



Dave Yost • Auditor of State



**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY  
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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Garfield Heights City School District, Cuyahoga County, Ohio (the District), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

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

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

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the District's internal control. Accordingly, we express no 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.

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**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Garfield Heights City School District, Cuyahoga County, Ohio, as of June 30, 2015, and the respective changes in financial position thereof and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 3 to the financial statements, during the year ended June 30, 2015, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and also GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. We did not modify our opinion regarding this matter.

**Other Matters**

*Required Supplementary Information*

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

*Supplementary and Other Information*

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

The Schedule of Federal Awards Expenditures (the Schedule) presents additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is not a required part of the financial statements.

The Schedule is management's responsibility, and is derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this Schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling the Schedule 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 Schedule 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 June 14, 2016, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

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

June 14, 2016

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# **Garfield Heights City School District**

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2015*

*Unaudited*

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The discussion and analysis of the Garfield Heights City School District's (the School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2015. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

## **Financial Highlights**

Key financial highlights for fiscal year 2015 are as follows:

- ❑ On June 4, 2015, the School District refunded a portion of the 2006 refunding bonds in order to take advantage of lower interest rates. The refunding resulted in a cash flow gain of \$1,263,120 over the next ten years.
- ❑ The School District implemented GASB 68 and GASB 71, which establish standards for measuring and recognizing pension liabilities, deferred outflows/inflows of resources, and expense/expenditure. The implementation of these GASB statements resulted in a significant change to the financial statements for the School District.

## **Using this Financial Report**

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

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

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

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

While these statements contain information about the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2015?" The Statement of Net Position and the Statement of Activities answer this question. These statements include all non-fiduciary assets and deferred outflows of resources and liabilities and deferred inflows of resources using the accrual basis of accounting, similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

## **Garfield Heights City School District**

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2015*

*Unaudited*

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

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

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

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

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

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

**Garfield Heights City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2015*  
*Unaudited*

**The School District as a Whole**

Recall that the statement of net position provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net position for the fiscal year 2015 compared to fiscal year 2014:

**Table 1**  
 Net Position  
 Governmental Activities

	2015	Restated 2014	Change
<b>Assets</b>			
Current and Other Assets	\$33,905,522	\$33,874,759	\$30,763
Capital Assets, Net	53,152,621	54,336,272	(1,183,651)
<i>Total Assets</i>	<u>87,058,143</u>	<u>88,211,031</u>	<u>(1,152,888)</u>
<b>Deferred Outflows of Resources</b>			
Deferred Charge on Refunding	2,179,649	1,570,661	608,988
Pension	5,071,215	3,053,802	2,017,413
<i>Total Deferred Outflows of Resources</i>	<u>7,250,864</u>	<u>4,624,463</u>	<u>2,626,401</u>
<b>Liabilities</b>			
Current Liabilities	5,616,699	5,111,791	504,908
Long-Term Liabilities			
Due Within One Year	3,009,360	3,338,535	(329,175)
Due in More Than One Year:			
Net Pension Liability	51,233,377	59,258,211	(8,024,834)
Other Amounts	49,360,674	50,824,390	(1,463,716)
<i>Total Liabilities</i>	<u>109,220,110</u>	<u>118,532,927</u>	<u>(9,312,817)</u>
<b>Deferred Inflows of Resources</b>			
Property Taxes	12,395,508	14,078,456	(1,682,948)
Pension	9,267,850	0	9,267,850
<i>Total Deferred Inflows of Resources</i>	<u>21,663,358</u>	<u>14,078,456</u>	<u>7,584,902</u>
<b>Net Position</b>			
Net Investment in Capital Assets	10,542,089	8,965,199	1,576,890
Restricted for:			
Capital Projects	1,186,971	1,335,925	(148,954)
Debt Service	4,074,863	2,577,085	1,497,778
School Improvements	3,674,772	3,281,538	393,234
Other Purposes	1,880,839	1,503,697	377,142
Unrestricted (Deficit)	(57,933,995)	(57,439,333)	(494,662)
<i>Total Net Position</i>	<u>(\$36,574,461)</u>	<u>(\$39,775,889)</u>	<u>\$3,201,428</u>

During 2015, the School District adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement 27," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement

**Garfield Heights City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2015*  
*Unaudited*

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will gain a clearer understanding of the School District's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 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.

**Garfield Heights City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2015*  
*Unaudited*

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.

As a result of implementing GASB 68, the School District is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation, as well as other restatements which are detailed in the notes to the financial statements, had the effect of restating net position at June 30, 2014, from \$23,689,626 to (\$39,775,889).

Total net position increased from the prior fiscal year. The decrease in capital assets is due to current year depreciation and disposals of capital assets exceeding capital asset additions. Total liabilities decreased mainly due to the decrease in the net pension liability. Other amounts due in more than one year also decreased as the School District continues to pay off its long-term debt. Management continues to budget diligently in an effort to extend the durations between its levy requests.

In order to further understand what makes up the changes in net position for the current fiscal year, the following table gives readers further details regarding the results of activities for the current fiscal year. Table 2 shows total revenues, expenses and changes in net position for fiscal years 2015 and 2014.

**Table 2**  
 Governmental Activities

	2015	2014	Change
<b>Program Revenues</b>			
Charges for Services and Sales	\$1,031,589	\$979,816	\$51,773
Operating Grants and Contributions	6,817,327	8,387,609	(1,570,282)
Capital Grants	43,505	36,179	7,326
<i>Total Program Revenues</i>	<u>7,892,421</u>	<u>9,403,604</u>	<u>(1,511,183)</u>
<b>General Revenues</b>			
Property Taxes	20,887,404	21,349,335	(461,931)
Grants and Entitlements	20,873,451	19,100,449	1,773,002
Payment in Lieu of Taxes	243,180	0	243,180
Investment Earnings	144,501	379,986	(235,485)
Unrestricted Contributions and Donations	2,687	627	2,060
Miscellaneous	282,555	98,480	184,075
<i>Total General Revenues</i>	<u>42,433,778</u>	<u>40,928,877</u>	<u>1,504,901</u>
<i>Total Revenues</i>	<u>50,326,199</u>	<u>50,332,481</u>	<u>(6,282)</u>
<b>Program Expenses</b>			
Instruction:			
Regular	18,124,807	17,841,136	(283,671)
Special	4,688,650	4,243,865	(444,785)
Vocational	1,533	62,795	61,262
Student Intervention Services	4,899,606	4,471,936	(427,670)

*(Continued)*

**Garfield Heights City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2015*  
*Unaudited*

**Table 2**  
 Governmental Activities

	2015	2014	Change
<b>Program Expenses (Continued)</b>			
Support Services			
Pupils	\$3,031,114	\$2,762,822	(\$268,292)
Instructional Staff	2,141,206	1,949,078	(192,128)
Board of Education	47,977	78,343	30,366
Administration	3,880,075	3,664,354	(215,721)
Fiscal	1,047,211	1,085,711	38,500
Business	448,116	567,548	119,432
Operation and Maintenance of Plant	3,236,355	3,341,221	104,866
Pupil Transportation	800,210	883,628	83,418
Central	419,635	444,042	24,407
Operation of Non-Instructional Services	783,883	1,283,566	499,683
Operation of Food Service	1,479,695	1,422,618	(57,077)
Extracurricular Activities	680,129	638,326	(41,803)
Interest and Fiscal Charges	1,414,569	2,182,019	767,450
<i>Total Program Expenses</i>	<u>47,124,771</u>	<u>46,923,008</u>	<u>(201,763)</u>
<i>Change in Net Position</i>	3,201,428	3,409,473	<u><u>(\$208,045)</u></u>
Net Position Beginning of Year - Restated	<u>(39,775,889)</u>	N/A	
Net Position End of Year	<u><u>(\$36,574,461)</u></u>	<u><u>(\$39,775,889)</u></u>	

**Governmental Activities**

The information necessary to restate the fiscal year 2014 beginning balances and the fiscal year 2014 pension expense amounts for the effects of the initial implementation of GASB 68 is not available. Therefore, fiscal year 2014 functional expenses still include pension expense of \$3,053,802 computed under GASB 27. GASB 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the fiscal year 2015 statements report pension expense of \$2,517,447. Consequently, in order to compare fiscal year 2015 total program expenses to fiscal year 2014, the following adjustments are needed:

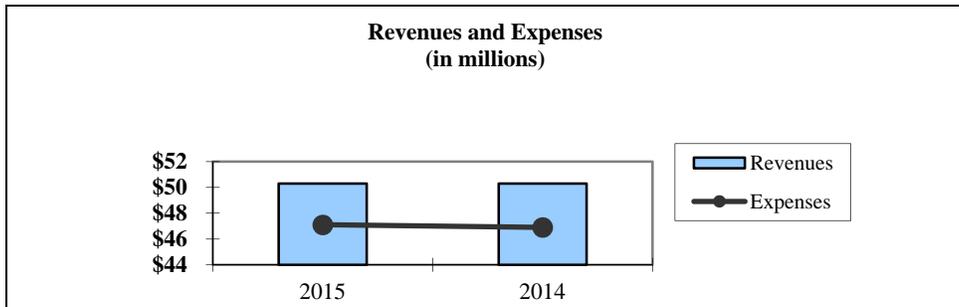
Total 2015 program expenses under GASB 68	\$47,124,771
Pension expense under GASB 68	(2,517,447)
2015 contractually required contribution	<u>3,291,844</u>
Adjusted 2015 program expenses	47,899,168
Total 2014 program expenses under GASB 27	<u>46,923,008</u>
Increase in program expenses not related to pension	<u><u>\$976,160</u></u>

**Garfield Heights City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2015*  
*Unaudited*

**Graph 1**

Revenues and Expenses  
(In Millions)

	2015	2014
Revenues	\$50.3	\$50.3
Expenses	47.1	46.9



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

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

The School District actively pursues grants and controls expenses while still maintaining the high academic standards the residents expect of the School District. Revenue from operating grants and contributions decreased in fiscal year 2015, but this was offset by the increase in unrestricted grants and entitlements. Total revenue was comparable to the prior fiscal year. Parents continue to have the opportunity to pay for the student's lunch online. Each student uses his/her personal identification number that accesses his/her account when visiting the cafeteria. The School District also allows parents to pay for any school fees and extracurricular activities online.

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

**Garfield Heights City School District**  
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*Unaudited*

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

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

	2015		2014	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
<b>Instruction:</b>				
Regular	\$18,124,807	(\$17,808,072)	\$17,841,136	(\$17,508,587)
Special	4,688,650	(426,141)	4,243,865	554,789
Vocational	1,533	(1,533)	62,795	(62,222)
Student Intervention Services	4,899,606	(4,828,717)	4,471,936	(4,418,038)
<b>Support Services:</b>				
Pupils	3,031,114	(2,745,127)	2,762,822	(2,596,736)
Instructional Staff	2,141,206	(2,015,803)	1,949,078	(1,680,350)
Board of Education	47,977	(47,289)	78,343	(77,396)
Administration	3,880,075	(3,801,918)	3,664,354	(3,593,985)
Fiscal	1,047,211	(1,030,505)	1,085,711	(1,050,955)
Business	448,116	(417,276)	567,548	(561,245)
Operation and Maintenance of Plant	3,236,355	(3,052,221)	3,341,221	(2,967,749)
Pupil Transportation	800,210	(778,599)	883,628	(835,978)
Central	419,635	(413,612)	444,042	(438,732)
Operation of Non-Instructional Services	783,883	(57,634)	1,283,566	6,541
Operation of Food Service	1,479,695	81,548	1,422,618	225,533
Extracurricular Activities	680,129	(474,882)	638,326	(332,275)
Interest and Fiscal Charges	1,414,569	(1,414,569)	2,182,019	(2,182,019)
<b>Total</b>	<b>\$47,124,771</b>	<b>(\$39,232,350)</b>	<b>\$46,923,008</b>	<b>(\$37,519,404)</b>

**The School District's Funds**

Information regarding the School District's major funds begins on page 18. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$49,287,075 and expenditures of \$49,731,433. The general fund had a decrease in fund balance mainly due to a decrease from the prior fiscal year in property tax collections and an increase in expenditures for instruction. The bond retirement debt service fund had an increase in fund balance due to an increase in property taxes available as an advance at fiscal year end. As one can see from the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds, intergovernmental monies from State and Federal grants compose the School District's largest revenue source, accounting for 57.08 percent of total governmental revenue.

