

**SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY, OHIO**

***BASIC FINANCIAL STATEMENTS
(AUDITED)***

***FOR THE FISCAL YEAR ENDED
JUNE 30, 2017***

MICHAEL PISSINI, TREASURER



Dave Yost • Auditor of State

Board of Education
Sheffield-Sheffield Lake City School District
1824 Harris Road
Sheffield, Ohio 44054

We have reviewed the *Independent Auditor's Report* of the Sheffield-Sheffield Lake City School District, Lorain County, prepared by Julian & Grube, Inc., for the audit period July 1, 2016 through June 30, 2017. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Sheffield-Sheffield Lake City School District is responsible for compliance with these laws and regulations.

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

Dave Yost
Auditor of State

January 5, 2018

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**SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY, OHIO**

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Julian & Grube, Inc.
Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

Independent Auditor's Report

Sheffield-Sheffield Lake City School District
Lorain County
1824 Harris Road
Sheffield, Ohio 44054

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 Sheffield-Sheffield Lake City School District, Lorain County, Ohio, as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Sheffield-Sheffield Lake City School 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 Sheffield-Sheffield Lake City School 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 Sheffield-Sheffield Lake City School District's internal control. Accordingly, we express no 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 Sheffield-Sheffield Lake City School District, Lorain County, Ohio, as of June 30, 2017, and the respective changes in financial position thereof and the budgetary comparison for the General fund thereof for the fiscal 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 Information

Our audit was conducted to opine on the Sheffield-Sheffield Lake City School 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 November 22, 2017, on our consideration of the Sheffield-Sheffield Lake City School 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 Sheffield-Sheffield Lake City School District's internal control over financial reporting and compliance.



Julian & Grube, Inc.
November 22, 2017

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2017

UNAUDITED

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

Financial Highlights

Key financial highlights for 2017 are as follows:

- In total, the School District's net position decreased by \$ 159,620.
- Revenues for governmental activities totaled \$ 23,516,682 in 2017 an increase of \$ 547,893 from 2016. Of this total, 89.3 percent consisted of General revenues while Program revenues accounted for the balance of 10.7 percent.
- Program expenses for 2017 totaled \$ 23,676,302, an increase of \$ 227,124 from 2016. Instructional expenses made up 51.9 percent of this total while support services accounted for 36.9 percent. Other expenses rounded out the remaining 11.2 percent.

Using this Annual Financial Report

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

The *Statement of Net Position and Statement of Activities* provide information about the activities of the whole District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term and what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other non-major funds presented in total in one column. In the case of Sheffield-Sheffield Lake City School District, the General Fund is by far the most significant.

Reporting the District as a Whole

Statement of Net Position and the Statement of Activities

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

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2017

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

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

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major fund begins on page 17. Fund financial statements provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental fund is the General Fund.

Governmental Funds

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

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2017

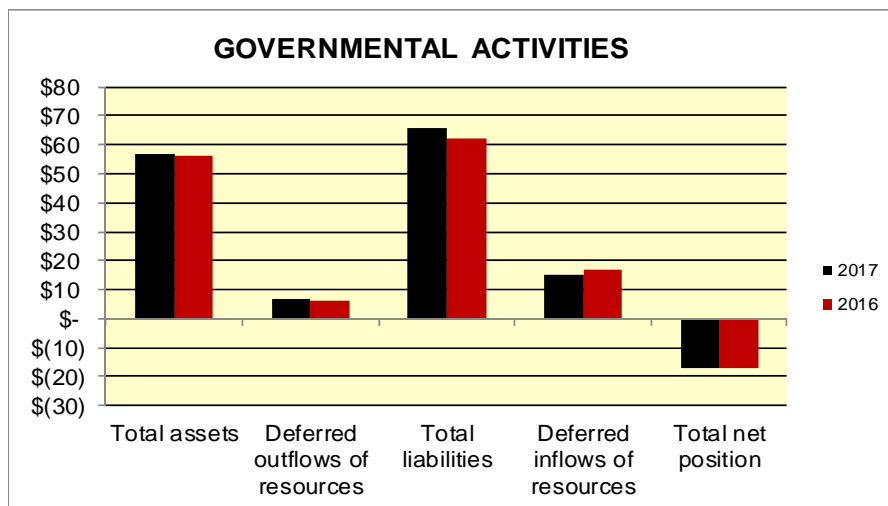
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The District as a Whole

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

**Table 1
Net Position
Governmental Activities**

	2017	2016	Change
Assets			
Current assets	\$ 21,923,186	\$ 20,556,430	\$ 1,366,756
Capital assets, net	35,042,613	35,654,258	(611,645)
Total assets	<u>56,965,799</u>	<u>56,210,688</u>	<u>755,111</u>
Deferred outflows of resources	<u>6,769,820</u>	<u>5,561,030</u>	<u>1,208,790</u>
Liabilities			
Other liabilities	2,241,579	2,128,685	112,894
Long-term liabilities	64,153,594	60,192,704	3,960,890
Total liabilities	<u>66,395,173</u>	<u>62,321,389</u>	<u>4,073,784</u>
Deferred inflows of resources	<u>14,591,458</u>	<u>16,541,721</u>	<u>(1,950,263)</u>
Net position			
Net investment in capital assets	4,489,815	3,972,556	517,259
Restricted	993,439	1,863,068	(869,629)
Unrestricted	(22,734,266)	(22,927,016)	192,750
Total net position	<u><u>\$ (17,251,012)</u></u>	<u><u>\$ (17,091,392)</u></u>	<u><u>\$ (159,620)</u></u>



SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2017

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For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the School District's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension, as required by GASB 68.

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 new standards required by GASB 68, the net pension liability equals the School District's proportionate share of each plan's collective:

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

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

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

In accordance with GASB 68, the School District's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's change in net pension liability not accounted for as deferred inflows/outflows.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2017

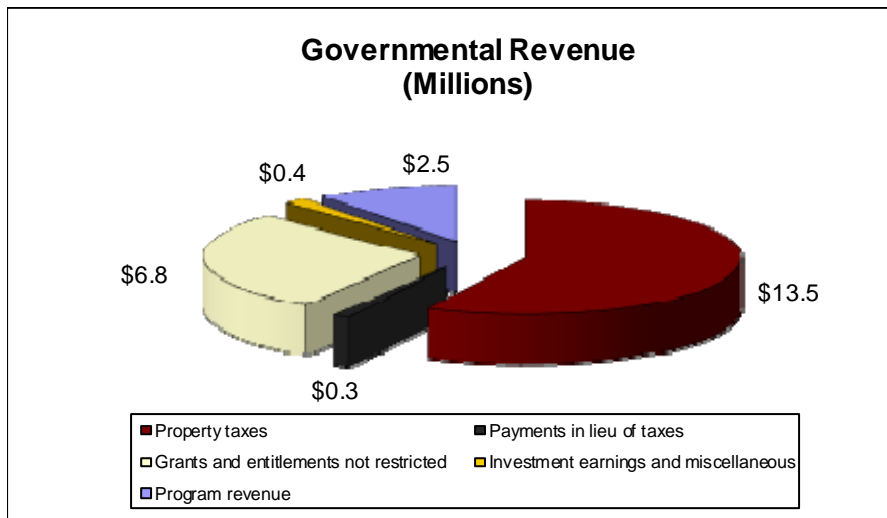
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Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2017, the School District's net position was (\$ 17,251,012).

At year-end, capital assets represented 61.5 percent of total assets. Capital assets include land, buildings and improvements, furniture and equipment, and vehicles. Net investment in capital assets at June 30, 2017 was \$ 4,489,815. These capital assets are used to provide services to the students and are not available for future spending.

A portion of the School District's net position, \$ 993,439, represents resources that are subject to external restrictions on how they are spent. The remaining balance of (\$ 22,734,266) is considered unrestricted, this is usually used to meet the School District's ongoing obligations to the students and creditors.

The vast majority of revenue supporting all Governmental Activities is General revenue. General revenue totaled \$ 20,991,755 or 89.3 percent of the total revenue. The most significant portion of the General revenue is local property tax. The remaining amount of revenue received was in the form of Program Revenues, which equated to \$ 2,524,927 or 10.7 percent of total revenue.



Clearly, the Sheffield-Sheffield Lake community is by far the greatest source of financial support for the students of the Sheffield-Sheffield Lake City School District.

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2017

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Table 2 shows the changes in net position for fiscal year 2017. A comparative analysis of government-wide for fiscal year 2016 data is also presented.

