, 2017, the carrying amount of all District deposits was \$496,025, which is exclusive of STAR Ohio reported as an investment below. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2017, \$102,956 of the District's bank balance of \$873,141 was exposed to custodial risk as discussed below, while \$770,185 was covered by the FDIC.

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District. The District has no deposit policy for custodial credit risk beyond the requirements of State statute. 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 District to a successful claim by the FDIC.

B. Investments

As of June 30, 2017, the District had the following investments and maturities:

<u>Measurement/Investment type:</u>	<u>Measurement value</u>	<u>Investment Maturities 6 months or less</u>
Amortized cost:		
STAR Ohio	\$ 2,930,941	\$ 2,930,941

Interest Rate Risk: Interest rate risk arises as potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the District's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: STAR Ohio carries a rating of AAAM by Standard & Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard service rating.

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2017:

<u>Measurement/Investment type:</u>	<u>Measurement value</u>	<u>% of total</u>
Amortized cost:		
STAR Ohio	\$ 2,930,941	100.00%

C. Reconciliation of Cash and Investment to the Statement of Net Position

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net position as of June 30, 2017:

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

<u>Cash and investments per note</u>		
Carrying amount of deposits		\$ 496,025
Investments		<u>2,930,941</u>
 Total		 <u>\$ 3,426,966</u>
 <u>Cash and investments per statement of net position</u>		
Governmental activities		\$ 3,396,167
Agency fund		<u>30,799</u>
 Total		 <u>\$ 3,426,966</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A. Due to/from other funds at June 30, 2017 as reported on the fund financial statements, consist of the following:

<u>Due from other funds</u>	<u>Due to other funds</u>	<u>Amount</u>
General fund	Nonmajor governmental funds	\$ 74,349

The purpose of the due to/from other funds balance at June 30, 2017 is to show the liability of certain nonmajor governmental funds to the general fund for their portion of pension liabilities and to cover negative cash balances.

Due to/from other funds between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2017 are reported on the statement of net position.

- B. Interfund transfers for the year ended June 30, 2017, consisted of the following, as reported on the fund financial statements:

<u>Transfers from general fund to:</u>	<u>Amount</u>
Nonmajor governmental funds	\$ 47,794

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

All transfers made in fiscal year 2016 were in accordance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16. Transfers between governmental funds are eliminated for reporting on the government-wide financial statements.

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 6 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis while the District fiscal year runs from July through June. First half tax collections are received by the 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 property and public utility property. Real property tax revenues received in calendar year 2017 represent the collection of calendar year 2016 taxes. Real property taxes received in calendar year 2017 were levied after April 1, 2016, on the assessed values as of January 1, 2016, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Public utility property tax revenues received in calendar year 2017 represent the collection of calendar year 2016 taxes. Public utility real and personal property taxes received in calendar year 2017 became a lien on 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 is currently assessed at varying percentages of true value.

The District receives property taxes from Portage County. The County Auditor periodically advances to the 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 as an advance at June 30, 2017 was \$765,934 in the general fund and \$73,980 in the bond retirement fund, a nonmajor governmental fund. This amount is recorded as revenue. The amount available for advance at June 30, 2016 was \$786,385 in the general fund and \$82,290 in the bond retirement fund, a nonmajor governmental fund. The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and delinquent tangible personal 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.

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

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 6 - PROPERTY TAXES - (Continued)

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

	2016 Second Half Collections		2017 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 164,847,010	96.04	\$ 165,441,320	95.50
Public utility personal	<u>6,801,000</u>	<u>3.96</u>	<u>7,791,300</u>	<u>4.50</u>
Total	<u>\$ 171,648,010</u>	<u>100.00</u>	<u>\$ 173,232,620</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$ 65.33		\$ 65.07	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2017 consisted 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. A summary of the principal items of receivables reported on the statement of net position follows:

Governmental activities:	
Taxes	\$ 4,740,790
Accounts	518
Intergovernmental	<u>235,497</u>
Total	<u>\$ 4,976,805</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within subsequent years.