**General Fund Budgeting Highlights**

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

**Garfield Heights City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2015*  
*Unaudited*

During the course of fiscal year 2015, the School District amended its general fund budget several times. The School District uses an operational unit budget process and has in place systems that are designed to tightly control expenses but provide flexibility for program based decision and management.

For the general fund, final budget basis revenue and other financing sources was \$39,793,000, which was above original budget estimates of \$36,698,207. The variance is mainly due to a change in final budgeted intergovernmental revenue.

The School District's actual expenditures and other financing uses were \$1,203,997 lower than the final budget basis expenditures in the general fund. This is due in large part to the School District's continued commitment to provide a quality education while still controlling the costs of that quality education.

**Capital Assets and Debt Administration**

*Capital Assets*

Table 4 shows fiscal year 2015 balances compared to fiscal year 2014:

<b>Table 4</b>		
Capital Assets at June 30		
(Net of Depreciation)		
Governmental Activities		
	2015	Restated 2014
	<u>2015</u>	<u>2014</u>
Land	\$1,216,751	\$1,106,751
Land Improvements	398,756	392,161
Buildings and Improvements	49,630,821	51,230,629
Furniture and Equipment	1,250,241	1,163,742
Vehicles	<u>656,052</u>	<u>442,989</u>
<i>Total Capital Assets</i>	<u><u>\$53,152,621</u></u>	<u><u>\$54,336,272</u></u>

Ohio law requires school districts to set aside three percent of certain revenues for capital improvements. For fiscal year 2015, the set aside amount was \$637,256. See Note 11 to the basic financial statements for additional information on the School District's capital assets and Note 21 for additional information regarding required set-asides.

**Garfield Heights City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2015*  
*Unaudited*

**Debt**

Table 5 summarizes the bonds and capital leases outstanding.

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

	2015	Restated 2014
2001 School Improvement Bonds	\$3,790,417	\$3,613,423
2006 Energy Conservation Improvement Bonds	961,621	1,114,643
2006 Refunding Bonds	8,700,376	30,598,413
2012 Refunding Bonds	6,721,377	7,251,289
2015 Refunding Bonds	20,681,392	0
2003 QZABs	3,000,000	3,000,000
2004 QZABs	2,000,000	2,000,000
Capital Leases	826,294	565,580
Total	\$46,681,477	\$48,143,348

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

**School District Outlook**

The School District relies heavily on its local property taxpayers and the State of Ohio for its funding. The School District has been affected by increased property tax delinquencies, changes in the personal property tax structure and commercial business uncertainties. Those issues, along with the State of Ohio's current economy and the fact that it only passes biennial budgets, make it increasingly difficult for the School District to plan for future educational programming needs required for our students.

All scenarios require management to plan carefully and prudently to provide the resources to meet student needs over the next several years. All of the School District's financial abilities will be needed to meet the challenges of the future.

## **Garfield Heights City School District**

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2015*

*Unaudited*

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

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

**Garfield Heights City School District**

*Statement of Net Position*

*June 30, 2015*

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$6,505,007
Restricted Assets:	
Cash and Cash Equivalents with Fiscal Agent	3,788,000
Cash and Cash Equivalents with Escrow Agent	377,365
Accounts Receivable	9,302
Accrued Interest Receivable	431
Intergovernmental Receivable	432,205
Property Taxes Receivable	22,671,622
Payments in Lieu of Taxes Receivable	121,590
Nondepreciable Capital Assets	1,216,751
Depreciable Capital Assets, Net	<u>51,935,870</u>
<i>Total Assets</i>	<u>87,058,143</u>
<b>Deferred Outflows of Resources</b>	
Deferred Charge on Refunding	2,179,649
Pension	<u>5,071,215</u>
<i>Total Deferred Outflows of Resources</i>	<u>7,250,864</u>
<b>Liabilities</b>	
Accounts Payable	364,418
Accrued Wages and Benefits	3,532,823
Intergovernmental Payable	1,206,137
Matured Compensated Absences Payable	338,496
Retainage Payable	113,228
Accrued Interest Payable	61,597
Long-Term Liabilities:	
Due Within One Year	3,009,360
Due in More Than One Year:	
Net Pension Liability (See Note 17)	51,233,377
Other Amounts	<u>49,360,674</u>
<i>Total Liabilities</i>	<u>109,220,110</u>
<b>Deferred Inflows of Resources</b>	
Property Taxes	12,395,508
Pension	<u>9,267,850</u>
<i>Total Deferred Inflows of Resources</i>	<u>21,663,358</u>
<b>Net Position</b>	
Net Investment in Capital Assets	10,542,089
Restricted for:	
Capital Projects	1,186,971
Debt Service	4,074,863
School Improvements	3,674,772
Food Service	1,002,326
Scholarships	27,961
Athletics and Music	70,406
Other Purposes	780,146
Unrestricted (Deficit)	<u>(57,933,995)</u>
<i>Total Net Position</i>	<u>(\$36,574,461)</u>

See accompanying notes to the basic financial statements

**Garfield Heights City School District**  
*Statement of Activities*  
For the Fiscal Year Ended June 30, 2015

	Program Revenues			Governmental Activities	Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services and Sales	Operating Grants and Contributions		
<b>Governmental Activities</b>					
Instruction:					
Regular	\$18,124,807	\$239,380	\$77,355	\$0	(\$17,808,072)
Special	4,688,650	42,523	4,219,986	0	(426,141)
Vocational	1,533	0	0	0	(1,533)
Student Intervention Services	4,899,606	70,889	0	0	(4,828,717)
Support Services:					
Pupils	3,031,114	39,517	246,470	0	(2,745,127)
Instructional Staff	2,141,206	28,097	97,306	0	(2,015,803)
Board of Education	47,977	688	0	0	(47,289)
Administration	3,880,075	54,943	23,214	0	(3,801,918)
Fiscal	1,047,211	14,545	2,161	0	(1,030,505)
Business	448,116	28,616	2,224	0	(417,276)
Operation and Maintenance of Plant	3,236,355	64,546	76,083	43,505	(3,052,221)
Pupil Transportation	800,210	12,745	8,866	0	(778,599)
Central	419,635	6,023	0	0	(413,612)
Operation of Non-Instructional Services	783,883	0	726,249	0	(57,634)
Operation of Food Service	1,479,695	224,415	1,336,828	0	81,548
Extracurricular Activities	680,129	204,662	585	0	(474,882)
Interest and Fiscal Charges	1,414,569	0	0	0	(1,414,569)
<b>Total Governmental Activities</b>	<b>\$47,124,771</b>	<b>\$1,031,589</b>	<b>\$6,817,327</b>	<b>\$43,505</b>	<b>(39,232,350)</b>
<b>General Revenues</b>					
Property Taxes Levied for:					
					15,647,648
					4,832,128
					126,645
					280,983
					20,873,451
					243,180
					144,501
					2,687
					282,555
<b>Total General Revenues</b>					<b>42,433,778</b>
Change in Net Position					3,201,428
<i>Net Position Beginning of Year - Restated (See Note 3)</i>					<i>(39,775,889)</i>
<i>Net Position End of Year</i>					<i>(\$36,574,461)</i>

See accompanying notes to the basic financial statements

**Garfield Heights City School District**

*Balance Sheet*

*Governmental Funds*

*June 30, 2015*

	<u>General</u>	<u>Bond Retirement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$1,271,656	\$2,122,944	\$3,110,407	\$6,505,007
Restricted Assets:				
Cash and Cash Equivalents				
With Fiscal Agents	3,788,000	0	0	3,788,000
Cash and Cash Equivalents With Escrow Agent	0	0	377,365	377,365
Accounts Receivable	9,257	0	45	9,302
Accrued Interest Receivable	431	0	0	431
Intergovernmental Receivable	0	0	432,205	432,205
Interfund Receivable	743,849	0	0	743,849
Property Taxes Receivable	17,586,407	4,698,745	386,470	22,671,622
Payments in Lieu of Taxes Receivable	121,590	0	0	121,590
<i>Total Assets</i>	<u>\$23,521,190</u>	<u>\$6,821,689</u>	<u>\$4,306,492</u>	<u>\$34,649,371</u>
<b>Liabilities</b>				
Accounts Payable	\$196,391	\$0	\$168,027	\$364,418
Accrued Wages and Benefits	3,305,412	0	227,411	3,532,823
Retainage Payable	113,228	0	0	113,228
Interfund Payable	0	0	743,849	743,849
Intergovernmental Payable	1,104,975	0	101,162	1,206,137
Matured Compensated Absences Payable	338,496	0	0	338,496
<i>Total Liabilities</i>	<u>5,058,502</u>	<u>0</u>	<u>1,240,449</u>	<u>6,298,951</u>
<b>Deferred Inflows of Resources</b>				
Property Taxes	9,503,088	2,668,608	223,812	12,395,508
Unavailable Revenue	4,664,339	1,105,231	361,043	6,130,613
<i>Total Deferred Inflows of Resources</i>	<u>14,167,427</u>	<u>3,773,839</u>	<u>584,855</u>	<u>18,526,121</u>
<b>Fund Balances</b>				
Restricted	3,677,971	3,047,850	3,477,298	10,203,119
Assigned	3,460,009	0	0	3,460,009
Unassigned (Deficit)	(2,842,719)	0	(996,110)	(3,838,829)
<i>Total Fund Balances</i>	<u>4,295,261</u>	<u>3,047,850</u>	<u>2,481,188</u>	<u>9,824,299</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$23,521,190</u>	<u>\$6,821,689</u>	<u>\$4,306,492</u>	<u>\$34,649,371</u>

See accompanying notes to the basic financial statements

**Garfield Heights City School District**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Position of Governmental Activities  
 June 30, 2015*

<b>Total Governmental Fund Balances</b>	\$9,824,299
 <i>Amounts reported for governmental activities in the statement of net position are different because:</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	53,152,621
Other long-term assets are not available to pay for current-period expenditures and therefore are reported as unavailable revenue in the funds:	
Delinquent Property Taxes	5,741,525
Payments in Lieu of Taxes	121,590
Grants	<u>267,498</u>
Total	6,130,613
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(61,597)
Deferred charges on refundings related to the issuance of long-term refunding debt will be amortized over the life of the debt on the statement of net position.	2,179,649
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
General Obligation Bonds	(40,855,183)
Qualified Zone Academy Bonds	(5,000,000)
Compensated Absences	(5,454,640)
Early Retirement Incentive	(233,917)
Capital Leases	<u>(826,294)</u>
Total	(52,370,034)
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds:	
Deferred Outflows	5,071,215
Deferred Inflows	(9,267,850)
Net Pension Liability	<u>(51,233,377)</u>
Total	<u>(55,430,012)</u>
<i>Net Position of Governmental Activities</i>	<u><u>(\$36,574,461)</u></u>