**Table 2
Governmental Activities**

	2017	%	2016	%
		of Total		of Total
General revenues				
Property taxes levied for:				
General purpose	\$ 11,691,387	49.7%	\$ 11,615,188	50.5%
Debt service	1,520,140	6.5%	1,562,590	6.8%
Capital improvements	256,349	1.1%	270,645	1.2%
Payments in lieu of taxes	261,056	1.1%	-	0.0%
Grants and entitlements not restricted to specific purposes	6,790,936	28.9%	6,928,717	30.2%
Investment earnings	121,314	0.5%	26,112	0.1%
Miscellaneous	350,573	1.5%	115,933	0.5%
Total general revenues	<u>20,991,755</u>	<u>89.3%</u>	<u>20,519,185</u>	<u>89.3%</u>
Program revenues	<u>2,524,927</u>	<u>10.7%</u>	<u>2,449,604</u>	<u>10.7%</u>
Total revenue	<u>23,516,682</u>	<u>100.0%</u>	<u>22,968,789</u>	<u>100.0%</u>
Governmental activities				
Instruction				
Regular	8,850,592	37.3%	9,623,419	41.1%
Special	3,187,875	13.5%	3,119,525	13.3%
Vocational	122,439	0.5%	117,908	0.5%
Other instruction	138,653	0.6%	67,100	0.3%
Supporting services				
Pupil	1,276,508	5.4%	1,246,829	5.3%
Instructional staff	689,565	2.9%	994,175	4.2%
Board of education	52,207	0.2%	52,230	0.2%
Administration	1,718,607	7.3%	1,559,272	6.6%
Fiscal services	651,886	2.8%	817,740	3.5%
Business	241,928	1.0%	254,511	1.1%
Operation and maintenance	2,698,568	11.4%	1,445,466	6.2%
Pupil transportation	1,150,852	4.9%	1,090,209	4.6%
Central services	246,258	1.0%	285,671	1.2%
Operation of non-instructional services	667,551	2.8%	712,541	3.0%
Extracurricular activities	593,954	2.5%	669,959	2.9%
Interest	1,388,859	5.9%	1,392,623	5.9%
Totals	<u>23,676,302</u>	<u>100.0%</u>	<u>23,449,178</u>	<u>100.0%</u>
Change in net position	<u>\$ (159,620)</u>		<u>\$ (480,389)</u>	

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

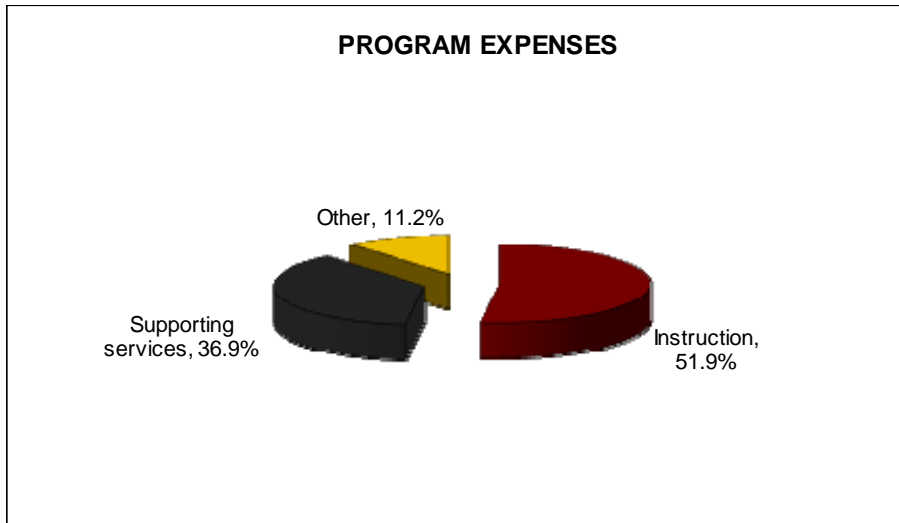
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2017

UNAUDITED

Governmental Activities

The unusual nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. As a result of legislation enacted in 1976, the overall revenue generated by a voted tax levy does not increase as a result of inflation. As an example, a homeowner with a home value at \$100,000 (assessed value of \$35,000) and taxed at 1.0 mill would pay \$35.00 annually in taxes. If, three years later, the home value were to be reappraised and increased to \$200,000 (assessed value of \$70,000) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

The primary source of revenue for governmental activities is derived from property taxes. Property taxes made up 57.3 percent of revenues for governmental activities for the Sheffield-Sheffield Lake City School District in fiscal year 2017.



The largest Governmental Activities program expense remains instruction, comprising 51.9 percent of total expenses. When combined with support services, these categories encompass 88.8 percent. The remaining program expenses of 11.2 percent are budgeted to facilitate other obligations of the School District, such as food service programs, community services activities, numerous extracurricular activities and interest payments.

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
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The Statement of Activities shows the total net cost of program services. Table 3 shows the total cost of services for governmental activities and the net cost of those services. It identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

**Table 3
Governmental Activities**

	2017	2016	2017	2016
	Total Cost Of Services	Total Cost Of Services	Net Cost Of Services	Net Cost Of Services
Governmental activities				
Instruction				
Regular	\$ 8,850,592	\$ 9,623,419	\$ (7,688,834)	\$ (8,535,666)
Special	3,187,875	3,119,525	(2,571,509)	(2,521,458)
Vocational	122,439	117,908	(122,439)	(117,908)
Other instruction	138,653	67,100	(138,653)	(67,100)
Supporting services				
Pupil	1,276,508	1,246,829	(1,276,508)	(1,216,829)
Instructional staff	689,565	994,175	(689,565)	(947,175)
Board of education	52,207	52,230	(52,207)	(52,230)
Administration	1,718,607	1,559,272	(1,718,607)	(1,559,272)
Fiscal services	651,886	817,740	(651,886)	(817,740)
Business	241,928	254,511	(241,928)	(254,511)
Operation and maintenance	2,698,568	1,445,466	(2,688,649)	(1,445,466)
Pupil transportation	1,150,852	1,090,209	(1,150,852)	(1,090,209)
Central services	246,258	285,671	(246,258)	(285,369)
Operation of non-instructional services	667,551	712,541	(56,758)	(142,640)
Extracurricular activities	593,954	669,959	(467,863)	(553,378)
Interest	1,388,859	1,392,623	(1,388,859)	(1,392,623)
Totals	<u>\$ 23,676,302</u>	<u>\$ 23,449,178</u>	<u>\$(21,151,375)</u>	<u>\$(20,999,574)</u>

As one can see, the reliance upon local tax revenues for governmental activities is crucial. Over 56.9 percent of expenses are directly supported by local property taxes. Grants and entitlements not restricted to specific programs support 28.7 percent, while investment and other miscellaneous type revenues support the remaining activity costs. Program revenues fund 10.7 percent of all governmental expenses.

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2017

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School District Funds

Information regarding the School District's funds can be found on page 17. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$ 23,662,042 and expenditures and other financing uses of \$ 22,819,711. The net change in fund balance for the year was an increase of \$ 842,331, which was the result of an increase of \$ 999,627 in the General Fund and a decrease of \$ 157,296 in the Other Governmental Funds. The increase is attributed to fiscal year 2017 being the first full year of collection for the most recent 6.53 mil emergency levy passed in May of 2015. During fiscal year 2016, the School District only received half of the collections due to timing of levy passage

General Fund Budgeting Highlights

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

During the course of fiscal year 2017, the School District amended its General Fund budget several times to allow for additional advances to federal and state grant funds and other less significant amendments. Fluctuations among the budget base expenditures categories are due to the School District's site-based style of budgeting that is designed to tightly control expenses but provide flexibility for managers to redirect funds as conditions develop during the year. For the General Fund, original estimated revenue was \$ 20,214,412 and final budget estimated revenue was \$ 20,253,627. The actual revenue received was \$ 20,479,344. The final budget estimated expenditures were \$ 20,693,875, an increase of \$ 600,000 from the original budgeted expenditures. The actual expenditures on the budget basis (cash outlays plus encumbrances) were \$ 18,957,272. The School District had higher actual revenues than anticipated through the collection of delinquencies, real estate collections, greater efficiency in the collection process of student fees, increased amount of catastrophic costs reimbursement through better documentation, and a higher amount of interest earned on investments. Actual expenditures were lower than anticipated due to exploring grant funding options to update the School District's bus fleet, as well as technology equipment. School District funded HRA cards were not completely used up and expired at the end of the fiscal year. The School District also had a premium holiday in the month of May which resulted in significant savings in Board share healthcare costs. Finally, there was a significantly lower amount of funds transferred from the General Fund to zero out deficits in other funds at the end of the fiscal year. This was primarily due to improvements made in the area of Food Service.

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2017

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Capital Assets and Debt Administration

At the end of fiscal 2017 the School District had \$ 35.0 million invested in land, buildings and improvements, furniture and equipment, and vehicles. Table 4 shows fiscal 2017 values compared to 2016.

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

	2017	2016
Land	\$ 540,878	\$ 540,878
Buildings and improvements	33,913,538	34,526,963
Furniture and equipment	266,202	318,764
Vehicles	321,995	267,653
	\$ 35,042,613	\$ 35,654,258

All capital assets, except land, are reported net of depreciation. For more information about the School District's capital assets, see Notes to the Basic Financial Statements.

Debt

At June 30, 2017, the School District had \$ 29,752,037 in outstanding bonds. The School District has an Aa bond rating.

	2017	2016
School improvement, capital appreciation bonds and accretion of interest (2011) 2.0% - 5.0%, 2018, 2019, and 2041 maturities	\$ 21,219,265	\$ 21,547,616
School refunding, capital appreciation bonds and accretion of interest (2016) 2.0% - 4.0%, 2017-2025 and 2036 maturities	8,532,772	8,524,998
	\$ 29,752,037	\$ 30,072,614

For more information about the School District's debt, see Notes to the Basic Financial Statements.

District Outlook

The Board of Education and the Administration closely monitor the School District's revenues and expenditures in accordance with its financial forecast and the School District's Strategic Plan.

