



Dave Yost • Auditor of State



**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY  
JUNE 30, 2016**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Auditor's Report .....	1
Prepared by Management:	
Management's Discussion and Analysis .....	5
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position .....	15
Statement of Activities.....	16
Fund Financial Statements:	
Balance Sheet	
Governmental Funds .....	17
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities .....	18
Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds.....	19
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	20
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual General Fund.....	21
Statement of Fiduciary Assets and Liabilities Agency Funds.....	22
Notes to the Basic Financial Statements .....	23
Schedules of Required Supplementary Information:	
Schedule of the District's Proportionate Share of the Net Pension Liability – School Employees Retirement System (SERS) of Ohio .....	71
Schedule of the District's Proportionate Share of the Net Pension Liability – State Teachers Retirement System (STRS) of Ohio .....	72
Schedule of District Contributions – School Employees Retirement System (SERS) of Ohio .....	73
Schedule of District Contributions – State Teachers Retirement System (STRS) of Ohio .....	74
Schedule of Expenditures of Federal Awards .....	75
Notes to the Schedule of Expenditures of Federal Awards .....	76

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY  
JUNE 30, 2016**

**TABLE OF CONTENTS  
(Continued)**

<b>TITLE</b>	<b>PAGE</b>
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	77
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance .....	79
Schedule of Findings.....	83
Prepared by Management:	
Summary Schedule of Prior Audit Findings.....	87
Corrective Action Plan .....	89



# 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, 2016, 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, 2016, and the respective changes in financial position thereof and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

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

*Supplementary and Other Information*

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

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

The Schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this 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 April 17, 2017, 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

April 17, 2017

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**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(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, 2016. 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 2016 are as follows:

- In total, net position increased by \$2,561,234.
- Revenues for governmental activities total \$52,063,355 during 2016. Of this total 87 percent consisted of general revenues while program revenues accounted for the balance of 13 percent.
- Program expenses total \$49,502,121. Instructional expenses made up 57 percent of this total while support services accounted for 33 percent. Other expenses rounded out the remaining 10 percent.

### **Using this Financial Report**

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

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

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

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

While these statements contain information about the large number of funds used by the School District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2016?" 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  
CUYAHOGA COUNTY, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(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 11. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund and the Bond Retirement Debt Service Fund.

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

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

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
 CUYAHOGA COUNTY, OHIO  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
 (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 2016 compared to fiscal year 2015:

**Table 1- Net Position**

	Governmental Activities	
	2016	2015
<b>ASSETS</b>		
Current and other assets	\$ 34,162,954	\$ 33,905,522
Capital assets, net	51,675,807	53,152,621
<b>Total Assets</b>	<b>85,838,761</b>	<b>87,058,143</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferral on Refunding	1,985,848	2,179,649
Pension	7,334,453	5,071,215
<b>Total Deferred Outflows of Resources</b>	<b>9,320,301</b>	<b>7,250,864</b>
<b>LIABILITIES</b>		
Current and other liabilities	5,416,710	5,616,699
Long-term liabilities:		
Due within one year	3,491,829	3,009,360
Due in more than one year:		
Net Pension Liability	58,795,177	51,233,377
Other Amounts	46,681,602	49,360,674
<b>Total Liabilities</b>	<b>114,385,318</b>	<b>109,220,110</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Property Taxes	10,635,596	12,395,508
Payment in Lieu of Taxes	331,444	-
Pension	3,819,931	9,267,850
<b>Total Deferred Inflows of Resources</b>	<b>14,786,971</b>	<b>21,663,358</b>
<b>NET POSITION</b>		
Net Investment in Capital Assets	10,286,142	10,542,089
Restricted	11,481,514	10,817,445
Unrestricted	(55,780,883)	(57,933,995)
<b>Total Net Position</b>	<b>\$ (34,013,227)</b>	<b>\$ (36,574,461)</b>

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(UNAUDITED)**

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The net pension liability is the largest single liability reported by the School District at June 30, 2016, and is reported pursuantly GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the School District's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

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

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

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

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

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

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
 CUYAHOGA COUNTY, OHIO  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
 (UNAUDITED)**

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

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

Total net position increased \$2,561,234 from the prior fiscal year. The decrease in capital assets is due to current year depreciation. Total liabilities increased mainly due to the increase in the net pension liability.