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 8 - CAPITAL ASSETS

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

	<u>Balance</u> <u>06/30/16</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>06/30/17</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 137,302	\$ -	\$ -	\$ 137,302
Total capital assets, not being depreciated	<u>137,302</u>	<u>-</u>	<u>-</u>	<u>137,302</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	286,374	59,073	(4,158)	341,289
Buildings and improvements	14,551,088	427,438	(2,071)	14,976,455
Furniture, fixtures and equipment	1,372,175	146,898	(278,245)	1,240,828
Vehicles	<u>1,108,567</u>	<u>49,350</u>	<u>(28,512)</u>	<u>1,129,405</u>
Total capital assets, being depreciated	<u>17,318,204</u>	<u>682,759</u>	<u>(312,986)</u>	<u>17,687,977</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(286,374)	(3,489)	4,158	(285,705)
Buildings and improvements	(5,024,701)	(289,615)	1,909	(5,312,407)
Furniture, fixtures and equipment	(1,003,659)	(85,636)	270,154	(819,141)
Vehicles	<u>(827,714)</u>	<u>(63,625)</u>	<u>24,274</u>	<u>(867,065)</u>
Total accumulated depreciation	<u>(7,142,448)</u>	<u>(442,365)</u>	<u>300,495</u>	<u>(7,284,318)</u>
Total capital assets being depreciated, net	<u>10,175,756</u>	<u>240,394</u>	<u>(12,491)</u>	<u>10,403,659</u>
Governmental activities capital assets, net	<u>\$ 10,313,058</u>	<u>\$ 240,394</u>	<u>\$ (12,491)</u>	<u>\$ 10,540,961</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 294,753
Special	6,901
<u>Support services:</u>	
Pupil	1,036
Instructional staff	10,758
Administration	21,173
Fiscal	396
Operations and maintenance	23,628
Pupil transportation	62,623
Extracurricular	3,522
Food service operations	<u>17,575</u>
Total depreciation expense	<u>\$ 442,365</u>

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 9 - CAPITALIZED LEASES - LESSEE DISCLOSURE

The District has entered into capitalized leases for copier equipment. These lease agreements met the criteria of a capital lease as defined by generally accepted accounting principles, which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

Capital assets consisting of office equipment have been capitalized in the amount of \$70,450. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability is recorded in the government-wide financial statements. Accumulated depreciation as of June 30, 2017 was \$14,677, leaving a current book value of \$55,773. Principal payments in fiscal year 2017 totaled \$17,434 paid by the general fund.

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

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2018	\$ 19,090
2019	19,090
2020	19,090
2021	<u>3,183</u>
Total	60,453
Less: amount representing interest	<u>(3,923)</u>
Present value of minimum lease payments	<u>\$ 56,530</u>

NOTE 10 - LONG-TERM OBLIGATIONS

A. During the fiscal year 2017, the following changes occurred in governmental activities long-term obligations:

	<u>Balance</u>			<u>Balance</u>	<u>Amounts</u>
	<u>06/30/16</u>	<u>Additions</u>	<u>Reductions</u>	<u>06/30/17</u>	<u>Due in</u>
					<u>One Year</u>
General obligation bonds	\$ 3,495,000	\$ 3,165,000	\$ (3,495,000)	\$ 3,165,000	\$ 370,000
Capital lease obligation	3,514	70,450	(17,434)	56,530	17,051
Lease purchase obligation	-	520,000	-	520,000	100,000
Net pension liability	18,249,687	4,237,465	-	22,487,152	-
Compensated absences	<u>830,123</u>	<u>128,781</u>	<u>(83,949)</u>	<u>874,955</u>	<u>106,290</u>
Total	<u>\$ 22,578,324</u>	<u>\$ 8,121,696</u>	<u>\$ (3,596,383)</u>	<u>\$ 27,103,637</u>	<u>\$ 593,341</u>

Compensated absences: Compensated absences will be paid from the fund from which the employees' salaries are paid which, for the District, is primarily the general fund.

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

Capital lease obligation: The capital lease obligation will be paid from the general fund. See Note 9 for details.