The School District relies heavily upon real estate taxes and state funding as sources of revenue. The School District's financial future took a turn for the better with the passage of a 5.99 mill five-year Emergency Operating Levy in November 2005. This and an older Emergency Levy were both renewed in May of 2014. The Community showed their further support in May of 2015 by passing a 6.53 mill five-year emergency operating levy. The School District's 3 emergency levies will be expiring in tax year 2019. This means the School District will receive a full year of collections in fiscal year 2020, then only half in fiscal year 2021. The School District is evaluating possible cost cutting measures with the assumption these levies will not be renewed.

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2017

UNAUDITED

The community showed its continuing support in May 2011 by passing a \$31,000,000 Bond Issue to construct a new 7 – 12 building. We broke ground for the new facility in 2012 and moved in at the beginning of the 2015 school year. This is the first phase of a two to three phase program to upgrade all district facilities on one campus at 1824 Harris Road.

State funding continues to be a challenge not only for Sheffield-Sheffield Lake City School District but statewide. With the passage of H.B. 49, the School District will lose approximately \$ 165,000 in fiscal year 2018, and another \$ 12,000 in fiscal year 2019, in combined total funding consisting of total State foundation aid, fixed rate operating direct reimbursements for tangible personal property tax (TPP) losses, and the tangible personal property tax supplement payments. This will negatively impact the School District primarily in the area of TPP. Until the State provides an adequate/equitable system of funding education, the District will continue to depend on the residents of the School District to bear the cost of educating our children.

The financial statements represent our continued efforts to keep the District informed of the use of their tax dollars and the cost of the School District to maintain the excellence in education provided our students and expected of our community.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Michael Pissini, Treasurer, Sheffield-Sheffield Lake City School District, 1824 Harris Road, Sheffield, Ohio 44054, or e-mail mpissini@sheffield.k12.oh.us.

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SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

STATEMENT OF NET POSITION

JUNE 30, 2017

	Governmental Activities
Assets	
Equity in pooled cash	\$ 6,880,151
Accounts receivable	4,687
Due from other governments	127,233
Inventories and supplies	43,955
Taxes receivable	14,867,160
Capital assets	
Nondepreciable capital assets	540,878
Depreciable capital assets, net	34,501,735
Total assets	56,965,799
Deferred outflow s of resources	
Debt refunding	1,133,165
Pension	5,636,655
Total deferred outflow s of resources	6,769,820
Liabilities	
Accounts and contracts payable	195,440
Accrued salaries, w ages and benefits	1,669,002
Due to other governments	265,610
Accrued interest payable	111,527
Long-term liabilities	
Due w ithin one year	787,793
Due in more than one year	31,912,268
Net pension liability	31,453,533
Total liabilities	66,395,173
Deferred inflow s of resources	
Property taxes	13,058,106
Pension	1,533,352
Total deferred inflow s of resources	14,591,458
Net position	
Net investment in capital assets	4,489,815
Restricted for:	
Debt service	597,708
Capital projects	300,512
State grants	81,618
Federal grants	3,396
Other purposes	10,205
Unrestricted	(22,734,266)
Total net position	\$ (17,251,012)

See accompanying notes to the basic financial statements.

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2017

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services and Sales	Operating Grants Interest and Contributions	Capital Grants and Contributions	
Governmental activities					
Instruction					
Regular	\$ 8,850,592	\$ 1,087,892	\$ 73,866	\$ -	\$ (7,688,834)
Special	3,187,875	-	616,366	-	(2,571,509)
Vocational	122,439	-	-	-	(122,439)
Other instruction	138,653	-	-	-	(138,653)
Supporting services					
Pupil	1,276,508	-	-	-	(1,276,508)
Instructional staff	689,565	-	-	-	(689,565)
Board of education	52,207	-	-	-	(52,207)
Administration	1,718,607	-	-	-	(1,718,607)
Fiscal services	651,886	-	-	-	(651,886)
Business	241,928	-	-	-	(241,928)
Operation and maintenance	2,698,568	-	-	9,919	(2,688,649)
Pupil transportation	1,150,852	-	-	-	(1,150,852)
Central services	246,258	-	-	-	(246,258)
Operation of non-instructional services	667,551	258,173	352,620	-	(56,758)
Extracurricular activities	593,954	126,091	-	-	(467,863)
Interest	1,388,859	-	-	-	(1,388,859)
Totals	<u>\$ 23,676,302</u>	<u>\$ 1,472,156</u>	<u>\$ 1,042,852</u>	<u>\$ 9,919</u>	<u>(21,151,375)</u>

General revenues

Property taxes levied for:

General purpose	11,691,387
Debt service	1,520,140
Capital improvements	256,349
Payment in lieu of taxes	261,056
Grants and entitlements not restricted to specific purposes	6,790,936
Investment earnings	121,314
Miscellaneous	350,573

Total general revenues 20,991,755

Change in net position (159,620)

Net position at beginning of year (17,091,392)

Net position at end of year \$ (17,251,012)

See accompanying notes to the basic financial statements.

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2017

	General Fund	Other Governmental Funds	Total Governmental Funds
Assets			
Equity in pooled cash	\$ 6,193,300	\$ 686,851	\$ 6,880,151
Receivables, net of allowance			
Taxes, current	12,219,381	1,899,148	14,118,529
Taxes, delinquent	647,929	100,702	748,631
Accounts and other	4,687	-	4,687
Due from other governments	85,370	41,863	127,233
Inventories and supplies	40,182	3,773	43,955
Total assets	\$ 19,190,849	\$ 2,732,337	\$ 21,923,186
Liabilities			
Accounts and contracts payable	\$ 157,491	\$ 37,949	\$ 195,440
Accrued salaries, wages and benefits	1,544,626	124,376	1,669,002
Due to other governments	251,452	14,158	265,610
Compensated absences payable	26,395	-	26,395
Total liabilities	1,979,964	176,483	2,156,447
Deferred inflows of resources			
Property taxes	11,303,170	1,754,936	13,058,106
Unavailable - delinquent tax	647,929	100,702	748,631
Total deferred inflows of resources	11,951,099	1,855,638	13,806,737
Fund balances			
Nonspendable	40,182	3,773	43,955
Restricted	-	788,638	788,638
Assigned	801,698	-	801,698
Unassigned (deficit)	4,417,906	(92,195)	4,325,711
Total fund balances	5,259,786	700,216	5,960,002
Total liabilities, deferred inflows of resources and fund balances	\$ 19,190,849	\$ 2,732,337	\$ 21,923,186

See accompanying notes to the basic financial statements.

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES

JUNE 30, 2017

Total governmental fund balances		\$ 5,960,002
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.		35,042,613
Other long term assets are not available to pay for current period expenditures and therefore are deferred in the funds. These deferrals are attributed to property taxes.		748,631
Unamortized deferred charges on long-term debt refunding are not recognized in the governmental funds.		1,133,165
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows of resources and deferred outflows of resources are not reported in the governmental funds:		
Deferred outflows of resources		5,636,655
Deferred inflows of resources		(1,533,352)
Net pension liability		(31,453,533)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
Compensated absences		(1,203,329)
Bonds payable		(29,752,037)
Unamortized bond premium		(1,598,586)
Capital lease payable		(119,714)
Interest payable		(111,527)
		(17,251,012)
Net position of governmental activities		\$ (17,251,012)

See accompanying notes to the basic financial statements.

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2017

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$ 11,801,827	\$ 1,794,632	\$ 13,596,459
Payment in lieu of taxes	261,056	-	261,056
Tuition and fees	1,087,892	-	1,087,892
Interest	39,251	1,324	40,575
Intergovernmental	6,651,698	1,255,930	7,907,628
Charges for services	-	258,064	258,064
Extracurricular	10,138	117,531	127,669
Other	230,953	128,070	359,023
Total revenues	20,082,815	3,555,551	23,638,366
Expenditures			
Current			
Instruction			
Regular	8,547,022	68,433	8,615,455
Special	2,479,851	618,328	3,098,179
Vocational	119,414	2,200	121,614
Other instruction	134,233	-	134,233
Supporting services			
Pupil	1,250,432	8,021	1,258,453
Instructional staff	633,175	10,993	644,168
Board of education	49,696	-	49,696
Administration	1,598,236	-	1,598,236
Fiscal services	563,769	35,353	599,122
Business	231,146	-	231,146
Operation and maintenance	1,701,486	172,006	1,873,492
Pupil transportation	1,066,863	-	1,066,863
Central services	234,952	4,530	239,482
Operation of non-instructional services	9,745	635,814	645,559
Extracurricular activities	439,492	141,904	581,396
Capital outlay	-	329,525	329,525
Debt service			
Principal	-	547,494	547,494
Interest	-	1,161,922	1,161,922
Total expenditures	19,059,512	3,736,523	22,796,035
Excess (deficiency) of revenues over (under) expenditures	1,023,303	(180,972)	842,331
Other financing sources (uses)			
Transfers-in	-	23,676	23,676
Transfers-out	(23,676)	-	(23,676)
Total other financing sources (uses)	(23,676)	23,676	-
Net change in fund balances	999,627	(157,296)	842,331
Fund balances, beginning of year	4,260,159	857,512	5,117,671
Fund balances, end of year	\$ 5,259,786	\$ 700,216	\$ 5,960,002

See accompanying notes to the basic financial statements.