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 2016 and 2015.

**Table 2- Changes in Net Position**

	Governmental Activities	
	2016	2015
<b>REVENUES</b>		
Program Revenues:		
Charges for services	\$ 898,610	\$ 1,031,589
Operating grants and contributions	6,030,254	6,817,327
Capital grants and contributions	-	43,505
Total Program Revenues	<u>6,928,864</u>	<u>7,892,421</u>
General Revenues:		
Property taxes	20,593,698	20,887,404
Payments in lieu of taxes	330,124	243,180
Grants and entitlements not restricted to specific programs	23,877,963	20,873,451
Gifts and Donations not restricted to specific programs	-	2,687
Investment income	180,962	144,501
Sale of Capital assets	1,798	-
Miscellaneous	149,946	282,555
Total General Revenues	<u>45,134,491</u>	<u>42,433,778</u>
<b>Total Revenues</b>	<u>52,063,355</u>	<u>50,326,199</u>
<b>EXPENSES</b>		
Program Expenses:		
Instruction:		
Regular	18,026,060	18,124,807
Special	3,643,342	4,688,650
Vocational	1,028	1,533
Student Intervention Services	6,771,674	4,899,606

*Continued*

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
 CUYAHOGA COUNTY, OHIO  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
 (UNAUDITED)**

**Table 2- Changes in Net Position**

	Governmental Activities	
	2016	2015
Program Expenses ( <i>Continued</i> )		
Supporting Services:		
Pupils	2,972,658	3,031,114
Instructional Staff	2,607,592	2,141,206
Board of Education	134,105	47,977
Administration	4,086,333	3,880,075
Fiscal Services	1,015,750	1,047,211
Business	400,710	448,116
Operation and Maintenance of Plant	3,581,714	3,236,355
Pupil Transportation	984,386	800,210
Central	482,460	419,635
Operation of Non-Instructional Services	725,215	783,883
Operation of Food Service	1,662,329	1,479,695
Extracurricular Activities	706,746	680,129
Interest and Fiscal Charges	1,700,019	1,414,569
<b>Total Expenses</b>	<b>49,502,121</b>	<b>47,124,771</b>
Change in Net Position	2,561,234	3,201,428
Net Position - Beginning of Year	(36,574,461)	(39,775,889)
<b>Net Position - End of Year</b>	<b>\$ (34,013,227)</b>	<b>\$ (36,574,461)</b>

***Governmental Activities***

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

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

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(UNAUDITED)**

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 2016, but this was offset by the increase in unrestricted grants and entitlements. Parents continue to have the opportunity to pay for the student's lunch online. Each student uses his/her personal identification number that accesses his/her account when visiting the cafeteria. The School District also allows parents to pay for any school fees and extracurricular activities online.

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

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

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

	Governmental Activities			
	Total Cost of Services	Total Cost of Services	Net Cost of Services	Net Cost of Services
	2016	2015	2016	2015
Instruction	\$ 28,442,104	\$ 27,714,596	\$ 24,937,697	\$ 23,064,463
Supporting Services:				
Pupils and Instructional Staff	5,580,250	5,172,320	5,087,274	4,760,930
Board of Education, Administration, Business, and Fiscal Services	5,636,898	5,423,379	5,532,569	5,296,988
Operation and Maintenance of Plant	3,581,714	3,236,355	3,528,001	3,052,221
Pupil Transportation	984,386	800,210	931,310	778,599
Central	482,460	419,635	476,981	413,612
Operation of Non-Instructional Services	2,387,544	2,263,578	(142,404)	(23,914)
Extracurricular Activities	706,746	680,129	521,810	474,882
Interest and Fiscal Charges	1,700,019	1,414,569	1,700,019	1,414,569
<b>Total Cost of Services</b>	<u>\$ 49,502,121</u>	<u>\$ 47,124,771</u>	<u>\$ 42,573,257</u>	<u>\$ 39,232,350</u>