See accompanying notes to the basic financial statements

**Garfield Heights City School District**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2015*

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Property Taxes	\$15,334,467	\$3,918,733	\$315,784	\$19,568,984
Payment in Lieu of Taxes	121,590	0	0	121,590
Intergovernmental	22,783,839	772,405	4,576,040	28,132,284
Interest	142,388	0	2,113	144,501
Tuition and Fees	549,074	0	0	549,074
Extracurricular Activities	82,625	0	116,526	199,151
Contributions and Donations	2,687	0	2,885	5,572
Charges for Services	6,495	0	224,415	230,910
Rentals	34,454	0	18,000	52,454
Miscellaneous	148,338	0	134,217	282,555
<i>Total Revenues</i>	<u>39,205,957</u>	<u>4,691,138</u>	<u>5,389,980</u>	<u>49,287,075</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	16,847,297	0	149,328	16,996,625
Special	3,004,738	0	1,784,309	4,789,047
Vocational	1,533	0	0	1,533
Student Intervention Services	4,945,913	0	362	4,946,275
Support Services:				
Pupils	2,716,107	0	350,951	3,067,058
Instructional Staff	1,963,454	0	207,831	2,171,285
Board of Education	47,977	0	0	47,977
Administration	3,869,146	0	87,588	3,956,734
Fiscal	1,012,165	14,460	9,575	1,036,200
Business	439,456	0	7,109	446,565
Operation and Maintenance of Plant	3,231,778	0	100,908	3,332,686
Pupil Transportation	928,633	0	17,702	946,335
Central	427,642	0	0	427,642
Operation of Non-Instructional Services	291	0	814,871	815,162
Operation of Food Service	0	0	1,431,041	1,431,041
Extracurricular Activities	426,040	0	255,039	681,079
Capital Outlay	111,669	0	205,563	317,232
Debt Service:				
Principal Retirement	0	2,285,000	116,605	2,401,605
Payment to Refunded Bond Escrow Agent	0	478,875	0	478,875
Interest and Fiscal Charges	16,800	1,177,379	22,806	1,216,985
Bond Issuance Costs	0	223,492	0	223,492
<i>Total Expenditures</i>	<u>39,990,639</u>	<u>4,179,206</u>	<u>5,561,588</u>	<u>49,731,433</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(784,682)</u>	<u>511,932</u>	<u>(171,608)</u>	<u>(444,358)</u>
<b>Other Financing Sources (Uses)</b>				
Sale of Capital Assets	1,000	0	1,000	2,000
Inception of Capital Lease	0	0	377,319	377,319
General Obligation Refunding Bonds Issued	0	19,154,897	0	19,154,897
Premium on General Obligation Bonds	0	1,495,764	0	1,495,764
Payment to Refunding Bond Escrow Agent	0	(20,427,169)	0	(20,427,169)
Transfers In	0	0	155,318	155,318
Transfers Out	(155,318)	0	0	(155,318)
<i>Total Other Financing Sources (Uses)</i>	<u>(154,318)</u>	<u>223,492</u>	<u>533,637</u>	<u>602,811</u>
<i>Net Change in Fund Balances</i>	(939,000)	735,424	362,029	158,453
<i>Fund Balances Beginning of Year - Restated (See Note 3)</i>	<u>5,234,261</u>	<u>2,312,426</u>	<u>2,119,159</u>	<u>9,665,846</u>
<i>Fund Balances End of Year</i>	<u>\$4,295,261</u>	<u>\$3,047,850</u>	<u>\$2,481,188</u>	<u>\$9,824,299</u>

See accompanying notes to the basic financial statements

## Garfield Heights City School District

*Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Fiscal Year Ended June 30, 2015*

<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$158,453</b>
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period:	
Capital Asset Additions	858,383
Current Year Depreciation	<u>(1,937,351)</u>
Total	(1,078,968)
Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.	
	(104,683)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:	
Delinquent Property Taxes	1,318,420
Payment in Lieu of Taxes	121,590
Grants	<u>(400,886)</u>
Total	1,039,124
Other financing sources in the governmental funds increase long-term liabilities in the statement of net position:	
Inception of Capital Lease	(377,319)
General Obligation Refunding Bonds Issued	(19,154,897)
Premium on General Obligation Bonds	<u>(1,495,764)</u>
Total	(21,027,980)
Repayment of long-term obligations is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net position:	
Payment on General Obligation Bonds	2,285,000
Payment on Capital Leases	116,605
Payment to Refunded Bond Escrow Agent	<u>20,906,044</u>
Total	23,307,649
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:	
Accrued Interest	11,226
Amortization of Bond Premium	207,752
Accretion	(295,742)
Amortization of Deferred Charge on Refunding	<u>(120,820)</u>
Total	(197,584)
Some expenses reported in the statement of activities, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:	
Compensated Absences	402,604
Early Retirement Incentive	<u>(71,584)</u>
Total	331,020
Contractually required contributions are reported as expenditures in the governmental funds; however, the statement of net position reports these amounts as deferred outflows.	
	3,291,844
Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.	
	<u>(2,517,447)</u>
<i>Change in Net Position of Governmental Activities</i>	<u><u>\$3,201,428</u></u>
See accompanying notes to the basic financial statements	

**Garfield Heights City School District**  
*Statement of Revenues, Expenditures and Changes*  
*in Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*General Fund*  
*For the Fiscal Year Ended June 30, 2015*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Property Taxes	\$14,674,788	\$15,235,000	\$15,287,432	\$52,432
Payment in Lieu of Taxes	110,615	350,000	121,590	(228,410)
Intergovernmental	20,975,491	23,308,834	23,056,684	(252,150)
Interest	9,801	15,180	10,773	(4,407)
Tuition and Fees	479,065	358,796	526,598	167,802
Extracurricular Activities	38,032	55,698	41,806	(13,892)
Charges for Services	5,909	6,108	6,495	387
Rentals	28,621	20,526	31,461	10,935
Miscellaneous	137,585	204,558	151,236	(53,322)
<i>Total Revenues</i>	36,459,907	39,554,700	39,234,075	(320,625)
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	17,688,841	17,066,677	16,760,239	306,438
Special	2,203,908	3,064,367	2,993,677	70,690
Vocational	25,994	27,427	1,855	25,572
Student Intervention Services	4,645,702	5,098,924	4,978,584	120,340
Support Services:				
Pupils	2,834,271	2,842,926	2,752,465	90,461
Instructional Staff	1,312,445	2,024,387	1,965,783	58,604
Board of Education	67,197	71,696	53,974	17,722
Administration	3,568,827	3,893,703	3,847,937	45,766
Fiscal	950,255	1,042,573	1,016,127	26,446
Business	435,619	436,506	385,548	50,958
Operation and Maintenance of Plant	3,405,548	3,532,239	3,312,931	219,308
Pupil Transportation	786,199	1,086,623	975,468	111,155
Central	436,537	437,795	429,506	8,289
Operation of Non-Instructional Services	11	361	349	12
Extracurricular Activities	334,746	404,746	384,155	20,591
Capital Outlay	0	112,000	111,528	472
Debt Service:				
Principal Retirement	283,000	283,000	282,814	186
<i>Total Expenditures</i>	38,979,100	41,425,950	40,252,940	1,173,010
<i>Excess of Revenues Under Expenditures</i>	(2,519,193)	(1,871,250)	(1,018,865)	852,385
<b>Other Financing Sources (Uses)</b>				
Sale of Capital Assets	0	0	1,000	1,000
Advances In	238,300	238,300	238,300	0
Advances Out	(300,000)	(300,000)	(322,495)	(22,495)
Transfers Out	(250,000)	(250,000)	(196,518)	53,482
<i>Total Other Financing Sources (Uses)</i>	(311,700)	(311,700)	(279,713)	31,987
<i>Net Change in Fund Balance</i>	(2,830,893)	(2,182,950)	(1,298,578)	884,372
<i>Fund Balance Beginning of Year</i>	1,693,669	1,693,669	1,693,669	0
Prior Year Encumbrances Appropriated	579,526	579,526	579,526	0
<i>Fund Balance (Deficit) End of Year</i>	(\$557,698)	\$90,245	\$974,617	\$884,372

See accompanying notes to the basic financial statements

**Garfield Heights City School District**  
*Statement of Fiduciary Assets and Liabilities*  
*Agency Funds*  
*June 30, 2015*

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	<u>Agency</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$82,373</u>
<b>Liabilities</b>	
Due to Students	\$29,327
Undistributed Monies	<u>53,046</u>
<i>Total Liabilities</i>	<u>\$82,373</u>

See accompanying notes to the basic financial statements

## **Garfield Heights City School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

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### **Note 1 – Description of the School District and Reporting Entity**

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

The School District operates under a locally-elected five-member Board form of government and provides educational services as mandated by State and Federal agencies. The Board of Education employs 203 classified employees, 279 certificated full and part-time teaching, tutor and nursing personnel, and 22 administrators who provide services to 3,860 students and other community members.

#### *Reporting Entity*

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

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

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

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

### **Note 2 – Summary of Significant Accounting Policies**

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

## Garfield Heights City School District

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

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

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

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

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

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

### ***Fund Accounting***

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

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

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

## Garfield Heights City School District

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

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

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

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

### ***Measurement Focus***

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

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

### ***Basis of Accounting***

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

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

## Garfield Heights City School District

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

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

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

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

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the School District, deferred inflows of resources include property taxes, pension and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2015, but which were levied to finance fiscal year 2016 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the School District unavailable revenue includes delinquent property taxes, payments in lieu of taxes, and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension are reported on the government-wide statement of net position. (See Note 17)

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

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

### ***Pensions***

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same

## **Garfield Heights City School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

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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.

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

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

During fiscal year 2015, investments were limited to federal home loan bank notes, federal home loan mortgage corporation notes, federal national mortgage association notes, federal farm credit bank notes, and STAR Ohio.

Cash held for the School District by a financial institution related to the proceeds of a lease agreement is included on the financial statements as "restricted assets - cash and cash equivalents with escrow agent."

The School District utilizes a fiscal agent to hold retainage on construction contracts. The balance in this account of \$113,228 is presented on the financial statements as "restricted assets - cash and cash equivalents with fiscal agents" and represents deposits. The School District also utilizes a fiscal agent for the sinking fund payments for the School District's two Qualified Zone Academy Bonds. The balance in these accounts of \$3,674,772 is presented on the financial statements as "restricted assets: cash and cash equivalents with fiscal agents", and represents short-term investments.

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

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's net asset value per share which is the price the investment could be sold for on June 30, 2015.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2015 amounted to \$142,388, which includes \$73,813 assigned from other School District funds.

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

### ***Restricted Assets***

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

**Garfield Heights City School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

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***Capital Assets***

The School District’s only capital assets are general capital assets. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements.

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

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

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

***Interfund Balances***

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

***Compensated Absences***

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

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

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

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

## Garfield Heights City School District

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

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

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

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

### ***Internal Activity***

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

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

### ***Fund Balance***

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

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

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

***Committed*** The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by the highest level formal action (resolution) of the School District 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 includes the remaining amount that is not restricted

## **Garfield Heights City School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

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or committed. These assigned balances are established by the School District Board of Education. In the general fund, assigned amounts represent intended uses established by the School District Board of Education or a School District official delegated that authority by State statute. State statute authorizes the Treasurer to assign fund balance for purchases on order provided such amounts have been lawfully appropriated. The School District's Board of Education assigned fund balance for uniform school supplies and extracurricular activities and to cover a gap between estimated revenues and appropriations in fiscal year 2016's appropriated budget.