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2017

Net change in fund balances - total governmental funds	\$	842,331
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their useful lives and reported as depreciation expense. This is the amount by which depreciation in the current period exceeded capital outlay and disposals.</p>		
	Capital outlay, net	\$ (71,360)
	Depreciation expense	<u>(540,285)</u>
		(611,645)
Revenues in the statement of activities (ie. property taxes, due from other governments) that do not provide current financial resources are not reported as revenue in the funds.		(202,423)
Contractually required contributions are reported as expenditures in governmental funds; however, the statement of activities reports these amounts as deferred outflows of resources.		1,546,755
Except for amounts reported as deferred outflows of resources or deferred inflows of resources, changes in the net pension liability are reported as pension expense in the statement of activities.		(1,948,495)
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.		547,494
Accrued interest expense in the statement of activities does not require the use of current financial resources and, therefore, is not reported as an expenditure in the governmental funds. In the statement of activities bond accretion, deferral on refunding and premiums are amortized over the term of the bonds, whereas in governmental funds, the expenditure and revenue is reported when the bonds are issued.		
	Accrued interest	(7,872)
	Deferral on refunding	(59,642)
	Annual accretion	(159,423)
	Amortization of premium	<u>80,739</u>
		(146,198)
Some expenses (ie. Compensated absences) reported in the statement of activities, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		<u>(187,439)</u>
Change in net position of governmental activities	\$	<u><u>(159,620)</u></u>

See accompanying notes to the basic financial statements.

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET BASIS (NON-GAAP) AND ACTUAL – GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2017

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues and other financing sources	\$ 20,214,412	\$ 20,253,627	\$ 20,479,344	\$ 225,717
Expenditures and other financing uses	20,093,875	20,693,875	18,957,272	1,736,603
Excess (deficiency) of revenues and other financing sources over(under) expenditures and other uses	120,537	(440,248)	1,522,072	1,962,320
Fund balance, beginning of year	4,281,600	4,281,600	4,281,600	-
Prior year encumbrances	146,851	146,851	146,851	-
Fund balance, end of year	<u>\$ 4,548,988</u>	<u>\$ 3,988,203</u>	<u>\$ 5,950,523</u>	<u>\$ 1,962,320</u>

See accompanying notes to the basic financial statements.

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

STATEMENT OF FIDUCIARY FUNDS -
ASSETS AND LIABILITIES - AGENCY FUND

JUNE 30, 2017

	<u>Agency Fund</u>
Assets	
Equity in pooled cash	\$ 106,830
Total assets	<u>\$ 106,830</u>
Liabilities	
Accounts and contracts payable	\$ 1,046
Due to students	98,350
Due to others	7,434
Total liabilities	<u>\$ 106,830</u>

See accompanying notes to the basic financial statements.

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. DESCRIPTION OF THE DISTRICT AND REPORTING ENTITY

The Sheffield-Sheffield Lake City School District (the School District) was established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The School District is a city school district as defined by Section 3311.03 of the Ohio Revised Code. The School District operates under an elected Board of Education consisting of five members and is responsible for providing public education to residents of the School District. Average daily membership for the fiscal year was 1,700. The School District employs 139 certificated and 114 non-certificated employees.

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

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

The School District is associated with Connect, the Lake Erie Regional Council of Governments (LERC), the Lorain County Joint Vocational School District, the Metropolitan Educational Technology Association (META) and the Ohio Schools Council. These organizations and their relationships with the School District are described in more detail in Note 19 to these financial statements.

B. BASIS OF PRESENTATION

The financial statements of the School 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. The following are the more significant of the School District's accounting policies.

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

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. BASIS OF PRESENTATION (continued)

Government-wide Financial Statements

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

The statement of net position presents the financial condition of the governmental activities of the School District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient for the 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 which are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

Fund Financial Statements

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

C. FUND ACCOUNTING

The School District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain School District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the District are grouped into the categories governmental, proprietary, and fiduciary.

Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. Governmental funds focus 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 of resources, liabilities and deferred inflows of resources is reported as fund balance. The following is the School District's major governmental fund:

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. FUND ACCOUNTING (continued)

Governmental Funds (continued)

General Fund - the General Fund is the operating fund of the School District and is used to account for all financial resources, except those required to be accounted for in another fund.

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

Proprietary Funds

Proprietary funds focus on the determination of the changes in net position, financial position, and cash flows. Proprietary funds are classified as enterprise or internal service. The School District has no enterprise or internal service funds.

Fiduciary Funds

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

D. MEASUREMENT FOCUS

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

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

E. BASIS OF ACCOUNTING

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

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. BASIS OF ACCOUNTING

Revenues - Exchange and Non-exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current fiscal year or 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 School District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 7). Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the 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.

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, grants, investment earnings, tuition, and student fees.

Deferred Outflows/Inflows of Resources - In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School District, deferred outflows of resources are reported on the government-wide statement of net position for deferred charges on refunding and for pension. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. See Note 12 for deferred outflows of resources related to pension.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the School District, deferred inflows of resources include property taxes, pension 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 on both the government-wide statement of net position and governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the School District, unavailable revenue includes delinquent property taxes. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension are reported on the government-wide statement of net position. (See Note 12).

Expenditures/Expenses

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The entitlement value of donated commodities received during the year is reported in the fund financial statements as an expenditure with a like amount reported as intergovernmental revenue. 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.

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. BUDGETARY PROCESS

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

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

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

G. CASH AND INVESTMENTS

Cash received by the School District is deposited in one central bank account with individual fund balance integrity maintained through School District records. Monies for all funds are maintained in this account or temporarily transferred to the State Treasurer's investment pool (STAR Ohio). Under existing Ohio statutes, interest earnings are allocated to funds based on average monthly cash balances. Interest income earned in the General Fund for the year ended June 30, 2017 was \$ 39,251 of which \$ 4,050 was assigned from other funds.

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

For fiscal year end 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.

Investments with an original maturity of three months or less at the time of purchase are considered to be cash equivalents.

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. INVENTORY

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Donated commodities are presented at their entitlement value.

On fund financial statements, inventories of governmental funds are stated at cost. Cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental funds when used.

I. RESTRICTED ASSETS

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of another government or imposed by enabling legislation.

J. CAPITAL ASSETS

General capital assets 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 on the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market values as of the date received. The School District's capitalization threshold is five thousand dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

<u>Description</u>	<u>Estimated Lives</u>
Buildings and improvements	50 years
Furniture and equipment	5 - 20 years
Vehicles	8 years

K. INTERFUND BALANCES

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

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

L. COMPENSATED ABSENCES

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

Sick leave benefits are accrued as a liability using the vesting method. The liability is based on an estimate of the amount of accumulated sick leave that will be paid as a termination benefit. The liability includes employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year-end, taking into consideration any limits specified in the School District's termination policy.

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported.

M. ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

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

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

N. UNAMORTIZED BOND PREMIUM

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.

On the governmental fund financial statements, bond premiums are recognized in the current period.

O. NET POSITION

Net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation and debt related to those capital assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

The government-wide statement of net position reports \$ 993,439 of restricted net position, of which none is restricted by enabling legislation.

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

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

P. FUND BALANCE

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

Nonspendable

The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable, as well as property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned.

Restricted

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

Committed

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

Assigned

Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the School District Board of Education.

Unassigned

Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

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

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Q. INTERFUND TRANSACTIONS

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures 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 to the funds that initially paid for them are not presented on the financial statements. These amounts are eliminated in the governmental activities column of the statement of net position.

R. ESTIMATES

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

S. 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.

NOTE 2 – CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2017, the School District implemented Governmental Accounting Standards Board (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 Statement No. 67, No. 68 and No. 73."

GASB Statement No. 77, "Tax Abatement Disclosures." The objective of this Statement is to provide financial statement users with essential information about the nature and magnitude of the reduction in tax revenues through tax abatement programs. The School District incorporated the corresponding GASB Statement No 77 guidance into their fiscal year 2017 financial statements; however, there is no effect on the beginning net position.

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

GASB Statement No. 80, "Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14." This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The implementation of GASB No. 80 did not have an effect on the financial statements of the School District.

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

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

NOTE 2 – CHANGE IN ACCOUNTING PRINCIPLES (continued)

GASB Statement No. 82 improves consistency in the application of pension accounting. These changes were incorporated in the School District's fiscal year 2017 financial statements; however, there was no effect on beginning net position/fund balance.

NOTE 3 - BUDGETARY BASIS OF ACCOUNTING

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).
4. Some funds are included in the General Fund (GAAP basis), but have a separate legally adopted budget (budget basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statement to the budgetary basis statement for the General Fund.

Net Change in Fund Balance	
	General Fund
Budget basis	\$ 1,522,072
Adjustments, increase (decrease)	
Revenue accruals	(396,529)
Expenditure accruals	(217,980)
Encumbrances	70,314
Funds budgeted separately	21,750
GAAP basis, as reported	\$ 999,627

NOTE 4 – ACCOUNTABILITY

DEFICIT BALANCES

At June 30, 2017, the following nonmajor governmental funds had deficit fund balances: the Food Service Fund of \$ 43,121, the Athletic Fund of \$ 3,696, the IDEA Part B Fund of \$ 22,189 and the Title I Fund of \$ 23,189. The General Fund is liable for deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities.