Net pension liability: See Note 13 for detail on the District's net pension liability.

- B.** On December 2, 2016, the District issued general obligation bonds (series 2016 refunding bonds) to currently refund the outstanding balance of the series 2007 current interest general obligation bonds. During fiscal year 2017, the District made a principal payment of \$330,000 on the 2007 current interest general obligation bonds and refunded the balance of \$3,165,000. The issuance proceeds of \$3,165,000, plus a District contribution of \$11,253, were placed in an escrow account used to redeem the outstanding balance of the 2007 current interest general obligation bonds on January 3, 2017.

At June 30, 2017, the refunding issue is comprised of current interest bonds, par value \$3,165,000. The interest rate on the current interest bonds ranges from 1.07-2.14%.

The net carrying amount of the old debt exceeded the reacquisition price by \$42,422. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt. This advance refunding was undertaken to reduce total debt service payments over the next 7 years by \$326,701 and resulted in an economic gain of \$303,430.

Interest payments on the current interest bonds are due June 1 and December 1 each year. The final maturity stated on the issue is December 1, 2024.

The following is a summary of the future debt service requirements to maturity for the 2016 series refunding bonds:

Fiscal Year Ending June 30,	Current Interest Bonds		
	Principal	Interest	Total
2018	\$ 370,000	\$ 48,746	\$ 418,746
2019	385,000	44,400	429,400
2020	385,000	39,356	424,356
2021	395,000	33,658	428,658
2022	395,000	27,378	422,378
2023 - 2025	1,235,000	38,086	1,273,086
Total	<u>\$ 3,165,000</u>	<u>\$ 231,624</u>	<u>\$ 3,396,624</u>

- C.** On December 2, 2016, the District entered into a lease-purchase agreement with Huntington National Bank in the amount of \$520,000. The proceeds of the lease-purchase agreement are being used for various improvements to District buildings and the stadium. The lease-purchase agreement bears an interest rate of 2.10% and matures on December 1, 2021. Payments on this obligation are made from the general fund.

The following is a summary of the future debt service requirements to maturity for the lease-purchase agreement:

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PORTAGE COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

Fiscal Year Ending June 30,	Lease Purchase Agreement		
	Principal	Interest	Total
2018	\$ 100,000	\$ 9,870	\$ 109,870
2019	100,000	7,770	107,770
2020	105,000	5,617	110,617
2021	105,000	3,413	108,413
2022	110,000	1,155	111,155
Total	<u>\$ 520,000</u>	<u>\$ 27,825</u>	<u>\$ 547,825</u>

D. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2017, are a voted debt margin of \$12,703,224 (including available funds of \$277,288) and an unvoted debt margin of \$173,233.

NOTE 11 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

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

Each employee earns sick leave at the rate of one and one-fourth days per month. Upon retirement, payment is made for thirty percent of the total sick leave accumulation, up to a maximum accumulation of seventy-five days for both certificated and classified employees. An employee receiving such payment must meet the retirement provisions set by the State Teachers Retirement System of Ohio (STRS Ohio) and the School Employees Retirement System (SERS).

B. Group Health and Dental Insurance

Health, life, vision and dental and other group insurance is offered to employees as a fringe benefit. Employer and employee contributions to premium are determined by negotiated agreements with employee labor unions. Currently, all coverage is 90% Board paid, while the remaining 10% is paid by the employee.

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
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NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 11 - OTHER EMPLOYEE BENEFITS - (Continued)

C. Early Retirement Incentive

The District offers an early retirement incentive plan for certified and classified employees. The employee must have ten or more full years of continuous full-time service with the District since the most recent date of employment or reemployment and must be in an active state of employment at the time of retirement.

For certified employees, the amount of the retirement incentive is a one-time payment of \$20,000 to be made by January 31 of the year following retirement. One certified employees took the retirement incentive during fiscal year 2017.

For classified employees, the amount of the retirement incentive bonus is a one-time payment equal to one third of the employee’s previous year’s pay to be made by January 31 of the year following retirement. Two classified employees took the retirement incentive bonus during fiscal year 2017.