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

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

### ***Net Position***

Net position represents the difference between all other elements in a statement of financial position. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position restricted for other purposes included resources which will be used for non-public schools and network connectivity.

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

### ***Bond Premiums***

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

### ***Deferred Charge on Refunding***

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

### ***Estimates***

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

**Garfield Heights City School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

***Budgetary Data***

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

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

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

**Note 3 – Change in Accounting Principle and Restatement of Fund Balance/Net Position**

***Change in Accounting Principle***

For fiscal year 2015, the School District implemented the Governmental Accounting Standards Board (GASB) Statement No. 68, “Accounting and Financial Reporting for Pensions” and GASB Statement No. 71, “Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68.” GASB 68 established standards for measuring and recognizing pension liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditure. The implementation of this pronouncement had an effect on net position as reported June 30, 2014, as disclosed below.

***Restatement of Prior Year Fund Balance***

During fiscal year 2015, it was determined that equity in pooled cash and cash equivalents was overstated by \$113,087 at June 30, 2014. The correction to equity in pooled cash and cash equivalents had the following effect on fund balances of the major and nonmajor funds as they were previously reported.

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
Fund Balance at June 30, 2014	\$5,347,348	\$2,312,426	\$2,119,159	\$9,778,933
Equity in Pooled Cash and Cash Equivalents	(113,087)	0	0	(113,087)
Adjusted Fund Balance at June 30, 2014	<u>\$5,234,261</u>	<u>\$2,312,426</u>	<u>\$2,119,159</u>	<u>\$9,665,846</u>

## Garfield Heights City School District

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015

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### Restatement of Prior Year Net Position

The same item that affected prior year fund balance will also decrease prior year net position for \$113,087 at June 30, 2014.

During fiscal year 2015, it was determined that capital assets had been overstated by \$6,882,005 at June 30, 2014.

During fiscal year 2015, it was determined that long-term liabilities related to the Qualified Zone Academy Bonds had been understated by \$266,014 at June 30, 2014.

The implementation of GASB Statements No. 68 and No. 71 and the corrections to equity in pooled cash and cash equivalents, capital assets, and long-term liabilities had the following effect on net position as reported June 30, 2014:

Net Position June 30, 2014	\$23,689,626
Adjustments:	
Equity in Pooled Cash and Cash Equivalents	(113,087)
Capital Assets	(6,882,005)
Long-term Liabilities	(266,014)
Net Pension Liability	(59,258,211)
Deferred Outflow - Payments Subsequent to Measurement Date	<u>3,053,802</u>
Restated Net Position June 30, 2014	<u>(\$39,775,889)</u>

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

### Note 4 – Budgetary Basis of Accounting

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

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Advances-In and Advances Out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).
3. Investments are reported at cost (budget) rather than fair value (GAAP).
4. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).

**Garfield Heights City School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

5. Budgetary revenues and expenditures of the uniform school supplies and public school support funds are reclassified to the general fund for GAAP Reporting.
6. Encumbrances are treated as expenditures (budget) rather than restricted, committed or assigned fund balance (GAAP).

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

	<u>General</u>
GAAP Basis	(\$939,000)
Net Adjustment for Revenue Accruals	165,434
Advances In	238,300
Ending Fair Value Adjustment for Investments	(69,692)
Net Adjustment for Expenditure Accruals	7,009
Advances Out	(322,495)
Perspective Differences:	
Uniform School Supplies	(84)
Public School Support	(106)
Encumbrances	<u>(377,944)</u>
Budget Basis	<u><u>(\$1,298,578)</u></u>

**Note 5 – Accountability**

The Title I School Improvement and Title I special revenue funds had negative cash fund balances of \$1,356 and \$1,448, respectively. These cash deficits are the result of monies being expended with the expectation that the School District will be reimbursed during fiscal year 2016. Although these cash deficits were not corrected by year end, management has indicated that cash will be closely monitored to prevent future violations.

Fund balances at June 30, 2015, included the following individual fund deficits:

<b>Special Revenue Funds</b>	
Other Grants	\$30,600
Auxiliary Services	51,226
Public Preschool	11,739
School Net Professional Development	1,041
Alternative Schools	327
Title VI-B	224,495
Technology II-D Grant	4,175
Title I School Improvement	149,681
Title I	378,906
Preschool Grant	10,600
Class Size Reduction	133,320

**Garfield Heights City School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

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

**Note 6 – Fund Balances**

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

Fund Balances	General	Bond Retirement	Other Governmental Funds	Total
<b><i>Restricted for:</i></b>				
Teacher Development	\$3,199	\$0	\$0	\$3,199
Food Service Operations	0	0	1,131,239	1,131,239
Scholarships	0	0	129,183	129,183
Classroom Facilities Maintenance	0	0	578,649	578,649
Athletics	0	0	70,406	70,406
Entry Year Teachers	0	0	183	183
School Improvement	3,674,772	0	4,687	3,679,459
Community Involvement	0	0	23,222	23,222
Non-Public Schools	0	0	6,119	6,119
Drug Free School	0	0	7,776	7,776
Debt Service Payments	0	3,047,850	0	3,047,850
Capital Improvements	0	0	1,525,834	1,525,834
<b><i>Total Restricted</i></b>	<b>3,677,971</b>	<b>3,047,850</b>	<b>3,477,298</b>	<b>10,203,119</b>
<b><i>Assigned to:</i></b>				
Uniform School Supplies	527	0	0	527
Extracurricular Activities	28,549	0	0	28,549
Purchases on Order:				
Instructional Services	103,289	0	0	103,289
Support Services	194,247	0	0	194,247
Non-Instructional Services	186	0	0	186
Extracurricular Activities	1,448	0	0	1,448
Fiscal Year 2016 Operations	3,131,763	0	0	3,131,763
<b><i>Total Assigned</i></b>	<b>3,460,009</b>	<b>0</b>	<b>0</b>	<b>3,460,009</b>
<b><i>Unassigned (Deficit)</i></b>	<b>(2,842,719)</b>	<b>0</b>	<b>(996,110)</b>	<b>(3,838,829)</b>
<b><i>Total Fund Balances</i></b>	<b>\$4,295,261</b>	<b>\$3,047,850</b>	<b>\$2,481,188</b>	<b>\$9,824,299</b>

**Garfield Heights City School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

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**Note 7 – Interfund Transactions**

***Interfund Balances***

Interfund balances at June 30, 2015, consisted of the following:

<u>Interfund Payable</u>	<u>Interfund Receivable General Fund</u>
<b>Other Governmental Funds:</b>	
Other Grants	\$27,800
Public Preschool	17,200
SchoolNet, Professional Development	1,050
Alternative Schools	200
Title VI-B	152,480
Technology II-D Grant	4,250
Title I School Improvement	149,681
Title I	256,988
Preschool Grant	10,600
Classroom Size Reduction	123,600
<i>Total</i>	<u><u>\$743,849</u></u>

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

***Interfund Transfers***

Interfund transfers for the fiscal year ended June 30, 2015, were as follows:

<u>Transfers To</u>	<u>Transfers From General Fund</u>
<b>Other Governmental Funds:</b>	
Athletics and Music	\$135,000
Alternative Schools	9,738
Preschool Grant	10,580
<i>Total</i>	<u><u>\$155,318</u></u>

The transfers from the general fund to nonmajor special revenue funds were made to move unrestricted balances to support programs and projects accounted for in other funds.

**Note 8 – Deposits and Investments**

Monies held by the School District are classified by State statute into three categories.

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

## Garfield Heights City School District

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

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

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

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

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

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

### ***Deposits***

***Custodial Credit Risk*** Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, \$4,971,010 of the School District's bank balance of \$5,717,135 was uninsured and uncollateralized. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

## Garfield Heights City School District

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015

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

### Investments

Investments are reported at fair value. As of June 30, 2015, the School District had the following investments:

Investment Type	Fair Value	Maturity	Standard and Poors Rating	Percentage of Total Investments
Federal Home Loan Bank Notes	\$3,844,403	Less than five years	AA+	76.41 %
Federal Home Loan Mortgage Corporation Notes	510,747	Less than three years	AA+	10.15
Federal National Mortgage Association Notes	490,773	Less than five years	AA+	9.76
Federal Farm Credit Bank Notes	175,334	Less than five years	AA+	3.49
STAR Ohio	9,704	53.4 Days	AAAm	0.19
Total Investments	<u>\$5,030,961</u>			

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

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

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

### Note 9 – Property Taxes

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar year 2015 represents collections of calendar year 2014 taxes. Real property taxes received in calendar year 2015 were levied after April 1, 2014, on the assessed value listed as of January 1, 2014, the lien date. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

## Garfield Heights City School District

### Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

Public utility property tax revenue received in calendar year 2015 represents collections of calendar year 2014 taxes. Public utility real and tangible personal property taxes received in calendar year 2015 became a lien December 31, 2013, were levied after April 1, 2014, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

The School District receives property taxes from Cuyahoga County. The County Fiscal Officer periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2015, are available to finance fiscal year 2015 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property and public utility property taxes which are measurable as of June 30, 2015, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred inflows of resources – property taxes.

The amount available as an advance at June 30, 2015, was \$3,540,570 in the general fund, \$40,701 in the classroom facilities maintenance special revenue fund, \$924,906 in the bond retirement fund and \$28,412 in the permanent improvement capital projects fund. The amount available as an advance at June 30, 2014, was \$3,493,535 in the general fund, \$746,080 in the bond retirement fund and \$67,801 in the permanent improvement capital projects fund.