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

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

NOTE 5 – FUND BALANCE

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

<u>Fund Balance</u>	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Nonspendable			
Inventory	\$ 40,182	\$ 3,773	\$ 43,955
Restricted			
Capital improvements	-	181,712	181,712
Debt service	-	511,707	511,707
Other grants	-	10,205	10,205
MIS	-	57	57
Onenet	-	10,800	10,800
High school that works	-	17,655	17,655
Miscellaneous state grants	-	53,106	53,106
Race to the top	-	3,010	3,010
Early childhood education	-	386	386
	<u>-</u>	<u>788,638</u>	<u>788,638</u>
Assigned			
Subsequent year appropriations	573,017	-	573,017
Encumbrances	56,218	-	56,218
Other purposes	172,463	-	172,463
	<u>801,698</u>	<u>-</u>	<u>801,698</u>
Unassigned (deficit)	<u>4,417,906</u>	<u>(92,195)</u>	<u>4,325,711</u>
Total fund balance	<u>\$ 5,259,786</u>	<u>\$ 700,216</u>	<u>\$ 5,960,002</u>

NOTE 6 - DEPOSITS AND INVESTMENTS

A. LEGAL REQUIREMENTS

State statutes classify monies held by the School 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 School District Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

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

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

A. LEGAL REQUIREMENTS (continued)

Inactive deposits are public deposits 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 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 invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and 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 division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Commercial paper and bankers' acceptances (if authorized by the Board of Education), and;
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating 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 School District, and must be purchased with the expectation that it will be held to maturity.

Protection of the School 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.

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

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

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

A. LEGAL REQUIREMENTS(continued)

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 qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

B. DEPOSITS

Custodial credit risk is the risk that, in the event of a bank failure, the School District's deposits may not be returned. The School District does not have a deposit policy for custodial credit risk. At fiscal year end, the carrying amount of the School District's deposits was \$ 1,561,601 and the bank balance was \$ 1,564,503. Of the bank balance, \$ 250,000 was covered by federal depository insurance and \$ 1,314,503 was collateralized with securities held by the pledging institution's trust department not in the School District's name.

C. INVESTMENTS

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of June 30, 2017, the School District had the following investments:

	Maturity	Amortized Cost
Investment in State Treasurer's Investment Pool	n/a	\$ 5,425,380

The School District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs. The above table identifies the School District's recurring fair value measurements as of June 30, 2017. Star Ohio is reported at its share price, as discussed in Note 1G.

D. INTEREST RATE RISK

The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. The School District's investment policy limits investment portfolio maturities to five years or less.

E. CREDIT RISK

The School District follows the Ohio Revised Code that limits its investment choices. As of June 30, 2017, the School District's investments in Star Ohio were rated AAAM by Standard & Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized rating agency. The School District's investment policy does not specifically address credit risk beyond requiring the School District to only invest in securities authorized by State Statute.

F. CONCENTRATION OF CREDIT RISK

The School District places no limit on the amount that may be invested in any one issuer.

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

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

NOTE 7 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the School District. Real and public utility property tax revenues received in calendar year 2017 represent the collection of calendar year 2016 taxes. Real property taxes for 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 due June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility real and tangible personal property taxes for 2017 were levied after April 1, 2016, on the assessed values as of December 31, 2015, the lien date. Public utility real property is assessed at 35 percent of true value; tangible personal property is currently assessed at varying percentages of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

Tangible personal property tax revenue received during calendar 2017 (other than public utility property tax) represents the collection of 2017 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, furniture and fixtures is no longer levied and collected. Tangible personal property taxes received from telephone companies in calendar year 2017 were levied after October 1, 2016, on the value as of December 31, 2016. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30; however this year the settlement was late.

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

Accrued property taxes receivable represents delinquent taxes outstanding and real property, public utility property, and tangible personal property taxes which were 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, amounts to be received during the available period are not subject to reasonable estimation at June 30, nor were they levied to finance fiscal year 2017 operations. The receivable is therefore offset by a credit to deferred inflows of resources for that portion not intended to finance current year operations. The amount available as an advance was recognized as revenue.

The amount available as an advance at June 30, 2017, was \$ 916,211 in the General Fund, \$ 123,145 in the Debt Service Fund (nonmajor governmental fund) and \$ 21,067 in the Permanent Improvement Fund (nonmajor governmental fund). The amount available as an advance at June 30, 2016, was \$ 1,472,401 in the General Fund, \$ 199,048 in the Debt Service Fund (nonmajor governmental fund) and \$ 37,356 in the Permanent Improvement Fund (nonmajor governmental fund).

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

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

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

NOTE 7 - PROPERTY TAXES (continued)

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

	2016 Second - Half Collections			2017 First - Half Collections	
	Amount	%		Amount	%
Agricultural/Residential	\$ 204,440,330	65.82	%	\$ 204,455,110	66.37 %
Commercial/Industrial	98,503,790	31.72		95,291,800	30.93
Public Utilities	7,645,000	2.46		8,306,360	2.70
Total Assessed Value	<u>\$ 310,589,120</u>	<u>100.00</u>	%	<u>\$ 308,053,270</u>	<u>100.00 %</u>
Tax rate per \$1,000 of assessed valuation	<u>\$ 70.66</u>			<u>\$ 70.84</u>	

NOTE 8 - RECEIVABLES

Receivables at June 30, 2017, consisted of property taxes, accounts receivable and amounts due from other governments. All receivables are considered substantially collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables are expected to be collected within one year.

A summary of the principal items due from other governments follows:

	Amount
Governmental Funds:	
General Fund	\$ 85,370
Nonmajor Funds	
IDEA	19,298
Title I	22,565
Total due from other governments	<u>\$ 127,233</u>

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

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

NOTE 9 – INTERFUND ADVANCES AND TRANSFERS

The School District did not have any interfund receivables and payables at June 30, 2017.

During the year ended June 30, 2017, interfund transfers were made from the General Fund to the Athletic Fund and Entry Year Program Fund for operating activities of those funds. All transfers were made 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.

NOTE 10 - CAPITAL ASSETS

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

	Balance June 30, 2016	Additions	Disposals	Balance June 30, 2017
Governmental Activities				
Nondepreciable capital assets				
Land	\$ 540,878	\$ -	\$ -	\$ 540,878
Total nondepreciable capital assets	<u>540,878</u>	<u>-</u>	<u>-</u>	<u>540,878</u>
Depreciable capital assets				
Buildings and improvements	38,097,392	-	561,355	37,536,037
Furniture and equipment	946,805	7,278	152,769	801,314
Vehicles	1,655,031	127,900	-	1,782,931
Total capital assets being depreciated	<u>40,699,228</u>	<u>135,178</u>	<u>714,124</u>	<u>40,120,282</u>
Less accumulated depreciation				
Buildings and improvements	3,570,429	410,098	358,028	3,622,499
Furniture and equipment	628,041	56,629	149,558	535,112
Vehicles	1,387,378	73,558	-	1,460,936
Total accumulated depreciation	<u>5,585,848</u>	<u>540,285</u>	<u>507,586</u>	<u>5,618,547</u>
Depreciable capital assets, net of accumulated depreciation	<u>35,113,380</u>	<u>(405,107)</u>	<u>206,538</u>	<u>34,501,735</u>
Governmental activities capital assets, net	<u>\$ 35,654,258</u>	<u>\$ (405,107)</u>	<u>\$ 206,538</u>	<u>\$ 35,042,613</u>

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

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

NOTE 10 - CAPITAL ASSETS (continued)

Depreciation expense was charged to governmental functions as follows:

Instruction		
Regular	\$	3,456
Special		7,723
Supporting services		
Instructional staff		6,292
Board of education		1,166
Administration		1,166
Fiscal services		933
Operation and maintenance		454,090
Pupil transportation		62,999
Operation of non-instructional services		946
Extracurricular activities		1,514
Total depreciation expense	\$	<u>540,285</u>

NOTE 11 - RISK MANAGEMENT

A. PROPERTY AND LIABILITY

The School District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During fiscal year 2017, the School District contracted with the Ohio Casualty Company for property and casualty insurance. Professional liability is covered by the Ohio School Council with a \$ 1,000,000 per occurrence and a \$ 3,000,000 aggregate limit. Settled claims have not exceeded this commercial coverage in any of the past several years. There was no significant reduction in coverage from the prior year.

Travelers Casualty & Surety Company of America maintains performance bonds of \$ 20,000 for the superintendent and the board president. A surety bond in the amount of \$ 100,000 also covers the Treasurer. The remaining employees who handle money are covered with a public employee's dishonesty insurance bond in the amount of \$ 50,000.

B. WORKERS' COMPENSATION

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

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2017

NOTE 12 - DEFINED BENEFIT PENSION PLANS

A. NET PENSION LIABILITY

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

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

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

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 due to other governments on both the accrual and modified accrual bases of accounting.

B. PLAN DESCRIPTION - SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS)

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

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

NOTE 12 - DEFINED BENEFIT PENSION PLANS (continued)

B. PLAN DESCRIPTION - SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) (continued)

Age and service requirements for retirement are as follows:

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

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

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

The School District's contractually required contribution to SERS was \$ 386,310 for fiscal year 2017. Of this amount \$ 49,542 is reported as a due to other governments.

C. PLAN DESCRIPTION - STATE TEACHERS RETIREMENT SYSTEM (STRS)

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

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2017

NOTE 12 - DEFINED BENEFIT PENSION PLANS (continued)

C. PLAN DESCRIPTION - STATE TEACHERS RETIREMENT SYSTEM (STRS) (continued)

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

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.

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

The School District's contractually required contribution to STRS was \$1,160,445 for fiscal year 2017. Of this amount \$ 148,625 is reported as a due to other governments.