NOTE 12 - RISK MANAGEMENT

A. Comprehensive

The District participates in the Portage County School Consortium (the “Consortium”), which is a cooperative entity among 25 educational-service providers formed in 1981 to facilitate effective risk management and to share the cost of providing various insurance coverages and employee benefits. The Health and Welfare Trust is organized under the provisions of Section 501(c) (9) of the Internal Revenue Code. Its purpose is to facilitate the management of risks associated with providing employee benefits coverage such as health insurance, disability insurance and life insurance. A third party administrator is retained by the consortium to facilitate the operation of the Health and Welfare Trust. The District pays all insurance premiums directly to the consortium. The insurance agreement with the Consortium also provides that the Consortium will reinsure through commercial companies for claims over \$250,000 per employee. Although the District does not participate in the day-to-day management of the Consortium, one of its administrators serves as a trustee of the Consortium’s governing board, as provided in the Consortium’s enabling authority. Although the District recognizes that it retains a contingent liability to provide insurance coverage should the assets of the Consortium become depleted, it is the opinion of management that the assets of the Consortium are sufficient to meet its claims.

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. During fiscal year 2017, the District contracted with the following carriers for various insurance coverages, as follows:

Insurance Provider	Coverage	Deductible
Wright Specialty/Caitlin Indemnity	General Liability	\$0
Wright Specialty/Caitlin Indemnity	School Bus	\$1,000
Wright Specialty/Caitlin Indemnity	Automobile	\$250/\$500
Wright Specialty/Caitlin Indemnity	Property Insurance	\$5,000

There has been no significant reduction in insurance coverages from coverages in the prior year. In addition, settled claims resulting from these risks have not exceeded commercial insurance coverages in any of the past three fiscal years.

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 12 - RISK MANAGEMENT - (Continued)

B. Workers' Compensation

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

NOTE 13 - 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 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.

The Ohio Revised Code limits the 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 *pension and postemployment benefits payable* on both the accrual and modified accrual bases of accounting.

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

Plan Description - School Employees Retirement System (SERS)

Plan Description - 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 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 after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

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

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the 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 entire 14 percent was allocated to pension, death benefits, and Medicare B and no portion of the employer contribution rate was allocated to the Health Care Fund.

The District's contractually required contribution to SERS was \$271,928 for fiscal year 2017. Of this amount, \$37,513 is reported as pension and postemployment benefits payable.

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

Plan Description - State Teachers Retirement System (STRS)

Plan Description –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 Web site at 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 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

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

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions 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 at age 50.

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

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit 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.

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

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 District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2017 contribution rates were equal to the statutory maximum rates.

The District's contractually required contribution to STRS was \$853,264 for fiscal year 2017. Of this amount, \$140,632 is reported as pension and postemployment benefits payable.

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

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the 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	0.05322760%	0.05504370%	
Proportion of the net pension liability current measurement date	<u>0.05919210%</u>	<u>0.05423723%</u>	
Change in proportionate share	<u>0.00596450%</u>	<u>-0.00080647%</u>	
Proportionate share of the net pension liability	\$ 4,332,316	\$ 18,154,836	\$ 22,487,152
Pension expense	\$ 464,369	\$ 1,151,617	\$ 1,615,986

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred outflows of resources			
Differences between expected and actual experience	\$ 58,433	\$ 733,544	\$ 791,977
Net difference between projected and actual earnings on pension plan investments	357,355	1,507,341	1,864,696
Changes of assumptions	289,205	-	289,205
Difference between District contributions and proportionate share of contributions/ change in proportionate share	263,740	-	263,740
District contributions subsequent to the measurement date	<u>271,928</u>	<u>853,264</u>	<u>1,125,192</u>
Total deferred outflows of resources	<u><u>\$1,240,661</u></u>	<u><u>\$3,094,149</u></u>	<u><u>\$4,334,810</u></u>
Deferred inflows of resources			
Difference between District contributions and proportionate share of contributions/ change in proportionate share	<u>\$ 118,667</u>	<u>\$ 436,619</u>	<u>\$ 555,286</u>
Total deferred inflows of resources	<u><u>\$ 118,667</u></u>	<u><u>\$ 436,619</u></u>	<u><u>\$ 555,286</u></u>