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

The assessed values upon which the fiscal year 2015 taxes were collected are:

	2014 Second Half Collections		2015 First Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$333,567,960	96.93%	\$327,402,650	96.72%
Public Utility Personal	10,571,000	3.07	11,099,120	3.28
Total	<u>\$344,138,960</u>	<u>100.00%</u>	<u>\$338,501,770</u>	<u>100.00%</u>
Full Tax Rate per \$1,000 of assessed valuation	\$78.26		\$81.06	

### Note 10 – Receivables

Receivables at June 30, 2015, consisted of taxes, payments in lieu of taxes, accounts (tuition, extracurricular, rent and other) and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables, except for delinquent property taxes, are expected to be collected within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

**Garfield Heights City School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

A summary of the principal items of intergovernmental receivables follows:

<u>Intergovernmental Receivables</u>	<u>Amounts</u>
Title I	\$191,249
Federal Lunch Reimbursement	164,707
Special Education Part B-IDEA	48,314
Improving Teacher Quality	16,456
School Improvement Subsidy	10,903
Early Childhood Special Education, IDEA	576
<b>Total</b>	<b>\$432,205</b>

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

**Note 11 – Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2015, was as follows:

	Restated Balance June 30, 2014	Additions	Deletions	Balance June 30, 2015
<b>Capital Assets, not being depreciated</b>				
Land	\$1,106,751	\$110,000	\$0	\$1,216,751
<b>Capital Assets, being depreciated</b>				
Land Improvements	1,010,919	45,840	0	1,056,759
Buildings and Improvements	69,152,676	6,950	0	69,159,626
Furniture and Fixtures	5,916,074	373,564	(2,995,610)	3,294,028
Vehicles	1,478,724	322,029	(198,501)	1,602,252
<i>Total Capital Assets, being depreciated</i>	<i>77,558,393</i>	<i>748,383</i>	<i>(3,194,111)</i>	<i>75,112,665</i>
Less: Accumulated Depreciation				
Land Improvements	(618,758)	(39,245)	0	(658,003)
Buildings and Improvements	(17,922,047)	(1,606,758)	0	(19,528,805)
Furniture and Fixtures	(4,752,332)	(192,308)	2,900,853	(2,043,787)
Vehicles	(1,035,735)	(99,040)	188,575	(946,200)
<i>Total Accumulated Depreciation</i>	<i>(24,328,872)</i>	<i>(1,937,351)</i>	<i>3,089,428</i>	<i>(23,176,795)</i>
<i>Total Capital Assets, being depreciated, net</i>	<i>53,229,521</i>	<i>(1,188,968)</i>	<i>(104,683)</i>	<i>51,935,870</i>
<i>Governmental Activities Capital Assets, Net</i>	<i>\$54,336,272</i>	<i>(\$1,078,968)</i>	<i>(\$104,683)</i>	<i>\$53,152,621</i>

**Garfield Heights City School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

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Depreciation expense was charged to governmental functions as follows:

Instruction	
Regular	\$1,660,535
Special	10,674
Support Services	
Pupils	6,828
Instructional Staff	3,237
Administration	6,251
Business	1,052
Operation and Maintenance of Plant	133,247
Pupil Transportation	71,502
Operation of Food Service	44,025
Total Depreciation Expense	<u>\$1,937,351</u>

**Note 12 – Risk Management**

***Workers' Compensation***

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

***Property and Liability***

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 2015, the School District contracted with Schools of Ohio Risk Sharing Authority for various types of insurance coverage. The coverage amounts are as follows:

<u>Type of Coverage</u>	<u>Deductible</u>	<u>Coverage</u>
Building and Contents	\$1,000	\$144,241,701
Earthquake	50,000	2,000,000
Flood	50,000	2,000,000
Crime Coverage	1,000	100,000
General Liability (per occurrence)	0	15,000,000
General Liability (in aggregate)	0	17,000,000
Automobile Liability	0	15,000,000
Educators' Legal Liability (wrongful acts)	5,000	15,000,000
Educators' Legal Liability (employee benefits liability)	0	15,000,000

**Garfield Heights City School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

**Note 13 – Long-Term Obligations**

Changes in long-term obligations of the School District during fiscal year 2015 were as follows:

	Restated Principal Outstanding June 30, 2014	Additions	Deductions	Principal Outstanding June 30, 2015	Amount Due in One Year
<b>Governmental Activities</b>					
<b>General Obligation Bonds</b>					
2001 School Improvement Bonds					
Term Bonds	\$2,165,000	\$0	\$0	\$2,165,000	\$0
Capital Appreciation Bonds	342,275	0	0	342,275	342,275
Accretion	1,106,148	176,994	0	1,283,142	1,283,142
Total 2001 School Improvement Bonds	3,613,423	176,994	0	3,790,417	1,625,417
2006 Energy Conservation Improvement Bonds					
Serial Bonds	1,095,000	0	(150,000)	945,000	155,000
Unamortized Premium	19,643	0	(3,022)	16,621	0
Total 2006 Energy Conservation Bonds	1,114,643	0	(153,022)	961,621	155,000
2006 Refunding Bonds					
Serial Bonds	22,660,000	0	(20,755,000)	1,905,000	35,000
Term Bonds	6,355,000	0	0	6,355,000	0
Unamortized Premium	1,583,413	0	(1,143,037)	440,376	0
Total 2006 Refunding Bonds	30,598,413	0	(21,898,037)	8,700,376	35,000
2012 Refunding Bonds					
Serial Bonds	6,620,000	0	(535,000)	6,085,000	505,000
Capital Appreciation Bonds	74,719	0	0	74,719	0
Accretion	95,466	88,017	0	183,483	0
Unamortized Premium	461,104	0	(82,929)	378,175	0
Total 2012 Refunding Bonds	7,251,289	88,017	(617,929)	6,721,377	505,000
2015 Refunding Bonds					
Serial Bonds	0	18,020,000	0	18,020,000	215,000
Capital Appreciation Bonds	0	1,134,897	0	1,134,897	0
Accretion	0	30,731	0	30,731	0
Unamortized Premium	0	1,495,764	0	1,495,764	0
Total 2015 Refunding Bonds	0	20,681,392	0	20,681,392	215,000
<i>Total General Obligation Bonds</i>	42,577,768	20,946,403	(22,668,988)	40,855,183	2,535,417
<b>Net Pension Liability</b>					
SERS	9,275,906	0	(2,385)	9,273,521	0
STRS	49,982,305	0	(8,022,449)	41,959,856	0
<i>Total Net Pension Liability</i>	59,258,211	0	(8,024,834)	51,233,377	0
<b>Other Long-term Obligations</b>					
Compensated Absences	5,857,244	168,395	(570,999)	5,454,640	158,149
2003 QZAB	3,000,000	0	0	3,000,000	0
2004 QZAB	2,000,000	0	0	2,000,000	0
Early Retirement Incentive	162,333	189,001	(117,417)	233,917	123,084
Capital Leases	565,580	377,319	(116,605)	826,294	192,710
<i>Total Other Long-term Obligations</i>	11,585,157	734,715	(805,021)	11,514,851	473,943
<i>Total Governmental Activities Long-Term Liabilities</i>	\$113,421,136	\$21,681,118	(\$31,498,843)	\$103,603,411	\$3,009,360

The School District pays obligations related to employee compensation from the fund benefitting from their service. For additional information related to pension see Note 17. General obligation bonds will be paid from the general obligation bond retirement fund. Compensated absences will be paid from the general fund and the food service, other grants, auxiliary services, title VI-B, title I and classroom reduction special revenue funds. The early retirement incentive will be paid from the general fund and the food service special revenue fund. Capital leases will be paid from the general fund and the permanent improvement capital projects fund. The QZABs sinking fund payments requirements are being paid from the general fund.

**Garfield Heights City School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

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***2001 School Improvement Bonds***

On November 19, 2001, the School District issued \$41,497,275 school improvement bonds for the purpose of converting the existing high school to a middle school and various other renovations throughout the School District. These bonds were partially refunded on October 4, 2006. Interest payments at rates ranging from 3 percent to 5.5 percent are due on June 1 and December 1 of each year, until the principal amount is paid. After the refunding, the bond issue consists of \$4,635,000 of serial bonds, \$2,165,000 of term bonds, and \$342,275 of capital appreciation bonds.

The term bonds were issued for a ten year period with a final maturity of December 15, 2016.

The capital appreciation bonds remained outstanding at June 30, 2015. The capital appreciation bonds were originally sold at a discount of \$1,382,725, which is being accreted annually until the point of maturity of the capital appreciation bonds, which is 2016.

The maturity amount of outstanding capital appreciation bonds at June 30, 2015, is \$1,725,000. The accretion recorded for 2015 was \$176,994, for a total outstanding bond liability of \$1,625,417 at June 30, 2015.

The term bonds maturing on December 15, 2016, are subject to mandatory sinking fund redemption at a redemption price of 100 percent of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

	Issue
Year	\$2,165,000
2016	\$2,165,000
Stated Maturity	12/15/2016

***2006 Energy Conservation Improvement Bonds***

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

***2006 Refunding Bonds***

On October 4, 2006, the School District issued \$31,339,991 refunded general obligation bonds for the purpose of refunding \$31,340,000 of the School District's outstanding 2001 school improvement bonds. The refunding bonds mature on December 15 of each of the years 2006 through 2026. Interest payments, at rates ranging from 4 percent to 12.26 percent per year are payable on June 15 and December 15 of each year, until the principal amount is paid.

The bonds were sold at a premium of \$2,245,438. Net proceeds of \$31,148,071 were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, \$31,340,000 of these bonds is considered defeased and the liability for the refunded bonds have been removed from the School District's financial statements.

**Garfield Heights City School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

The bond issue consisted of \$23,805,000 of serial bonds, \$644,211 of capital appreciation bonds and \$6,355,000 of term bonds. The serial and term bonds remain outstanding at June 30, 2015.

The serial bonds were issued for a 19 year period with a final maturity date of December 15, 2024.

The term bonds maturing on December 15, 2026, are subject to mandatory sinking fund redemption at a redemption price of 100 percent of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

	<u>Issue</u>
<u>Year</u>	<u>\$6,355,000</u>
2025	\$4,410,000
Stated Maturity	12/15/2026

The remaining principal amount of the term bonds (\$1,945,000) will mature at the stated maturity.

***2012 Refunding Bonds***

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

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

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

The capital appreciation bonds remained outstanding at June 30, 2015. The capital appreciation bonds were originally sold at a discount of \$605,281, which is being accreted annually until the point of maturity of the capital appreciation bonds, which is 2019.

The maturity amount of outstanding capital appreciation bonds at June 30, 2015, is \$680,000. The accretion recorded for 2015 was \$88,017, for a total outstanding bond liability of \$258,202 at June 30, 2015.

***2015 Refunding Bonds***

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

**Garfield Heights City School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

**2006 Refunding Bonds:**

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

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

**2006 Refunding Bonds:**

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

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

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

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

The maturity amount of outstanding capital appreciation bonds at June 30, 2015, is \$2,770,000. The accretion recorded for 2015 was \$30,731, for a total outstanding bond liability of \$1,165,628 at June 30, 2015.

The overall debt margin of the School District as of June 30, 2015, was \$0 with an unvoted debt margin of \$0. The Ohio Revised Code further provides that when a Board of Education declares a resolution that the student population is not adequately served by existing facilities, and that insufficient capacity exists within the nine percent limit to finance additional facilities, the State Department of Education may declare that school district a "special needs" school district. This permits the incurrence of additional debt based upon projected 5-year growth of the school district's assessed valuation. The Garfield Heights City School District was determined to be a "special needs" school district by the State Superintendent.

**Garfield Heights City School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2015*

Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2015, are as follows:

Fiscal Year Ending June 30	School Improvement Bonds					
	Serial Bonds		Capital Appreciation Bonds		Term Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$910,000	\$1,000,490	\$342,275	\$1,382,725	\$0	\$116,368
2017	650,000	970,045	34,557	180,443	2,165,000	58,184
2018	170,000	959,725	1,157,646	1,827,354	0	0
2019	3,055,000	928,445	17,413	232,587	0	0
2020	3,100,000	849,371	0	0	0	0
2021-2025	17,945,000	1,518,107	0	0	0	1,350,440
2026-2027	1,125,000	32,656	0	0	6,355,000	217,706
<b>Total</b>	<b>\$26,955,000</b>	<b>\$6,258,839</b>	<b>\$1,551,891</b>	<b>\$3,623,109</b>	<b>\$8,520,000</b>	<b>\$1,742,698</b>

**Note 14 – Capital Leases**

***Equipment Lease***

In prior years, the School District entered into a lease for HVAC systems. The lease obligation meets the criteria of a capital lease and has been recorded on the government-wide statements. The original amount capitalized for the capital lease and the book value as of June 30, 2015, follows:

	<u>Amounts</u>
Asset:	
Equipment	\$1,295,650
Less: Accumulated depreciation	<u>(896,988)</u>
Current Book Value	<u><u>\$398,662</u></u>

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2015.