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 12 - DEFINED BENEFIT PENSION PLANS (continued)

D. PENSION LIABILITIES, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate share of the net pension liability	\$ 6,477,610	\$ 24,975,923	\$ 31,453,533
Pension expense	\$ 680,899	\$ 1,267,596	\$ 1,948,495
Proportion of the net pension liability Prior measurement date	0.092471%	0.07939929%	
Proportion of the net pension liability Current measurement date	<u>0.088503%</u>	<u>0.07461510%</u>	
	<u>-0.003968%</u>	<u>-0.004784%</u>	

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred outflows of resources			
Differences between expected and actual experience	\$ 98,264	\$ 1,065,724	\$ 1,163,988
Net difference between projected and actual earnings on pension plan investments	504,468	1,845,036	2,349,504
Change in assumptions	432,416	-	432,416
Difference between employer contributions and proportionate share of contributions	123,120	20,872	143,992
School District contributions subsequent to the measurement date	<u>386,310</u>	<u>1,160,445</u>	<u>1,546,755</u>
Total deferred outflows of resources	<u>\$ 1,544,578</u>	<u>\$ 4,092,077</u>	<u>\$ 5,636,655</u>
Deferred inflows of resources			
Difference between employer contributions and proportionate share of contributions	<u>\$ 174,073</u>	<u>\$ 1,359,279</u>	<u>\$ 1,533,352</u>
Total deferred inflows of resources	<u>\$ 174,073</u>	<u>\$ 1,359,279</u>	<u>\$ 1,533,352</u>

\$ 1,546,755 reported as deferred outflows of resources related to pension resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 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:

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

NOTE 12 - DEFINED BENEFIT PENSION PLANS (continued)

D. PENSION LIABILITIES, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS (continued)

Fiscal Year Ending June 30:	SERS	STRS	Total
2017	\$ 231,732	\$ 19,295	\$ 251,027
2018	233,748	28,843	262,591
2019	365,124	939,733	1,304,857
2020	153,591	584,482	738,073
	<u>\$ 984,195</u>	<u>\$ 1,572,353</u>	<u>\$ 2,556,548</u>

E. 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 of net of investments expense, including inflation
Actuarial cost method	Early age normal (level percent of payroll)

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

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

NOTE 12 - DEFINED BENEFIT PENSION PLANS (continued)

E. ACTUARIAL ASSUMPTIONS – SERS (continued)

The most recent experience study was completed June 30, 2010.

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:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Cash	1.00%	0.50%
U.S. stocks	22.50%	4.75%
Non-U.S. stocks	22.50%	7.00%
Fixed income	19.00%	1.50%
Private equity	10.00%	8.00%
Real assets	15.00%	5.00%
Multi-asset strategies	10.00%	3.00%
	100.00%	

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

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

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
School District's proportionate share of the net pension liability	\$ 8,575,952	\$ 6,477,610	\$ 4,721,211

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 12 - DEFINED BENEFIT PENSION PLANS (continued)

F. 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	12.25 percent at age 20 to 2.75 percent at age 70
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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic equity	31.00%	8.00%
International equity	26.00%	7.85%
Alternatives	14.00%	8.00%
Fixed income	18.00%	3.75%
Real estate	10.00%	6.75%
Liquidity reserves	1.00%	3.00%
	<u>100.00%</u>	

*10-Year annualized geometric nominal returns, which include the real rate of return and inflation of 2.50 percent and does not include investment 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.

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.

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

NOTE 12 - DEFINED BENEFIT PENSION PLANS (continued)

F. ACTUARIAL ASSUMPTIONS – STRS (continued)

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$ 33,190,972	\$ 24,975,923	\$ 18,046,045

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

NOTE 13 - POSTEMPLOYMENT BENEFITS

A. SCHOOL EMPLOYEES RETIREMENT SYSTEM

Health Care Plan Description - The School District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 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.

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, the 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, SERS did not allocate any employer contributions to the Health Care fund.

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NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2017

NOTE 13 - POSTEMPLOYMENT BENEFITS (continued)

A. SCHOOL EMPLOYEES RETIREMENT SYSTEM

In additions, 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 the 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 School District's surcharge obligation was \$ 47,085.

For fiscal years 2016 and 2017, SERS did not allocate employer contributions to the Health Care fund. The School District's contributions for health care for the fiscal years ended June 30, 2017, 2016 and 2015 were \$ 47,085, \$ 44,939 and \$ 22,021, respectively. The full amount has been contributed for all fiscal years.

B. STATE TEACHERS RETIREMENT SYSTEM

Plan Description – The School District participates in the cost-sharing multiple-employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS) 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 Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2017, STRS did not allocate any employer contributions to post-employment health care. For fiscal years 2017, 2016, and 2015, STRS did not allocate any employer contributions to post-employment health care; therefore, the School District did not contribute to health care in the last three fiscal years.

NOTE 14 – BONDS PAYABLE

The original issue date, interest rate, original issuance and date of maturity for each of the School District's bonds payable follow:

	Original Issue	Interest Rate	Original Issue Amount	Date of Maturity
General obligation bonds				
School improvement				
Serial	2011	2.0 - 5.0%	11,670,000	12/1/2031
Term	2011	5.00%	1,920,000	12/1/2037
Term	2011	4.50%	8,690,000	12/1/2041
Capital appreciation bonds	2011	19.86%	82,963	12/1/2018
Capital appreciation bonds	2011	19.86%	111,957	12/1/2019
School refunding				
Serial	2016	2.0 - 4.0%	4,755,000	12/1/2034
Term	2016	4.00%	3,735,000	12/1/2036
Capital appreciation bonds	2016	116.12%	34,998	12/1/2025

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

NOTE 15 - LONG-TERM OBLIGATIONS

The general obligation bonds issued during fiscal year 2012 were for new construction and improvements of the School District's facilities and included serial, term and capital appreciation bonds. The present value (as of issue date) reported in the Statement of Net Position at June 30, 2017 was \$ 21,219,265. The accreted interest of \$ 394,344 has been included in the Statement of Net Position at June 30, 2017. This year the addition to these bonds was \$ 101,649 which represents the increase in the accretion of interest. The final amount of these bonds will be \$ 855,000 payable through December 2019.

The refunding bonds issued during fiscal year 2016 included serial, term and capital appreciation bonds. The present value (as of issue date) reported in the Statement of Net Position at June 30, 2017 was \$ 8,532,772. The accreted interest of \$ 57,774 has been included in the Statement of Net Position at June 30, 2017. This year the addition to these bonds was \$ 57,774 which represents the increase in the accretion of interest. The final amount of these bonds will be \$ 720,000 payable through December 2025.

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

	Balance June 30, 2016	Additions	Retired	Balance June 30, 2017	Amounts Due In One Year
School improvement bonds(2011)	\$ 21,060,002	\$ -	\$ 430,000	\$ 20,630,002	\$ 450,000
School improvement CABs(2011)	194,919	-	-	194,919	-
School refunding bonds(2016)	8,490,000	-	50,000	8,440,000	-
School refunding CABS(2016)	34,998	-	-	34,998	20,940
	<u>29,779,919</u>	<u>-</u>	<u>480,000</u>	<u>29,299,919</u>	<u>470,940</u>
Accretion on CABs	292,695	159,423	-	452,118	57,774
Premium on bonds	1,679,325	-	80,739	1,598,586	-
Net pension liability					
SERS	5,276,491	1,201,119	-	6,477,610	-
STRS	21,943,641	3,032,282	-	24,975,923	-
	<u>27,220,132</u>	<u>4,233,401</u>	<u>-</u>	<u>31,453,533</u>	<u>-</u>
Capital leases	187,208	-	67,494	119,714	70,524
Compensated absences	1,033,425	222,694	26,395	1,229,724	188,555
	<u>\$ 60,192,704</u>	<u>\$ 4,615,518</u>	<u>\$ 654,628</u>	<u>\$ 64,153,594</u>	<u>\$ 787,793</u>

During 2016, the School District issued \$ 8,524,998 of general obligation refunding bonds to provide resources to advance refund a portion of the bonds issued in 2011. As a result those bonds are considered defeased and the liability has been removed from the governmental activities of the statement of net position. The reacquisition price exceeded the net carrying amount of the old debt by \$ 1,192,807. This amount is recorded as a deferred outflow of resources – deferral on refunding and amortized over the life of the new debt.

The School District defeased some of the 2011 general obligation bonds in 2016 by placing the proceeds of the new bonds in an escrow fund. Accordingly, escrow fund account assets and liability for the defeased bonds are not included in the School District's financial statements. At June 30, 2017, \$ 8,525,000 of bonds outstanding are considered to be defeased.

The school improvement bonds and school refunding bonds will be repaid from the Debt Service Fund (nonmajor governmental fund.) The capital lease will be repaid from the Permanent Improvement Fund (nonmajor governmental fund.) The compensated absences will be repaid from the funds from which employee's salaries are paid.