\$1,125,192 reported as deferred outflows of resources related to pension resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2018	\$ 217,665	\$ 225,164	\$ 442,829
2019	217,411	225,166	442,577
2020	312,263	803,576	1,115,839
2021	<u>102,727</u>	<u>550,360</u>	<u>653,087</u>
Total	<u><u>\$ 850,066</u></u>	<u><u>\$ 1,804,266</u></u>	<u><u>\$ 2,654,332</u></u>

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

Actuarial Assumptions - SERS

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 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 (level percent of payroll)

For post-retirement mortality, the table used in evaluating allowances to be paid is the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, with 120% of male rates and 110% of female rates used. 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. Special mortality tables are used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an experience study that was completed June 30, 2015. As a result of the actuarial experience study, 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.

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

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 %	0.50 %
US Equity	22.50	4.75
International Equity	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	<u>10.00</u>	3.00
 Total	 <u>100.00 %</u>	

Discount Rate - The total pension liability was calculated using the discount rate of 7.50 percent. A discount rate of 7.75 percent was used in the prior measurement period. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.50 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

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

	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
District's proportionate share of the net pension liability	\$ 5,735,716	\$ 4,332,316	\$ 3,157,611

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

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
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.

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:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return *
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	1.00	3.00
Total	100.00 %	7.61 %

* 10-year annualized geometric nominal returns, which include the real rate of return and inflation of 2.50% and does not include investments expenses. The total fund long-term expected return reflects diversification among the asset classes and therefore is not a weighted average return of the individual asset classes.

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

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 District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following table presents the 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 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:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$ 24,126,302	\$ 18,154,836	\$ 13,117,552

Changes Between Measurement Date and Report Date - In March 2017, the STRS Board adopted certain assumption changes which impacted their annual actuarial valuation prepared as of July 1, 2016. The most significant changes are a reduction in the expected investment return to 7.45% from 7.75% and a change to updated generational mortality tables. Although the exact amount of these changes is not known, the impact to the District's net pension liability is expected to be significant.

NOTE 14 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Health Care Plan Description - The District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 14 - POSTEMPLOYMENT BENEFITS - (Continued)

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, number of qualified years of service, Medicare eligibility and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2017, none of the employer contribution was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2017, this amount was \$23,500. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2017, the District's surcharge obligation was \$32,801.

The District's contributions for health care for the fiscal years ended June 30, 2017, 2016, and 2015 were \$32,801, \$30,953, and \$42,384, respectively. The fiscal year 2017 amount has been reported as pension and postemployment benefits payable. The full amount has been contributed for fiscal years 2016 and 2015.

B. State Teachers Retirement System

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2017, STRS Ohio did not allocate any employer contributions to the Health Care Stabilization Fund. The District's did not make any contributions for health care for the fiscal years ended June 30, 2017, 2016 and 2015.

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The statement of revenue, expenditures and changes in fund balance - budget and actual (non-GAAP budgetary basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);
- (d) Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis);
- (e) Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

Net Change in Fund Balance

	<u>General fund</u>
Budget basis	\$ (638,943)
Net adjustment for revenue accruals	9,857
Net adjustment for expenditure accruals	(174,467)
Net adjustment for other sources/uses	53,470
Funds budgeted elsewhere **	16,945
Adjustment for encumbrances	181,120
GAAP basis	\$ (552,018)

As part of Governmental Accounting Standards Board Statement No. 54, “Fund Balance Reporting”, certain funds that are legally budgeted in separate funds are considered part of the general fund on a GAAP basis. This includes the emergency levy fund, uniform school supplies fund, public school support fund, District agency fund, and underground storage tank fund.

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 16 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, State and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

B. Litigation

The District is not involved in material litigation as either plaintiff or defendant.

C. Foundation Funding

District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2016-2017 school year, traditional Districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the District, which can extend past the fiscal year-end. As of the date of this report, ODE has finalized the impact of enrollment adjustments to the June 30, 2017 Foundation funding for the District. The District has determined that these adjustments are immaterial.