	<u>Amounts</u>
2016	\$139,411
2017	139,411
2018	139,411
2019	<u>69,699</u>
Total Mimimum Lease Payments	487,932
Less: Amount representing interest	<u>(38,957)</u>
Present Value of Mimimum Lease Payments	<u><u>\$448,975</u></u>

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

**Garfield Heights City School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

**2003 QZABs**

The School District entered into a capital lease for the improvement of several buildings in the School District. The lease obligation meets the criteria of a capital lease and has been recorded on the government-wide statements. As part of this agreement, Bank of New York, as lessor, deposited \$3,000,000 into the School District's account. The School District will be making annual interest payments over a 15 year period to Bank of New York, its escrow agent, which will pay the annual interest and invest the sinking fund dollars at an interest rate that will generate at least \$909,800 over the lease period, the difference between the sinking payments and the lease principal payment. At June 30, 2015, the market value of the escrow account with fiscal agent is \$2,293,978. It is the assumption of the School District that the money in the sinking fund will be invested and earn enough interest to allow the lease to be paid in full in March 2018.

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

Year ending June 30,	Building Lease
2018	\$3,000,000
Less: Amount Representing Interest	0
Present Value of Minimum Lease Payments	\$3,000,000

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

Year ending June 30,	Principal	Sinking Fund Payments	Total Lease Payment
2016	\$0	\$149,300	\$149,300
2017	0	149,300	149,300
2018	3,000,000	0	3,000,000
	\$3,000,000	\$298,600	\$3,298,600

**2004 QZABs**

The School District entered into a capital lease for the improvement of several buildings in the School District. The lease obligation meets the criteria of a capital lease and has been recorded on the government-wide statements. As part of this agreement, U.S. Bank, as lessor, deposited \$2,000,000 into the School District's account. The School District will be making annual interest payments over a 14 year period to U.S. Bank, its escrow agent, which will pay the annual interest and invest the sinking fund dollars at an interest rate that will generate at least \$482,720 over the lease period, the difference between the sinking payments and the lease principal payment. At June 30, 2015, the market value of the escrow account with fiscal agent is \$1,380,794. It is the assumption of the School District that the money in the sinking fund will be invested and earn enough interest to allow the lease to be paid in full in September 2018.

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

**Garfield Heights City School District**

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Year ending June 30,	Building Lease
2016	\$16,800
2017	16,800
2018	16,800
2019	2,016,800
Total Minimum Lease Payments	2,067,200
Less: Amount Representing Interest	(67,200)
Present Value of Minimum Lease Payments	<u>\$2,000,000</u>

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

Year ending June 30,	Principal	Interest	Sinking Fund Payments	Total Lease Payment
2016	\$0	\$16,800	\$116,714	\$133,514
2017	0	16,800	116,714	133,514
2018	0	16,800	116,714	133,514
2019	2,000,000	16,800	0	2,016,800
	<u>\$2,000,000</u>	<u>\$67,200</u>	<u>\$350,142</u>	<u>\$2,417,342</u>

***2015 Equipment and Vehicles Lease***

A new capital lease obligation recorded on the governmental wide statements relates to the purchase of several pieces of equipment and vehicles. At the time the School District entered into this lease, the equipment and vehicles had not yet been purchased. As part of this agreement, First Merit Bank, as lessor, deposited \$377,319 into the School District's account. At fiscal year end, \$377,365 remains in the permanent improvement fund. The principal amount owed on the lease at fiscal year end was \$377,319.

	Amounts
2016	\$82,342
2017	82,342
2018	82,342
2019	82,342
2020	82,342
Total Mimimum Lease Payments	411,710
Less: Amount representing interest	(34,391)
Present Value of Mimimum Lease Payments	<u>\$377,319</u>

**Note 15 – Jointly Governed Organizations**

***North Coast Council***

The North Coast Council (NCC) is a jointly governed computer service bureau owned and operated by 2 educational service centers and 27 public school districts. The primary function of NCC is to provide to its members the support and leadership which enables organizations to achieve their objectives through

## **Garfield Heights City School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

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innovative and cost effective shared technology solutions. Major areas of service provided by NCC include accounting, payroll, inventory, career guidance services, handicapped student tracking, pupil scheduling, attendance reporting and grade reporting. NCC is wholly owned by its member districts and is governed by a Board of Directors (member Superintendents). NCC's current membership includes the Educational Service Center of Cuyahoga County, Educational Service Center of Lorain County and 27 school districts in Cuyahoga, Huron, Lorain, and Medina counties. Each year, the Board of Directors elects a Chairman, a Vice Chairman and a Recording Secretary. The Treasurer of the fiscal agent is a nonvoting, ex-officio member of the Board of Directors. The Educational Service Center of Cuyahoga County serves as the fiscal agent of NCC. The degree of control exercised by any participating school district is limited to its representation on the Board. Each school district supports NCC based upon a per pupil charge dependent upon the software packages used. In fiscal year 2015, the School District paid \$99,748 to NCC. Financial information can be obtained by contacting the Treasurer of the fiscal agent at 5700 West Canal Road, Valley View, Ohio 44125.

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

The Cuyahoga Valley Career Center (a joint vocational school district) is a distinct political subdivision of the State of Ohio operated under the direction of a Board, consisting of representatives from each participating school district's elected board, which possess its own budgeting and taxing authority. Accordingly, the Cuyahoga Valley Career Center is not part of the School District and its operations are not included as part of the reporting entity. The degree of control exercised by any participating school district is limited to its representation on the Board. The School District made no contributions to the Cuyahoga Valley Career Center during fiscal year 2015. Financial information can be obtained by contacting the Treasurer at the Cuyahoga Valley Career Center, 8001 Brecksville Road, Brecksville, Ohio 44141.

### ***Ohio Schools' Council***

The Ohio Schools Council (Council) is a jointly governed organization among 198 school districts. The jointly governed organization was created by school districts for the purpose of saving money through volume purchases. Each district supports the Council by paying an annual participation fee. Each school district member's superintendent serves as a representative of the Assembly. The Assembly elects five of the Council's Board members and the remaining four are representatives of the Greater Cleveland School Superintendents' Association. The Council operates under a nine-member Board of Directors (the Board). The Board is the policy making authority of the Council. The Board meets monthly September to June. The Board appoints an Executive Director who is responsible for receiving and disbursing funds, investing available funds, preparing financial reports for the Board and Assembly and carrying out such other responsibilities as designated by the Board. The degree of control exercised by any participating school district is limited to its representation on the Board. In fiscal year 2015, the School District paid \$57,214 to the Council. Financial information can be obtained by contacting William Zelei, the Executive Director of the Ohio Schools' Council at 6393 Oak Tree Boulevard, Suite 377, Independence, Ohio 44131.

The School District participates in the natural gas purchase program. This program allows the School District to purchase natural gas at reduced rates. Energy USA served as the natural gas supplier and program manager from October 1, 2008 to September 30, 2010. Compass Energy serves as the new supplier and program manager for the period from April 1, 2013, through March 31, 2016. There are currently 143 participants in the program including the Garfield Heights City School District. The participants make monthly payments based on estimated usage. Each September, these estimated payments are compared to their actual usage for the year (July to June). Districts that paid more in estimated billings than their actual billings are issued credits on future billings beginning in September until the credits are exhausted and districts that did not pay enough on estimated billings are invoiced for the difference on the September monthly estimated billing.

**Garfield Heights City School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

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**Note 16 – Public Entity Risk Pool**

***Suburban Health Consortium***

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

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

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

## Garfield Heights City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

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### Note 17 – Defined Benefit Pension Plans

#### *Net Pension Liability*

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

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

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 fiscal year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting.

#### *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](http://www.ohsers.org) under Employers/Audit Resources.

## Garfield Heights City School District

Notes to the Basic Financial Statements  
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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 years of service; 2.2 percent for the first 30 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, 2015, the allocation to pension, death benefits, and Medicare B was 13.18 percent. The remaining 0.82 percent of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The School District's contractually required contribution to SERS was \$736,823 for fiscal year 2015. Of this amount \$79,308 is reported as an intergovernmental payable.

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

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. 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

## **Garfield Heights City School District**

### *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2015*

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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 5 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 5 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 service. 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. The statutory maximum employee contribution rate was increased 1 percent July 1, 2014, and will be increased 1 percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2015, plan members were required to contribute 12 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 2015 contribution rates were equal to the statutory maximum rates.

The School District's contractually required contribution to STRS was \$2,555,021 for fiscal year 2015. Of this amount \$385,120 is reported as an intergovernmental payable.

**Garfield Heights City School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

***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, 2014, 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	\$9,273,521	\$41,959,856	\$51,233,377
Proportion of the Net Pension Liability	0.183237%	0.17250775%	
Pension Expense	\$865,547	\$1,651,900	\$2,517,447

At June 30, 2015, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<b>Deferred Outflows of Resources</b>			
Differences between expected and actual experience	\$78,928	\$403,955	\$482,883
Change in the District's proportionate share	1,296,488	0	1,296,488
District's contributions subsequent to the measurement date	<u>736,823</u>	<u>2,555,021</u>	<u>3,291,844</u>
Total Deferred Outflows of Resources	<u>\$2,112,239</u>	<u>\$2,958,976</u>	<u>\$5,071,215</u>
<b>Deferred Inflows of Resources</b>			
Net difference between projected and actual earnings on pension plan investments	<u>\$1,505,118</u>	<u>\$7,762,732</u>	<u>\$9,267,850</u>

\$3,291,844 reported as deferred outflows of resources related to pension resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2016	(\$32,227)	(\$1,839,694)	(\$1,871,921)
2017	(32,227)	(1,839,694)	(1,871,921)
2018	(32,227)	(1,839,694)	(1,871,921)
2019	<u>(33,021)</u>	<u>(1,839,695)</u>	<u>(1,872,716)</u>
Total	<u>(\$129,702)</u>	<u>(\$7,358,777)</u>	<u>(\$7,488,479)</u>

## Garfield Heights City School District

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015

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### 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, 2014, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.75 percent, net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

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.

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 average 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:

**Garfield Heights City School District**

*Notes to the Basic Financial Statements  
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<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	1.00 %	0.00 %
US Stocks	22.50	5.00
Non-US Stocks	22.50	5.50
Fixed Income	19.00	1.50
Private Equity	10.00	10.00
Real Assets	10.00	5.00
Multi-Asset Strategies	<u>15.00</u>	7.50
Total	<u>100.00 %</u>	

**Discount Rate** The total pension liability was calculated using the discount rate of 7.75 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 (7.75 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 7.75 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 <u>(6.75%)</u>	Current Discount Rate <u>(7.75%)</u>	1% Increase <u>(8.75%)</u>
School District's proportionate share of the net pension liability	\$13,230,557	\$9,273,521	\$5,945,310

**Actuarial Assumptions – STRS**

The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

**Garfield Heights City School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

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 are not set back for age 90 and above. Females younger than age 80 are set back four years, set back one year from age 80 through 89, and not set back from age 90 and above.

Actuarial assumptions used in the June 30, 2014, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

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

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

**Discount Rate** The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2014. 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, 2014. 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, 2014.

**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	\$60,070,107	\$41,959,856	\$26,644,676

**Garfield Heights City School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

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**Note 18 – Postemployment Benefits**

***School Employees Retirement System***

Health Care Plan Description – The School District contributes to the School Employees Retirement System (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](http://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 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 2015, 0.82 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2015, this amount was \$20,450. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS covered payroll for the health care surcharge. For fiscal year 2015, the School District's surcharge obligation was \$111,150.