**The School District's Funds**

Information regarding the School District's major funds begins on page 17. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$52,415,751 and expenditures of \$50,191,846. The General Fund had a increase in fund balance mainly due to an increase from the prior fiscal year in intergovernmental revenue. The Bond Retirement Debt Service Fund had an increase in fund balance due to a decrease in debt service expenditures. As one can see from the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds, intergovernmental monies from State and Federal grants compose the School District's largest revenue source, accounting for 57.33 percent of total governmental revenue.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
 CUYAHOGA COUNTY, OHIO  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
 (UNAUDITED)**

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***General Fund Budgeting Highlights***

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

During the course of fiscal year 2016, 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 \$41,395,103, which was above original budget estimates of \$38,304,327. The variance is mainly due to a change in final budgeted intergovernmental revenue.

The School District's actual expenditures and other financing uses were \$668,081 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 2016 balances compared to fiscal year 2015:

**Table 4- Capital Assets**

	Governmental Activities	
	2016	2015
Land	\$ 1,216,751	\$ 1,216,751
Land Improvements	358,365	398,756
Buildings and Improvements	48,131,079	49,630,821
Furniture and Equipment	1,404,764	1,250,241
Vehicles	564,848	656,052
<b>Total Capital Assets</b>	<b>\$ 51,675,807</b>	<b>\$ 53,152,621</b>

Ohio law requires school districts to set aside three percent of certain revenues for capital improvements. For fiscal year 2016, the set aside amount was \$633,839. 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  
 CUYAHOGA COUNTY, OHIO  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
 (UNAUDITED)**

**Debt**

Table 5 summarizes the bonds and capital leases outstanding.

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

	Governmental Activities	
	2016	2015
2001 School Improvement Bonds	\$ 2,165,000	\$ 3,790,417
2006 Energy Conservation Improvement Bonds	803,599	961,621
2006 Refunding Bonds	8,543,575	8,700,376
2012 Refunding Bonds	6,267,390	6,721,377
2015 Refunding Bonds	20,799,815	20,681,392
2003 QZABs	3,000,000	3,000,000
2004 QZABs	2,000,000	2,000,000
Capital Leases	633,584	826,294
<b>Total Outstanding Debt</b>	<b>\$ 44,212,963</b>	<b>\$ 46,681,477</b>

The 2001 School Improvement Bonds were issued for the purpose of converting the existing high school to a middle school and various other renovations. These bonds have a final maturity in December 2017. The 2006 Energy Conservation Improvement Bonds were issued for the installation, modification and remodeling of school buildings to conserve energy and they have a final maturity in December of 2020. The 2006 Refunding Bonds were issued to refund a portion of the 2001 School Improvement Bonds to take advantage of better interest rates. The refunding bonds have a final maturity in December 2026. The 2012 Refunding Bonds were issued to refund a portion of the 2004 School Improvement Bonds to take advantage of better interest rates. The refunding bonds have a final maturity in December 2024. The 2015 Refunding Bonds were issued to refund a portion of the 2006 Refunding Bonds to take advantage of better interest rates. The refunding bonds have a final maturity in December 2024. The 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 high property tax delinquencies, changes in the personal property tax structure and commercial business uncertainties. Those issues, along with the State of Ohio's current economy and the fact that it only passes biennial budgets, make it increasingly difficult for the School District to plan for future educational programming needs required for our students. All scenarios require management to plan carefully and prudently to provide the resources to meet student needs over the next several years. All of the School District's financial abilities will be needed to meet the challenges of the future.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(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**  
**CUYAHOGA COUNTY, OHIO**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2016**