NOTE 17 - SET-ASIDES

The District is required by State law to annually set-aside certain general fund revenue amounts, as defined by 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 fiscal year-end. This amount must be carried forward to be used for the same purpose in future years. Expenditures exceeding the set-aside requirement may not be carried forward to the next fiscal year.

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

	<u>Capital Improvements</u>
Set-aside balance June 30, 2016	\$ -
Current year set-aside requirement	262,856
Current year qualifying expenditures	<u>(565,095)</u>
Total	<u>\$ (302,239)</u>
Balance carried forward to fiscal year 2018	<u>\$ -</u>
Set-aside balance June 30, 2017	<u>\$ -</u>

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 18 - OTHER COMMITMENTS

The District utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year end may be reported as part of restricted, committed, or assigned classifications of fund balance. At year end, the District's commitments for encumbrances in the governmental funds were as follows:

<u>Fund</u>	<u>Year-End</u>
General fund	\$ 135,700
Other governmental	<u>178,559</u>
Total	<u>\$ 314,259</u>

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST FOUR FISCAL YEARS (1)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability	0.05919210%	0.05322760%	0.05777400%	0.05777400%
District's proportionate share of the net pension liability	\$ 4,332,316	\$ 3,037,218	\$ 2,923,909	\$ 3,435,634
District's covered payroll	\$ 1,942,329	\$ 1,602,428	\$ 1,678,788	\$ 1,624,523
District's proportionate share of the net pension liability as a percentage of its covered payroll	223.05%	189.54%	174.17%	211.49%
Plan fiduciary net position as a percentage of the total pension liability	62.98%	69.16%	71.70%	65.52%

Note: Information prior to 2014 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

(1) Amounts presented for each fiscal year were determined as of the District's measurement date which is the prior year-end.

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST FOUR FISCAL YEARS (1)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability	0.05423723%	0.05504370%	0.05652400%	0.05652400%
District's proportionate share of the net pension liability	\$ 18,154,836	\$ 15,212,469	\$ 13,748,671	\$ 16,377,327
District's covered payroll	\$ 5,636,486	\$ 5,840,950	\$ 5,775,223	\$ 6,404,646
District's proportionate share of the net pension liability as a percentage of its covered payroll	322.09%	260.45%	238.06%	255.71%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	72.10%	74.70%	69.30%

Note: Information prior to 2014 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

(1) Amounts presented for each fiscal year were determined as of the

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

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>
Contractually required contribution	\$ 271,928	\$ 271,926	\$ 211,200	\$ 232,680	\$ 224,834
Contributions in relation to the contractually required contribution	<u>(271,928)</u>	<u>(271,926)</u>	<u>(211,200)</u>	<u>(232,680)</u>	<u>(224,834)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 1,942,343	\$ 1,942,329	\$ 1,602,428	\$ 1,678,788	\$ 1,624,523
Contributions as a percentage of covered payroll	14.00%	14.00%	13.18%	13.86%	13.84%

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
\$ 223,225	\$ 204,447	\$ 220,323	\$ 156,817	\$ 153,093
<u>(223,225)</u>	<u>(204,447)</u>	<u>(220,323)</u>	<u>(156,817)</u>	<u>(153,093)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 1,659,665	\$ 1,626,468	\$ 1,627,201	\$ 1,593,669	\$ 1,558,992
13.45%	12.57%	13.54%	9.84%	9.82%

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

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>
Contractually required contribution	\$ 853,264	\$ 789,108	\$ 817,733	\$ 750,779	\$ 832,604
Contributions in relation to the contractually required contribution	<u>(853,264)</u>	<u>(789,108)</u>	<u>(817,733)</u>	<u>(750,779)</u>	<u>(832,604)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 6,094,743	\$ 5,636,486	\$ 5,840,950	\$ 5,775,223	\$ 6,404,646
Contributions as a percentage of covered payroll	14.00%	14.00%	14.00%	13.00%	13.00%

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
\$ 796,190	\$ 779,171	\$ 754,827	\$ 742,656	\$ 735,969
<u>(796,190)</u>	<u>(779,171)</u>	<u>(754,827)</u>	<u>(742,656)</u>	<u>(735,969)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 6,124,538	\$ 5,993,623	\$ 5,806,362	\$ 5,712,738	\$ 5,661,300
13.00%	13.00%	13.00%	13.00%	13.00%

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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 financials for the methods and assumptions in this calculation.