The School District's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013, were \$45,842, \$7,454 and \$7,265, respectively. For fiscal year 2015, 89.87 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2014 and 2013.

***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 Ohio which can be obtained by visiting [www.strsoh.org](http://www.strsoh.org) or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most

## Garfield Heights City School District

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

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recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2015, STRS did not allocate any employer contributions to post-employment health care. The School District's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013, were \$0, \$174,943, and \$165,907, respectively. The full amount has been contributed for fiscal years 2014 and 2013.

### **Note 19 – Other Employee Benefits**

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

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

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

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

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

#### ***Life Insurance Benefits***

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

#### ***Health Insurance Benefits***

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

#### ***Retirement Incentive***

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

## Garfield Heights City School District

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

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year in which they retire. A bargaining unit member shall be eligible for this incentive to retire when they first meet any one of the following three criteria as defined by State Teachers Retirement System's criteria for retirement eligibility:

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

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

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

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

The first time a bargaining unit member becomes eligible to retire, they shall receive 100 percent of the retirement incentive amount if they elect to retire at that time as shown on the schedule. The second time a bargaining unit member becomes eligible to retire; they shall receive fifty percent of the retirement incentive amount if they elect to retire at that time. If a bargaining unit member passes on the first two eligibility criterion, they will no longer be eligible for the incentive. The retirement incentive amounts are determined using the retired employee's current base salary for classification and years of service. Any eligible employee who wishes to participate in this incentive program must elect in writing stating they want to participate prior to the school year end in which they retire. This incentive will be payable in two payments on or near July 1st following their retirement date.

### **Note 20 – Contingencies**

#### ***Grants***

The School District received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2015.

#### ***School Foundation***

School District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the school district, which can extend past the fiscal year end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2015, Foundation funding for the School District; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or a liability of the School District.

**Garfield Heights City School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

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**Litigation**

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

**Note 21 – Set Asides**

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

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

	<u>Capital Improvements</u>
Set-Aside Balance as of June 30, 2014	\$0
Current Year Set-aside Requirement	637,256
Offsets	(314,472)
Qualifying Disbursements	<u>(814,696)</u>
Total	<u><u>(\$491,912)</u></u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u><u>\$0</u></u>
Set-aside Balance as of June 30, 2015	<u><u>\$0</u></u>

Although the School District had qualifying disbursements during the fiscal year that reduced the set-aside amount to below zero for the capital acquisition set-aside, this amount may not be used to reduce the set-aside requirement of future years. This negative balance is therefore not presented as being carried forward to future years.

**Note 22 – Encumbrances**

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

General	\$377,944
Other Governmental Funds	<u>981,912</u>
Total	<u><u>\$1,359,856</u></u>

**Garfield Heights City School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2015*

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**Note 23 – Subsequent Event**

In July 2015, a portion of the escrow account for the 2015 equipment and vehicles lease with First Merit Bank was used to reimburse the School District for a truck purchased in June 2015, and the remaining portion of the escrow account was used to purchase additional assets in fiscal year 2016.

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**Garfield Heights City School District**  
*Required Supplementary Information*  
*Schedule of the School District's Proportionate Share of the Net Pension Liability*  
*School Employees Retirement System of Ohio*  
*Last Two Fiscal Years (1)*

	2014	2013
School District's Proportion of the Net Pension Liability	0.183237%	0.155985%
School District's Proportionate Share of the Net Pension Liability	\$9,273,521	\$9,275,906
School District's Covered-Employee Payroll	\$5,326,336	\$4,540,718
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	174.11%	204.28%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	71.70%	65.52%

(1) Information prior to 2013 is not available.

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

**Garfield Heights City School District**  
*Required Supplementary Information*  
*Schedule of the School District's Proportionate Share of the Net Pension Liability*  
*State Teachers Retirement System of Ohio*  
*Last Two Fiscal Years (1)*

	2014	2013
School District's Proportion of the Net Pension Liability	0.17250775%	0.17250775%
School District's Proportionate Share of the Net Pension Liability	\$41,959,856	\$49,982,305
School District's Covered-Employee Payroll	\$17,812,093	\$16,590,738
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	235.57%	301.27%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	74.70%	69.30%

(1) Information prior to 2013 is not available.

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

**Garfield Heights City School District**  
*Required Supplementary Information*  
*Schedule of the School District's Contributions*  
*School Employees Retirement System of Ohio*  
*Last Ten Fiscal Years*

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually Required Contribution	\$736,823	\$738,230	\$628,435	\$666,775
Contributions in Relation to the Contractually Required Contribution	<u>(736,823)</u>	<u>(738,230)</u>	<u>(628,435)</u>	<u>(666,775)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
School District Covered-Employee Payroll	\$5,590,464	\$5,326,336	\$4,540,718	\$4,957,433
Contributions as a Percentage of Covered-Employee Payroll	13.18%	13.86%	13.84%	13.45%

<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
\$793,957	\$1,038,457	\$732,534	\$700,081	\$661,842	\$561,682
<u>(793,957)</u>	<u>(1,038,457)</u>	<u>(732,534)</u>	<u>(700,081)</u>	<u>(661,842)</u>	<u>(561,682)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$6,316,283	\$7,669,546	\$7,444,455	\$7,129,138	\$6,197,022	\$5,308,904
12.57%	13.54%	9.84%	9.82%	10.68%	10.58%

**Garfield Heights City School District**  
*Required Supplementary Information*  
*Schedule of the School District's Contributions*  
*State Teachers Retirement System of Ohio*  
*Last Ten Fiscal Years*

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually Required Contribution	\$2,555,021	\$2,315,572	\$2,156,796	\$2,158,654
Contributions in Relation to the Contractually Required Contribution	<u>(2,555,021)</u>	<u>(2,315,572)</u>	<u>(2,156,796)</u>	<u>(2,158,654)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
School District Covered-Employee Payroll	\$18,250,150	\$17,812,093	\$16,590,738	\$16,605,031
Contributions as a Percentage of Covered-Employee Payroll	14.00%	13.00%	13.00%	13.00%

<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
\$2,154,403	\$2,256,236	\$2,076,719	\$2,053,863	\$1,913,786	\$1,724,446
<u>(2,154,403)</u>	<u>(2,256,236)</u>	<u>(2,076,719)</u>	<u>(2,053,863)</u>	<u>(1,913,786)</u>	<u>(1,724,446)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$16,572,331	\$17,355,662	\$15,974,762	\$15,798,946	\$14,721,431	\$13,264,969
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

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**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2015**

<b>FEDERAL GRANTOR</b> <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Expenditures	Non-Cash Expenditures
<b>U.S. DEPARTMENT OF AGRICULTURE</b> <i>Passed Through Ohio Department of Education</i>			
Nutrition Cluster:			
School Breakfast Program - 2015	10.553	\$391,332	\$0
School Lunch Program - 2015	10.555	923,171	100,151
Total Nutrition Cluster		<u>1,314,503</u>	<u>100,151</u>
<b>Total U.S. Department of Agriculture</b>		<b><u>1,314,503</u></b>	<b><u>100,151</u></b>
<b>U.S. DEPARTMENT OF EDUCATION</b> <i>Passed Through Ohio Department of Education</i>			
Title I Grants to Local Educational Agencies - 2014	84.010	184,147	0
Title I Grants to Local Educational Agencies - 2015	84.010	1,011,368	0
Total Title I		<u>1,195,515</u>	<u>0</u>
Special Education Cluster:			
Special Education--Grants to States (IDEA, Part B) - 2013	84.027	2,455	0
Special Education--Grants to States (IDEA, Part B) - 2014	84.027	66,258	0
Special Education--Grants to States (IDEA, Part B) - 2015	84.027	956,518	0
Total Special Education--Grants to States (IDEA, Part B)		<u>1,025,231</u>	<u>0</u>
Special Education--Preschool Grants - 2015	84.173	13,279	0
Total Special Education Cluster		<u>1,038,510</u>	<u>0</u>
Improving Teacher Quality (Title II-A) - 2014	84.367	23,940	0
Improving Teacher Quality (Title II-A) - 2015	84.367	75,189	0
Improving Teacher Quality (Title II-A) - Cleveland Diocese 2014	84.367	3,299	0
Total Improving Teacher Quality (Title II-A)		<u>102,428</u>	<u>0</u>
<b>Total U.S. Department of Education</b>		<b><u>2,336,453</u></b>	<b><u>0</u></b>
<b>Total</b>		<b><u><u>\$3,650,956</u></u></b>	<b><u><u>\$100,151</u></u></b>

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

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FISCAL YEAR ENDED JUNE 30, 2015**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Federal Awards Expenditures (the Schedule) reports the Garfield Heights City School District's (the District's) federal award programs' disbursements. The Schedule has been prepared on the cash basis of accounting.

**NOTE B - CHILD NUTRITION CLUSTER**

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

**NOTE C – FOOD DONATION PROGRAM**

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



# Dave Yost • Auditor of State

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

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

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Garfield Heights City School District, Cuyahoga County, (the District) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated June 14, 2016, wherein we noted the District adopted Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

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

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

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

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

***Compliance and Other Matters***

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2015-001.

***District's Response to Finding***

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

***Purpose of this Report***

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



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

June 14, 2016



# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

To the Board of Education:

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

We have audited the Garfield Heights City School District's (the District's) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the District's major federal programs for the year ended June 30, 2015. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the District's major federal programs.

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

The District's Management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

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

Our responsibility is to opine on the District's compliance for each of the District's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

***Basis for Qualified Opinion on the Nutrition Cluster and Title I Major Federal Programs***

As described in Findings 2015-003 through and 2015-006 in the accompanying schedule of findings, the District did not comply with requirements regarding the following:

Finding #	CFDA #	Program (or Cluster) Name	Compliance Requirement
2015-003	84.010	Title I	Procurement and Suspension and Debarment
2015-004	10.553, 10.555	Nutrition Cluster	Special Tests and Provisions – Paid Lunch Equity
2015-005	10.553, 10.555	Nutrition Cluster	Special Tests and Provisions – Verification of Free and Reduced Price Applications (NSLP)
2015-006	10.553, 10.555	Nutrition Cluster	Eligibility

Compliance with these requirements is necessary, in our opinion, for the District to comply with the requirements applicable to these programs.

***Qualified Opinion on the Nutrition Cluster and Title I Major Federal Programs***

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on the Nutrition Cluster and Title I Major Federal Programs* paragraph, the Garfield Heights City School District complied, in all material respects, with the requirements referred to above that could directly and materially affect its Nutrition Cluster and Title I Major Federal Programs for the year ended June 30, 2015.

***Other Matters***

The results of our auditing procedures disclosed an instance of noncompliance which OMB Circular A-133 requires us to report, described in the accompanying schedule of findings as item 2015-002. This finding did not require us to modify our compliance opinion on each major federal program.

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

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

The District's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the District's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. Therefore, we cannot assure we have identified all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program's compliance requirement will not be prevented, or timely detected and corrected. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings as items 2015-002 through 2015-004 to be material weaknesses.

*A significant deficiency in internal control over compliance* is a deficiency or a combination of deficiencies in internal control over compliance with a federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings as items 2015-005 and 2015-006 to be significant deficiencies.

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

This report only describes the scope of our tests of internal control over compliance and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.