	Governmental Activities
<b>ASSETS</b>	
Equity in Pooled Cash and Cash Equivalents	\$ 6,816,820
Property Taxes Receivable	22,288,864
Payments in Lieu of Taxes Receivable	331,444
Accounts Receivable	7,117
Accrued Interest Receivable	4,259
Intergovernmental Receivable	430,100
Restricted Assets:	
Equity in Pooled Cash and Cash Equivalents	197,867
Cash and Cash Equivalents with Fiscal Agent	4,080,188
Cash and Cash Equivalents with Escrow Agent	6,295
Nondepreciable Capital Assets	1,216,751
Depreciable Capital Assets, Net	50,459,056
<b>Total Assets</b>	<b>85,838,761</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferral on Refunding	1,985,848
Pension	7,334,453
<b>Total Deferred Outflows of Resources</b>	<b>9,320,301</b>
<b>LIABILITIES</b>	
Accounts Payable	715,978
Accrued Wages and Benefits	3,689,487
Intergovernmental Payable	684,725
Accrued Interest Payable	45,917
Matured Compensated Absences Payable	280,603
Long-term Liabilities:	
Due within one year	3,491,829
Due in more than one year:	
Net Pension Liability (See Note 17)	58,795,177
Other Amounts	46,681,602
<b>Total Liabilities</b>	<b>114,385,318</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Property Taxes	10,635,596
Payments in Lieu of Taxes	331,444
Pension	3,819,931
<b>Total Deferred Inflows of Resources</b>	<b>14,786,971</b>
<b>NET POSITION</b>	
Net Investment in Capital Assets	10,286,142
Restricted:	
Capital Projects	968,047
Debt Service	4,177,020
School Improvements	4,080,188
Scholarships	28,998
State Funded Programs	23,414
Federally Funded Programs	14,499
Athletics and Music	72,285
Food Service	1,157,322
Set-Asides	197,867
Other Purposes	761,874
Unrestricted	(55,780,883)
<b>Total Net Position</b>	<b>\$ (34,013,227)</b>

See accompanying notes to the basic financial statements.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Position
				Governmental Activities
<b>Governmental activities:</b>				
Instruction:				
Regular	\$ 18,026,060	\$ 186,419	\$ 121,523	\$ (17,718,118)
Special	3,643,342	26,482	3,065,696	(551,164)
Vocational	1,028	213	32,246	31,431
Student Intervention Services	6,771,674	71,828	-	(6,699,846)
Supporting Services:				
Pupils	2,972,658	31,357	233,146	(2,708,155)
Instructional Staff	2,607,592	23,972	204,501	(2,379,119)
Board of Education	134,105	1,388	-	(132,717)
Administration	4,086,333	45,771	-	(4,040,562)
Fiscal Services	1,015,750	11,305	17,677	(986,768)
Business	400,710	28,188	-	(372,522)
Operation and Maintenance of Plant	3,581,714	53,713	-	(3,528,001)
Pupil Transportation	984,386	11,114	41,962	(931,310)
Central	482,460	5,479	-	(476,981)
Operation of Non-Instructional Services	725,215	136	784,963	59,884
Operation of Food Service	1,662,329	216,419	1,528,430	82,520
Extracurricular Activities	706,746	184,826	110	(521,810)
Interest and Fiscal Charges	1,700,019	-	-	(1,700,019)
<b>Total Governmental activities</b>	<b>\$ 49,502,121</b>	<b>\$ 898,610</b>	<b>\$ 6,030,254</b>	<b>(42,573,257)</b>

**General Revenues:**

Property Taxes levied for:	
General Purposes	16,341,030
Debt Service	3,892,652
Capital Outlay	148,003
Other Purposes	212,013
Payments in Lieu of Taxes	330,124
Grants & Entitlements not restricted to specific programs	23,877,963
Investment Income	180,962
Gain on Sale of Capital Assets	1,798
Miscellaneous	149,946
<b>Total General Revenues</b>	<b>45,134,491</b>
Change in Net Position	2,561,234
Net Position - Beginning of Year	(36,574,461)
<b>Net Position - End of Year</b>	<b>\$ (34,013,227)</b>

See accompanying notes to the basic financial statements.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
 CUYAHOGA COUNTY, OHIO  
 BALANCE SHEET  
 GOVERNMENTAL FUNDS  
 JUNE 30, 2016**