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

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

NOTE 15 - LONG-TERM OBLIGATIONS (continued)

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

Year ending June 30,	Principal	Interest	Total
2018	\$ 470,940	\$ 1,153,516	\$ 1,624,456
2019	241,344	1,213,698	1,455,042
2020	115,311	1,219,880	1,335,191
2021	546,344	1,223,033	1,769,377
2022	575,537	1,216,871	1,792,408
2023-2027	3,205,443	6,345,034	9,550,477
2028-2032	5,675,000	4,617,612	10,292,612
2033-2037	7,860,000	3,347,243	11,207,243
2038-2042	10,610,000	1,703,925	12,313,925
	<u>\$ 29,299,919</u>	<u>\$ 22,040,812</u>	<u>\$ 51,340,731</u>

NOTE 16 – CAPITAL LEASES

The School District has entered into a capital lease agreement for computer equipment. The computer equipment was below the capitalization threshold for each item and therefore not recorded as a capital asset. The future minimum lease obligation and the net present value of the minimum lease payments as of June 30, 2017 are as follows:

	Year ending June 30,	Amount
	2018	\$ 75,900
	2019	45,273
	2020	6,400
Total minimum lease payments		127,573
Less amount representing interest		7,859
Net present value of minimum lease payments		<u>\$ 119,714</u>

NOTE 17 – OPERATING LEASES

The School District is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations. During 2017, expenditures for operating leases totaled \$ 80,724. The following is a schedule of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2017.

	Year ending June 30,	Amount
	2018	\$ 80,724
	2019	80,724
	2020	53,816
Total minimum lease payments		<u>\$ 215,264</u>

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

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

NOTE 18 – SET-ASIDES

The School District is required by State statute to annually set aside, in the General Fund, an amount based on a statutory formula for the acquisition and construction of capital improvements.

The following cash basis information identifies the changes in the fund balance reserves for capital improvements during fiscal year 2017.

	Capital Improvements
Set aside reserve balance June 30, 2016	\$ -
Current year set aside requirement	299,684
Current year qualifying expenditures	(622,391)
Current year offset	(314,483)
Totals	\$ (637,190)
Set aside reserve balance June 30, 2017	\$ -

Expenditures and offset credits for capital maintenance during the year were \$ 936,874. The capital maintenance expenditures exceeded statutory requirement for fiscal year 2017. However, the excess amount cannot be used to offset future years' set-aside requirements.

NOTE 19 - JOINTLY GOVERNED ORGANIZATIONS

A. CONNECT

The North Coast Council became known as Connect effective April 1, 2016. The new governing Board of Directors, the Educational Service Centers of Cuyahoga, Lorain and Medina County and the Ohio Schools Council, have accepted the ownership, responsibility and liability of Connect in order to provide exemplary service to member districts. The Superintendent/Executive Director of the three ESCs and Ohio Schools Council shall serve on Connect's Board of Directors. The purpose of Connect is applying modern technology (with the aid of computers and other electronic equipment) to administrative and instructional functions for member districts. Fiscal information for Connect is available from the Treasurer of the Educational Service Center of Cuyahoga County (fiscal agent), located at 6393 Oak Tree Boulevard, Independence, Ohio 44131. During the year ended June 30, 2017, the School District paid \$ 10,159 to Connect for basic service charges.

B. LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS (LERC)

The Lake Erie Regional Council of Governments (LERC) is a jointly governed organization among 17 school districts. The jointly governed organization was formed for the purpose of promoting cooperative agreements and activities among its members in dealing with problems of mutual concern such as a media center, gas consumption, food service and insurance. Each member provided operating resources to LERC on a per-pupil or actual usage charge, except for insurance.

The LERC assembly consists of a superintendent or designated representative from each participating district and the fiscal agent. A board of directors chosen from the general membership governs LERC. The degree of control exercised by any participating district is limited to its representation on the board. Financial information can be obtained by contacting the Treasurer at the Educational Service Center of Lorain County located at 1885 Lake Avenue, Elyria, Ohio 44035. During the year ended June 30, 2017, the School District paid \$ 2,537,644 to LERC for basic service charges.

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2017

NOTE 19 - JOINTLY GOVERNED ORGANIZATIONS (continued)

C. LORAIN COUNTY JOINT VOCATIONAL SCHOOL DISTRICT

The Lorain County Joint Vocational School District is a jointly governed organization. The jointly governed organization was formed for the purpose of providing vocational and special education needs of the students. The Lorain County Joint Vocational School Board is comprised of representatives from each participating school district and is responsible for approving its own budgets, appointing personnel, and accounting and financing related activities.

The degree of control exercised by any participating district is limited to its representation on the board. Financial information can be obtained by contacting the Treasurer at the Lorain County Joint Vocational School District located at 15181 State Route 58, Oberlin, Ohio 44074.

D. METROPOLITAN EDUCATIONAL TECHNOLOGY ASSOCIATION (META)

The School District is a participant in the Metropolitan Educational Technology Association (META), which is a computer consortium. META is an association of public school districts within the boundaries of Delaware, Knox, Marion, Morrow, Muskingum and Wyandot Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of META consist of one representative from each County elected by majority vote of all charter member school districts within each County, one representative from the City school districts and the superintendent from Tri-Rivers Joint Vocational School. Financial information can be obtained from META, 100 Executive Drive, Marion, Ohio 43302. During the year ended June 30, 2017, the School District paid \$ 94,378 to META for basic service charges.

E. OHIO SCHOOLS COUNCIL

The Ohio Schools' Council Association (Council) is a jointly governed organization among 126 school districts. The jointly governed organization was created by school districts for the purpose of saving money through volume purchases. Each district supports the Council by paying an annual participation fee. Each school district member's superintendent serves as a representative of the Assembly. The Assembly elects five of the Council's Board members and the remaining four are representatives of the Greater Cleveland School Superintendents' Associations. The Council operates under a nine-member Board of Directors (the Board). The Board is the policy making authority of the Council. The Board meets monthly September to June. The Board appoints an Executive Director who is responsible for receiving and disbursing funds, investing available funds, preparing financial reports for the Board and Assembly and carrying out such other responsibilities as designated by the Board. In fiscal year 2017, the School District paid \$ 35,732 to the Council. Financial information can be obtained by contacting David Cottrell, the Executive Director of the Ohio Schools' Council at 6133 Rockside Road, Suite 10, Independence, Ohio 44131.

The School District participates in the natural gas purchase program. This program allows the School District to purchase natural gas at reduced rates. Energy USA served as the natural gas supplier and program manager from October 1, 2008 to September 30, 2010. Compass Energy has been selected as the new supplier and program manager for the period from October 1, 2010 through March 31, 2013. There are currently 143 participants in the program including the Sheffield-Sheffield Lake City School District. The participants make monthly payments based on estimated usage. Each September, these estimated payments are compared to their actual usage for the year (July to June). Districts that paid more in estimated billings than their actual billings are issued credits on future billings beginning in September until the credits are exhausted and districts that did not pay enough on estimated billings are invoiced for the difference on the September monthly estimated billing.

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

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

NOTE 20 – CONTINGENCIES

A. GRANTS

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and subject to audit by the grantor agencies.

Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2017.

B. FOUNDATION FUNDING

School District foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end. As of the date of this report, additional ODE adjustments for fiscal year 2017 are not finalized. As a result, the impact of future FTE adjustments on the fiscal year 2017 financial statements is not determinable, at this time. Management believes this may result in either an additional receivable to, or a liability of, the School District.

NOTE 21 – 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:

Fund	Year End Encumbrances
General Fund	\$ 77,557
Nonmajor governmental funds	118,922
	\$ 196,479

NOTE 22 – TAX ABATEMENT

On February 12, 2014, the Village of Sheffield entered into an Ohio Enterprise Zone Agreement with Oldcastle APG South, Inc. which granted them a ten-year real estate tax abatement. The tax abatement will reduce their real estate taxes by seventy-five percent for years one through five and sixty percent for years six through ten. The agreement also stipulates that Oldcastle APG South, Inc. is obligated to make payments in lieu of taxes to the School District in the amount of \$ 9,058 for each year through year five and \$ 5,746 for each year six through ten. For fiscal year 2017, the School District’s tax revenue will be reduced by approximately \$41,000.

NOTE 23 – SUBSEQUENT EVENTS

In August of 2017, the School District refunded School Improvement Bonds issued in 2011 in the amount of \$ 8,894,922 for the purpose of reducing the amount of interest the School District would pay over the life the 2011 School Improvement Bonds.

In September of 2017, the School District entered into a lease agreement for instructional equipment. The lease commitment is for \$ 114,338 for 3 years. The semi-annual payment will be \$ 19,056.