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

June 14, 2016

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**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2015**

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

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unmodified
<b>(d)(1)(ii)</b>	<b>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(ii)</b>	<b>Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iii)</b>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weaknesses reported for major federal programs?</b>	Yes
<b>(d)(1)(iv)</b>	<b>Were there any significant deficiencies in internal control reported for major federal programs?</b>	Yes
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Qualified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under § .510(a)?</b>	Yes
<b>(d)(1)(vii)</b>	<b>Major Programs:</b>	CFDA #10.553, 10.555 – Nutrition Cluster  CFDA #84.010 – Title I
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 300,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	No

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2015  
(Continued)**

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

**FINDING NUMBER 2015-001**

**Timely Depositing**

NONCOMPLIANCE

Ohio Rev. Code §9.38 states public money must be deposited with the Treasurer or to a designated depository on the business day following the day of receipt. If the amount of daily receipts does not exceed \$1,000 and the receipts can be safeguarded, the legislative body may adopt a policy permitting their money to be held past the next business day, but the deposit must be made no later than three business days after receiving the deposit. The policy must include provisions and procedures to safeguard the money during the intervening period. If the amount exceeds \$1,000 or a lesser amount cannot be safeguarded, the public official must then deposit the money on the next business day.

10 of 10 receipts tested, or \$24,046 of \$24,046, did not contain any evidence of the collection date, making it impossible to determine whether the receipts were deposited to the designated depository within one day after collection or followed the provisions which allow amounts to be held longer than one business day. Failure to deposit money in a timely manner increases the potential for loss or theft.

The District should maintain subsidiary documentation to document when funds are being collected at the District level to ensure adherence with the above requirements.

**Officials' Response:** While the district believes that it is in compliance, procedures will be established to incorporate such subsidiary documentation as recommended by the auditors to ensure compliance.

**3. FINDINGS FOR FEDERAL AWARDS**

**FINDING NUMBER 2015-002**

**Schedule of Federal Awards Expenditures**

NONCOMPLIANCE AND MATERIAL WEAKNESS

OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, (the Circular), sets forth standards for the audit of non-Federal entities expending Federal awards. §.300(a) of the Circular states the auditee shall identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity.

The original Schedule of Federal Awards Expenditures (the Schedule) prepared by the District for fiscal year 2015 had the following deficiencies:

- The Title I Federal program included transfers and advances as part of this program's expenditures;
- The Special Education Cluster program's early childhood program 2015 expenditures for the 2014 carryover grant were overstated, due to a prior year advance. As a result, reported expenditure amounts exceeded the available allocation amount; and
- The Improving Teacher Quality program, did not report all federal expenditures incurred during the year.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2015  
(Continued)**

<b>3. FINDINGS FOR FEDERAL AWARDS (Continued)</b>
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**Schedule of Federal Awards Expenditures (Continued)**

As a result of these errors, expenditures were overstated by a net total of \$234,911, which the District subsequently adjusted on its Schedule. Failure to identify federal awards and accurately prepare the Schedule may result in noncompliance with the Circular and may compromise the District's ability to obtain federal awards in the future.

The Treasurer should implement procedures to track and readily identify the receipts and disbursements of all Federal awards. This will ensure information is complete and accurate for preparation of the Schedule at fiscal year-end.

**Official's Response:** While procedures have been implemented that track receipts and disbursements of all federal awards, additional review procedures will be implemented to ensure that all non-federal receipts and disbursements will not be included on the Schedule.

**Excluded Parties List System – Procurement and Suspension and Debarment**

<b>Finding Number</b>	2015-003
<b>CFDA Title and Number</b>	Title I – CFDA #84.010
<b>Federal Award Number / Year</b>	2015
<b>Federal Agency</b>	United States Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

NONCOMPLIANCE AND MATERIAL WEAKNESS

2 CFR 180.300 states that Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. "Covered transactions" include those procurement contracts for goods and services awarded under a nonprocurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other specified criteria. 2 CFR section 180.220 of the government wide nonprocurement debarment and suspension guidance contains those additional limited circumstances. All nonprocurement transactions (i.e., subawards to subrecipients), irrespective of award amount, are considered covered transactions.

When a non-Federal entity enters into a covered transaction with an entity at a lower tier, the non-Federal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transactions with that entity.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2015  
(Continued)**

<b>3. FINDINGS FOR FEDERAL AWARDS (Continued)</b>
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**Excluded Parties List System – Procurement and Suspension and Debarment (Continued)**

During fiscal year 2015, the District had one vendor that received \$25,000 or more from its Title I major federal program and did not maintain evidence of verifying the vendor was not suspended or debarred by checking the EPLS, or if a signed certification from the entity was maintained. We subsequently determined the vendor was not suspended or debarred and was eligible for federal funds. Failure to properly check the EPLS, collecting certification from the entity, or adding a clause or condition to the covered transactions for that entity may result in the District conducting business with suspended or debarred vendors.

We recommend the District verify a qualifying vendor is not suspended or debarred prior to contracting with it when disbursing \$25,000 or more in federal funds, by checking the EPLS, collecting a certification from the vendor, or adding a clause or condition to the covered transaction with the vendor.

**Officials’ Response:** The vendor in question was PSI, Inc. The District has been utilizing their services since the early 2000s. In addition, PSI, Inc. has been providing these services to numerous other districts in the State of Ohio. This was an oversight on the District’s part in not obtaining the necessary documentation to show that vendor in question was disbarred. This will be eliminated in the next audit as the District has obtained this necessary documentation which can be provided as evidence of compliance with this requirement.

**Price Equity Calculation – Special Tests and Provisions – Paid Lunch Equity**

<b>Finding Number</b>	2015-004
<b>CFDA Title and Number</b>	Nutrition Cluster – CFDA #10.553, 10.555
<b>Federal Award Number / Year</b>	2015
<b>Federal Agency</b>	United States Department of Agriculture
<b>Pass-Through Agency</b>	Ohio Department of Education

**NONCOMPLIANCE AND MATERIAL WEAKNESS**

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

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

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

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2015  
(Continued)**

<b>3. FINDINGS FOR FEDERAL AWARDS (Continued)</b>
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**Price Equity Calculation – Special Tests and Provisions – Paid Lunch Equity (Continued)**

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

The price equity calculation we completed showed the District needed to raise lunch prices for the 2014-2015 school year to meet the requisite weighted average price. The District could not provide evidence of completing this calculation for fiscal year 2015, and therefore did not know they were failing to meet the required price.

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

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

**Officials’ Response:** Procedures will be implemented to ensure that the price calculation will be completed annually and that the lunch prices fall within compliance of this requirement.

**Free and Reduced Lunch Application Updates – Special Tests and Provisions – Verification of Free and Reduced Price Applications (NSLP)**

<b>Finding Number</b>	2015-005
<b>CFDA Title and Number</b>	Nutrition Cluster – CFDA #10.553, 10.555
<b>Federal Award Number / Year</b>	2015
<b>Federal Agency</b>	United States Department of Agriculture
<b>Pass-Through Agency</b>	Ohio Department of Education

NONCOMPLIANCE AND SIGNIFICANT DEFICIENCY

7 CFR §245.6(c)(iii) Changes resulting from verification or administrative reviews states 'The local educational agency must change the children’s eligibility status when a change is required, as a result of verification activities conducted under § 245.6a or as a result of a review conducted in accordance with § 210.18 of this chapter'.

In one of 20 applications reviewed, or 5%, an application selected for direct verification yielded no response from the parent, yet the District did not change the meal status of the students listed on the application from the free and reduced to pay in the Meals Plus system as required by 7 CFR §245.6(c)(iii). As a result, the students incorrectly received \$34 in free and reduced meals received during fiscal year 2015.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2015  
(Continued)**

<b>3. FINDINGS FOR FEDERAL AWARDS (Continued)</b>
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**Free and Reduced Lunch Application Updates – Special Tests and Provisions – Verification of Free and Reduced Price Applications (NSLP) (Continued)**

Failure to ensure appropriate eligibility of all students may result in the District being reimbursed for students who are not eligible to receive free or reduced meals, unallowable costs, and potential findings for recovery.

The District should ensure that changes resulting from verification or administrative reviews are entered into the Meals Plus system.

**Officials’ Response:** While the District processed more than 580 applications for 1,039 verifiable students, every effort will be made to ensure appropriate eligibility of the students and entering into the Meals Plus system.

**Student Eligibility – Eligibility**

<b>Finding Number</b>	2015-006
<b>CFDA Title and Number</b>	Nutrition Cluster – CFDA #10.553, 10.555
<b>Federal Award Number / Year</b>	2015
<b>Federal Agency</b>	United States Department of Agriculture
<b>Pass-Through Agency</b>	Ohio Department of Education

NONCOMPLIANCE AND SIGNIFICANT DEFICIENCY

7 CFR §245.6 (c) states "except as otherwise specified in paragraph (c)(3) of this section, eligibility for free or reduced price meals, as determined through an approved application or by direct certification, must remain in effect for the entire school year and for up to 30 operating days into the subsequent school year. The local educational agency must determine household eligibility for free or reduced price meals either through direct certification or the application process at or about the beginning of the school year. The local educational agency must determine eligibility for free or reduced price meals when a household submits an application or, if feasible, through direct certification, at any time during the school year".

The District could not provide one out of forty, or 3%, of applications for free and reduced lunch status. As a result, we were unable to determine whether the student should have received free lunches. The total dollar value of the free lunches received by the student during fiscal year 2015 was \$274.

In addition, one of 40 students selected was denied based on family size due to a clerical error when entering student information in the Meals Plus System. As a result, the student paid for lunches for the whole school year, when the student should have received reduced lunch status.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2015  
(Continued)**

<b>3. FINDINGS FOR FEDERAL AWARDS (Continued)</b>
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**Student Eligibility – Eligibility (Continued)**

Failure to ensure eligibility of all students may result in the District being reimbursed for students who are not eligible to receive free or reduced meals and unallowable costs and potential findings for recovery. Failure to adequately review information entered in the Meals Plus system can result in the system making incorrect eligibility determinations, which can result in needy students not receiving appropriate services, or unallowable costs.

The District should maintain records of all student applications in order to support eligibility determinations. Furthermore, The District staff should ensure that information is accurately entered into the Meals Plus System, so correct eligibility determinations can be made.

**Official's Response:** While the District processed more than 580 applications for 1,039 verifiable students, every effort will made to ensure that all student applications are being maintained to support eligibility determinations.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A -133 § .315 (b)  
JUNE 30, 2015**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2014-001	Financial Reporting	Yes	Corrected
2014-002	Excluded Parties List System	No	Not Corrected

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**CORRECTIVE ACTION PLAN  
OMB CIRCULAR A -133 § .315 (c)  
JUNE 30, 2015**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2015-001	Procedures will be established to incorporate such subsidiary documentation as recommended by the auditors to ensure compliance.	Immediately	Treasurer
2015-002	While procedures have been implemented that track receipts and disbursements of all federal awards, additional review procedures will be implemented to ensure that all non-federal receipts and disbursements will not be included on the Schedule.	Immediately	Treasurer
2015-003	The District has obtained the necessary documentation which can be provided as evidence of compliance with this requirement.	Immediately	Treasurer
2015-004	Procedures will be implemented to ensure that the price calculation will be completed annually and that the lunch prices fall within compliance of this requirement.	Immediately	Treasurer
2015-005	Every effort will made to ensure appropriate eligibility of the students and entering into the Meals Plus system.	Immediately	Treasurer
2015-006	Every effort will made to ensure that all student applications are being maintained to support eligibility determinations.	Immediately	Treasurer

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# Dave Yost • Auditor of State

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT**

**CUYAHOGA COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JULY 5, 2016**