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Equity in Pooled Cash and Cash Equivalents	\$ 693,755	\$ 2,865,807	\$ 3,257,258	\$ 6,816,820
Accrued Interest Receivable	4,259		-	4,259
Accounts Receivable	7,117	-	-	7,117
Interfund Receivable	898,221	-	-	898,221
Intergovernmental Receivable	3,960	-	426,140	430,100
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	197,867		-	197,867
Cash and Cash Equivalents with Fiscal Agent	4,080,188	-	-	4,080,188
Cash and Cash Equivalents with Escrow Agent	-	-	6,295	6,295
Property Taxes Receivable	17,823,708	4,090,336	374,820	22,288,864
Payments in Lieu of Taxes Receivable	331,444	-	-	331,444
<b>Total Assets</b>	<b>\$ 24,040,519</b>	<b>\$ 6,956,143</b>	<b>\$ 4,064,513</b>	<b>\$ 35,061,175</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts Payable	\$ 391,816	\$ -	\$ 324,162	\$ 715,978
Accrued Wages and Benefits	3,426,182	-	263,305	3,689,487
Intergovernmental Payable	620,945	-	63,780	684,725
Matured Compensated Absences Payable	273,659	-	6,944	280,603
Interfund Payable	-	-	898,221	898,221
<b>Total Liabilities</b>	<b>4,712,602</b>	<b>-</b>	<b>1,556,412</b>	<b>6,269,014</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Property Taxes	8,552,663	1,904,351	178,582	10,635,596
Payments in Lieu of Taxes	331,444	-	-	331,444
Unavailable Revenue-Delinquent Property Taxes	4,460,895	1,105,498	95,756	5,662,149
Unavailable Revenue - Grants	-	-	112,970	112,970
<b>Total Deferred Inflows of Resources</b>	<b>13,345,002</b>	<b>3,009,849</b>	<b>387,308</b>	<b>16,742,159</b>
<b>FUND BALANCES</b>				
Restricted	4,281,254	3,946,294	3,049,184	11,276,732
Assigned	1,701,661	-	-	1,701,661
Unassigned (Deficits)	-	-	(928,391)	(928,391)
<b>Total Fund Balances</b>	<b>5,982,915</b>	<b>3,946,294</b>	<b>2,120,793</b>	<b>12,050,002</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$ 24,040,519</b>	<b>\$ 6,956,143</b>	<b>\$ 4,064,513</b>	<b>\$ 35,061,175</b>

See accompanying notes to the basic financial statements.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
 CUYAHOGA COUNTY, OHIO  
 RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
 NET POSITION OF GOVERNMENTAL ACTIVITIES  
 JUNE 30, 2016**

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**Total Governmental Fund Balances** \$ 12,050,002

*Amounts reported for Governmental Activities in the Statement of Net Position are different because:*

Capital Assets used in Governmental Activities are not financial resources and, therefore, are not reported in the funds 51,675,807

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

Delinquent Property Taxes	\$ 5,662,149	
Intergovernmental	<u>112,970</u>	
Total		5,775,119

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. (45,917)

Deferred charges on refunding related to the issuance of long-term refunding debt will be amortized over the life of the debt on the statement of net position. 1,985,848

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

Deferred Outflows - Pension	7,334,453	
Deferred Inflows - Pension	(3,819,931)	
Net Pension Liability	<u>(58,795,177)</u>	
Total		(55,280,655)

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

General Obligation Bonds	(37,748,224)	
Qualified Zone Academy Bonds	(5,000,000)	
Bond Accretion	(831,155)	
Capital Leases	(633,584)	
Early Retirement Incentive	(169,168)	
Compensated Absences	<u>(5,791,300)</u>	
Total		<u>(50,173,431)</u>