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REQUIRED SUPPLEMENTARY INFORMATION

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION
LIABILITY – SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

LAST FOUR YEARS (1)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
School District's proportion of the net pension liability	0.088503%	0.092471%	0.092684%	0.092684%
School District's proportionate share of the net pension liability	6,477,610	5,276,491	\$ 4,690,684	\$ 5,511,620
School District's covered-employee payroll	3,031,371	2,852,527	\$ 2,550,830	\$ 2,820,173
School District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	213.69%	184.98%	183.89%	195.44%
Plan fiduciary net position as a percentage of the total pension liability	62.98%	69.16%	71.70%	65.52%

(1) Information prior to 2014 is not available

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION
LIABILITY – STATE TEACHERS RETIREMENT SYSTEM OF OHIO

LAST FOUR YEARS (1)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
School District's proportion of the net pension liability	0.07461510%	0.07939929%	0.08155248%	0.08155248%
School District's proportionate share of the net pension liability	\$ 24,975,923	\$ 21,943,641	\$ 19,836,385	\$ 23,628,973
School District's covered-employee payroll	\$ 8,131,493	\$ 7,834,793	\$ 8,362,858	\$ 8,964,961
School District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	307.15%	280.08%	237.20%	263.57%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	72.10%	74.70%	69.30%

(1) Information prior to 2014 is not available

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF SCHOOL DISTRICT CONTRIBUTIONS -
SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

LAST TEN FISCAL YEARS

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 386,310	\$ 424,392	\$ 375,963	\$ 353,545
Contributions in relation to the contractually required contribution	<u>(386,310)</u>	<u>(424,392)</u>	<u>(375,963)</u>	<u>(353,545)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School District covered-employee payroll	\$ 2,759,357	\$ 3,031,371	\$ 2,852,527	\$ 2,550,830
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	13.18%	13.86%

<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
\$ 390,312	\$ 384,806	\$ 373,005	\$ 369,374	\$ 340,208	\$ 345,228
<u>(390,312)</u>	<u>(384,806)</u>	<u>(373,005)</u>	<u>(369,374)</u>	<u>(340,208)</u>	<u>(345,228)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 2,820,173	\$ 2,861,011	\$ 2,967,422	\$ 2,728,021	\$ 3,457,398	\$ 3,515,560
13.84%	13.45%	12.57%	13.54%	9.84%	9.82%

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF SCHOOL DISTRICT CONTRIBUTIONS -
STATE TEACHERS RETIREMENT SYSTEM OF OHIO

LAST TEN FISCAL YEARS

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 1,160,445	\$ 1,138,409	\$ 1,096,871	\$ 1,087,171
Contributions in relation to the contractually required contribution	<u>(1,160,445)</u>	<u>(1,138,409)</u>	<u>(1,096,871)</u>	<u>(1,087,171)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School District covered-employee payroll	\$ 8,288,893	\$ 8,131,493	\$ 7,834,793	\$ 8,362,858
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	14.00%	13.00%

<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
\$ 1,165,445	\$ 1,171,955	\$ 1,129,424	\$ 1,096,108	\$ 1,025,143	\$ 1,030,455
<u>(1,165,445)</u>	<u>(1,171,955)</u>	<u>(1,129,424)</u>	<u>(1,096,108)</u>	<u>(1,025,143)</u>	<u>(1,030,455)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 8,964,961	\$ 9,015,039	\$ 8,687,876	\$ 8,431,600	\$ 7,885,717	\$ 7,926,578
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE 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 disabled members 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 benefits 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. See the notes to the basic financial statements for the methods and assumptions in this calculation.

SUPPLEMENTARY INFORMATION

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**SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	(A) PASS-THROUGH GRANT NUMBER	(B) CASH FEDERAL EXPENDITURES
U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION			
Child Nutrition Cluster:			
(D)(E) School Breakfast Program	10.553	2017	\$ 99,640
(D)(E) National School Lunch Program	10.555	2017	301,132
(C)(D) National School Lunch Program - Food Donation	10.555	2017	57,269
Total National School Lunch Program			<u>358,401</u>
Total Child Nutrition Cluster			<u>458,041</u>
State Administrative Expenses for Child Nutrition	10.560	2017	148
Total U.S. Department of Agriculture			<u>458,189</u>
U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION			
Title I Grants to Local Educational Agencies	84.010	2016	19,944
Title I Grants to Local Educational Agencies	84.010	2017	285,408
Total Title I Grants to Local Educational Agencies			<u>305,352</u>
Special Education Grant Cluster:			
(F) Special Education_Grants to States	84.027	2016	17,644
(F) Special Education_Grants to States	84.027	2017	264,128
Total Special Education_Grants to States			<u>281,772</u>
(F) Special Education_Preschool Grants	84.173	2017	8,179
Total Special Education Grant Cluster			<u>289,951</u>
Improving Teacher Quality State Grants	84.367	2017	50,265
Total U.S. Department of Education			<u>645,568</u>
Total Federal Financial Assistance			<u>\$ 1,103,757</u>

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

- (A) OAKS did not assign pass-through numbers for fiscal year 2017.
- (B) This schedule includes the federal award activity of the Sheffield-Sheffield Lake City School District under programs of the federal government for the fiscal year ended June 30, 2017 and is prepared in accordance with the cash basis of accounting. 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 Sheffield-Sheffield Lake City School District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Sheffield-Sheffield Lake City School District.
- (C) The Food Donation Program is a non-cash, in kind, federal grant. Commodities are reported at the entitlement value.
- (D) Included as part of the "Child Nutrition Cluster" in determining major programs.
- (E) Commingled with state and local revenue from sales of breakfast and lunches; assumed expenditures were made on a first-in, first-out basis.
- (F) Included as part of the "Special Education Grant Cluster" in determining major programs.
- (G) CFR Section 200.414 of the Uniform Guidance allows a non-federal entity that has never received a negotiated indirect cost rate to charge a de minimis rate of 10% of modified total direct costs to indirect costs. The District has elected not to use the 10% de minimis indirect cost rate.

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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***

Sheffield-Sheffield Lake City School District
Lorain County
1824 Harris Road
Sheffield, Ohio 44054

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 Sheffield-Sheffield Lake City School District, Lorain County, Ohio, as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Sheffield-Sheffield Lake City School District's basic financial statements and have issued our report thereon dated November 22, 2017.

Internal Control Over Financial Reporting

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

Board of Education
Sheffield-Sheffield Lake City School District

Compliance and Other Matters

As part of reasonably assuring whether the Sheffield-Sheffield Lake City School 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 Sheffield-Sheffield Lake City School District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Sheffield-Sheffield Lake City School District's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.
November 22, 2017



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Serving Ohio Local Governments

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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**

Sheffield-Sheffield Lake City School District
Lorain County
1824 Harris Road
Sheffield, Ohio 44054

To the Board of Education:

Report on Compliance for the Major Federal Program

We have audited the Sheffield-Sheffield Lake City School District's 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 Sheffield-Sheffield Lake City School District's major federal program for the fiscal year ended June 30, 2017. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the Sheffield-Sheffield Lake City School District's major federal program.

Management's Responsibility

The Sheffield-Sheffield Lake City School 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 Sheffield-Sheffield Lake City School District's compliance for the Sheffield-Sheffield Lake City School 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 Sheffield-Sheffield Lake City School 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 Sheffield-Sheffield Lake City School District's major program. However, our audit does not provide a legal determination of the Sheffield-Sheffield Lake City School District's compliance.

Board of Education
Sheffield-Sheffield Lake City School District

Opinion on the Major Federal Program

In our opinion, the Sheffield-Sheffield Lake City School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the fiscal year ended June 30, 2017.

Report on Internal Control Over Compliance

The Sheffield-Sheffield Lake City School 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 Sheffield-Sheffield Lake City School District's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the Sheffield-Sheffield Lake City School 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.



Julian & Grube, Inc.
November 22, 2017

**SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY, OHIO**

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

1. SUMMARY OF AUDITOR'S RESULTS		
<i>(d)(1)(i)</i>	<i>Type of Financial Statement Opinion</i>	Unmodified
<i>(d)(1)(ii)</i>	<i>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(ii)</i>	<i>Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(iii)</i>	<i>Was there any reported material noncompliance at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(iv)</i>	<i>Were there any material internal control weaknesses reported for major federal programs?</i>	No
<i>(d)(1)(iv)</i>	<i>Were there any significant deficiencies in internal control reported for major federal programs?</i>	No
<i>(d)(1)(v)</i>	<i>Type of Major Program's Compliance Opinion</i>	Unmodified
<i>(d)(1)(vi)</i>	<i>Are there any reportable findings under 2 CFR §200.516(a)?</i>	No
<i>(d)(1)(vii)</i>	<i>Major Program (listed):</i>	Title I Grants to Local Educational Agencies (CFDA #84.010)
<i>(d)(1)(viii)</i>	<i>Dollar Threshold: Type A/B Programs</i>	Type A: >\$750,000 Type B: all others
<i>(d)(1)(ix)</i>	<i>Low Risk Auditee under 2 CFR § 200.520?</i>	Yes

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

**SHEFFIELD-SHEFFIELD LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY, OHIO**

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

Finding Number	Year Initially Occurred	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid
2016-001	2015	<u>Material Noncompliance</u> - Ohio Revised Code Section 5705.36 in part, requires subdivisions to request increased or reduced amended certificates of estimated resources upon determination by the fiscal officer that revenue to be collected will be greater or less than the amount in the last certified amended certificate. The District did not request timely amended certificates throughout the fiscal year upon notice of increased or decreased resources.	Yes	N/A
2016-002	2015	<u>Material Noncompliance</u> - Ohio Revised Code Section 5705.39 requires that a subdivision's total appropriations from each fund should not exceed total estimated resources. The District had total appropriations exceeding total estimated resources in multiple funds at June 30, 2016.	Yes	N/A
2016-003	2015	<u>Material Noncompliance</u> - Ohio Revised Code Section 5705.36 (A)(4) states that upon a determination by the fiscal officer of a subdivision that the revenue to be collected by the subdivision will be less than the amount included in an official certificate and that the amount of the deficiency will reduce available resources below the level of current appropriations, the fiscal officer shall certify the amount of the deficiency to the commission, and the commission shall certify an amended certificate reflecting the deficiency. The District had appropriations in excess of actual resources, which consists of actual revenues and beginning unencumbered fund balance, in multiple funds at June 30, 2016.	Yes	N/A



Dave Yost • Auditor of State

SHEFFIELD – SHEFFIELD LAKE CITY SCHOOL DISTRICT

LORAIN 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
JANUARY 18, 2018**