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY**

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

FEDERAL GRANTOR Pass Through Grantor Program / Cluster Title	Federal CFDA Number	Pass Through Entity Identifying Number	Total Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
<i>Passed Through Ohio Department of Education</i>			
Nutrition Cluster:			
Non Cash Assistance (Food Distribution)	10.555	N/A	\$ 46,447
National School Breakfast Program	10.553	049205-3L70-2017	49,957
National School Lunch Program	10.555	049205-3L60-2017	<u>210,252</u>
Total Nutrition Cluster			306,656
Total U.S. Department of Agriculture			<u>306,656</u>
U.S. DEPARTMENT OF EDUCATION			
<i>Passed Through Ohio Department of Education</i>			
Title I Grants to Local Educational Agencies	84.010	049205-3M00-2016	38,259
Title I Grants to Local Educational Agencies	84.010	049205-3M00-2017	<u>228,006</u>
Total Title 1 Grants to Local Educational Agencies			266,265
Special Education Cluster:			
Special Education Grants to States (IDEA, Part B)	84.027	049205-3M20-2016	44,419
Special Education Grants to States (IDEA, Part B)	84.027	049205-3M20-2017	245,132
Special Education Preschool Grants	84.173	049205-3C50-2016	858
Special Education Preschool Grants	84.173	049205-3C50-2017	<u>9,271</u>
Total Special Education Cluster			299,680
Improving Teacher Quality State Grants	84.367	049205-3Y60-2016	11,512
Improving Teacher Quality State Grants	84.367	049205-3Y60-2017	<u>57,166</u>
Total Improving Teacher Quality State Grants			68,678
Total U.S. Department of Education			<u>634,623</u>
Total Expenditures of Federal Awards			<u>\$ 941,279</u>

The accompanying notes are an integral part of this schedule.

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE 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 James A. Garfield Local School District (the District) 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 fair value. The District allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.

NOTE E - TRANSFERS BETWEEN PROGRAM YEARS

The District generally must spend Federal assistance within 15 months of receipt. However, with Ohio Department of Education (ODE) approval, a School can transfer (carryover) unspent Federal assistance to the succeeding year, thus allowing the School a total of 27 months to spend the assistance. During fiscal year 2017, the District requested the Ohio Department of Education to authorize the following transfers:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount Transferred from 2017 to 2018</u>
Special Education Grants to States (IDEA, Part B)	84.027	\$2,172



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

James A. Garfield Local School District
Portage County
10235 State Route 88
Garrettsville, Ohio 44231

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, the major fund, and the aggregate remaining fund information of the James A. Garfield School District, Portage 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 and have issued our report thereon dated March 13, 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 opinion 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 initial "D".

Dave Yost
Auditor of State
Columbus, Ohio

March 13, 2018



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

James A. Garfield Local School District
Portage County
10235 State Route 88
Garrettsville, Ohio 44231

To the Board of Education:

Report on Compliance for the Major Federal Program

We have audited the James A. Garfield Local School District's (the District) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect the 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 program.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on the Major Federal Program

In our opinion, the James A. Garfield Local School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2017.

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 the major federal program's compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

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

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

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



Dave Yost
Auditor of State
Columbus, Ohio

March 13, 2018

**JAMES A GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE 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 internal control weaknesses reported for major federal programs?	No
<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	Unmodified
<i>(d)(1)(vi)</i>	Are there any reportable findings under 2 CFR §200.516(a)?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Title I, Grants to Local Agencies CFDA #84.010
<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?	Yes

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

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JAMES A GARFIELD LOCAL SCHOOL DISTRICT

PORTAGE 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**