**Net Position of Governmental Activities** \$ (34,013,227)

See accompanying notes to the basic financial statements.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Property Taxes	\$ 16,424,187	\$ 3,892,385	\$ 357,805	\$ 20,674,377
Intergovernmental	24,326,275	771,795	4,954,458	30,052,528
Interest	172,528	-	8,434	180,962
Tuition	423,370	-	-	423,370
Extracurricular Activities	76,881	-	114,314	191,195
Rentals	43,484	-	18,000	61,484
Charges for Services	4,850	-	216,419	221,269
Contributions and Donations	-	-	10,217	10,217
Payments in Lieu of Taxes	451,714	-	-	451,714
Miscellaneous	145,855	-	2,780	148,635
<b>Total Revenues</b>	<u>42,069,144</u>	<u>4,664,180</u>	<u>5,682,427</u>	<u>52,415,751</u>
<b>EXPENDITURES</b>				
Current:				
Instruction:				
Regular	16,288,718	-	148,516	16,437,234
Special	2,135,127	-	1,856,099	3,991,226
Vocational	1,364	-	-	1,364
Student Intervention Services	6,504,853	-	1,183	6,506,036
Supporting Services:				
Pupils	2,712,211	-	225,961	2,938,172
Instructional Staff	2,081,309	-	510,863	2,592,172
Board of Education	133,555	-	-	133,555
Administration	3,986,527	-	2,933	3,989,460
Fiscal Services	991,807	13,877	15,980	1,021,664
Business	396,365	-	-	396,365
Operation and Maintenance of Plant Services	3,130,683	-	271,472	3,402,155
Pupil Transportation	837,082	-	36,853	873,935
Central	472,647	-	-	472,647
Operation of Non-Instructional Services:				
Food Service Operations	-	-	1,618,516	1,618,516
Community Services	9,532	-	-	9,532
Other Operations	-	-	713,328	713,328
Extracurricular Activities	457,916	-	245,029	702,945
Capital Outlay	-	-	401,128	401,128
Debt Service:				
Principal Retirement	71,098	1,252,275	121,612	1,444,985
Interest and Fiscal Charges	28,044	2,499,584	17,799	2,545,427
<b>Total Expenditures</b>	<u>40,238,838</u>	<u>3,765,736</u>	<u>6,187,272</u>	<u>50,191,846</u>
Excess of Revenues Over (Under) Expenditures	<u>1,830,306</u>	<u>898,444</u>	<u>(504,845)</u>	<u>2,225,905</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of Capital Assets	1,798	-	-	1,798
Transfers In	-	-	144,450	144,450
Transfers Out	(144,450)	-	-	(144,450)
<b>Total Other Financing Sources (Uses)</b>	<u>(142,652)</u>	<u>-</u>	<u>144,450</u>	<u>1,798</u>
Net Change in Fund Balances	1,687,654	898,444	(360,395)	2,225,703
Fund Balances - Beginning of Year	4,295,261	3,047,850	2,481,188	9,824,299
<b>Fund Balances - End of Year</b>	<u>\$ 5,982,915</u>	<u>\$ 3,946,294</u>	<u>\$ 2,120,793</u>	<u>\$ 12,050,002</u>

See accompanying notes to the basic financial statements.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
 CUYAHOGA COUNTY, OHIO  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
 FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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**Net Change in Fund Balances-Total Governmental Funds** \$ 2,225,703

*Amounts reported for Governmental Activities in the Statement of Activities are different because:*

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Capital Outlay	\$	499,747	
Depreciation		<u>(1,976,561)</u>	
Total			(1,476,814)

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

Delinquent Property Taxes		(79,376)	
Intergovernmental		<u>(276,118)</u>	
Total			(355,494)

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

1,444,985

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

3,447,410

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

(3,298,053)

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		(336,660)	
Early Retirement Incentive		64,749	
Accrued Interest		15,680	
Amortization of Bond Premiums		357,328	
Accretion on Bonds		666,201	
Deferred Amount on Refunding		<u>(193,801)</u>	
Total			<u>573,497</u>

**Change in Net Position of Governmental Activities** \$ 2,561,234

See accompanying notes to the basic financial statements.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –  
BUDGET (NON-GAAP BASIS) AND ACTUAL  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Property Taxes	\$ 14,077,075	\$ 15,222,599	\$ 15,153,304	\$ (69,295)
Intergovernmental	22,933,443	24,799,655	24,178,518	(621,137)
Interest	10,172	11,000	20,475	9,475
Tuition	329,075	355,854	399,528	43,674
Extracurricular Activities	41,614	45,000	39,767	(5,233)
Rentals	46,237	50,000	51,009	1,009
Charges for Services	6,011	6,500	4,850	(1,650)
Payments in Lieu of Taxes	417,986	452,000	451,714	(286)
Miscellaneous	120,219	130,000	142,782	12,782
<b>Total Revenues</b>	<u>37,981,832</u>	<u>41,072,608</u>	<u>40,441,947</u>	<u>(630,661)</u>
<b>Expenditures</b>				
Current:				
Instruction				
Regular	16,977,070	16,477,070	16,467,670	9,400
Special	1,811,700	2,311,700	2,330,870	(19,170)
Vocational	-	17,500	18,698	(1,198)
Other	6,605,700	6,505,700	6,301,147	204,553
Supporting Services				
Pupils	2,835,555	2,865,555	2,759,241	106,314
Instructional Staff	1,899,275	2,124,275	2,112,975	11,300
Board of Education	70,200	145,200	126,255	18,945
Administration	3,989,395	4,054,395	4,084,126	(29,731)
Fiscal Services	1,063,350	1,028,350	995,864	32,486
Business	474,850	474,850	387,902	86,948
Operation and Maintenance of Plant Services	3,190,500	3,340,500	3,159,307	181,193
Pupil Transportation	807,700	1,090,050	983,305	106,745
Central	414,900	489,900	482,771	7,129
Operation of Non-Instructional Services	-	700	324	376
Extracurricular Activities	360,700	420,700	400,440	20,260
Debt Service:				
Principal	385,195	282,845	282,814	31
<b>Total Expenditures</b>	<u>40,886,090</u>	<u>41,629,290</u>	<u>40,893,709</u>	<u>735,581</u>
Excess of Revenues Over Expenditures	<u>(2,904,258)</u>	<u>(556,682)</u>	<u>(451,762)</u>	<u>104,920</u>
<b>Other Financing Sources (Uses)</b>				
Sale of Capital Assets	-	-	1,798	1,798
Refund of Prior Year Expenditures	-	-	1,300	1,300
Advances In	322,495	322,495	322,495	-
Advances Out	(300,000)	(475,420)	(475,420)	-
Transfers Out	(250,000)	(101,950)	(169,450)	(67,500)
<b>Total Other Financings Sources (Uses)</b>	<u>(227,505)</u>	<u>(254,875)</u>	<u>(319,277)</u>	<u>(64,402)</u>
Net Change in Fund Balance	(3,131,763)	(811,557)	(771,039)	40,518
Fund Balance - Beginning of Year	974,617	974,617	974,617	-
Prior Year Encumbrances Appropriated	377,944	377,944	377,944	-
Fund Balance - End of Year	<u>\$ (1,779,202)</u>	<u>\$ 541,004</u>	<u>\$ 581,522</u>	<u>\$ 40,518</u>

See accompanying notes to the basic financial statements.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO  
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
AGENCY FUNDS  
JUNE 30, 2016**

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	<u>Agency Funds</u>
<b>Assets</b>	
Equity in Pooled Cash, Cash Equivalents, and Investments	<u>\$ 115,888</u>
<b>Liabilities</b>	
Undistributed Monies	\$ 57,336
Due to Students	<u>58,552</u>
<b>Total Liabilities</b>	<u>\$ 115,888</u>

See accompanying notes to the basic financial statements.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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

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

The School District operates under a locally-elected five-member Board form of government and provides educational services as mandated by State and Federal agencies. The Board of Education employs 203 classified employees, 290 certificated full and part-time teaching, tutor and nursing personnel, and 26 administrators who provide services to 3,628 students and other community members.

*Reporting Entity*

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

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

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

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

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(CONTINUED)**

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

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

***Basis of Presentation***

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

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

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

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

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(CONTINUED)**

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

***Fund Accounting***

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

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

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

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

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

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

***Measurement Focus***

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

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(CONTINUED)**

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

*Measurement Focus* (Continued)

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

***Basis of Accounting***

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

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

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

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

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(CONTINUED)**

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

*Basis of Accounting* (Continued)

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

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the School District, deferred inflows of resources include property taxes, payments in lieu of taxes, pension and unavailable revenue. Property taxes and payments in lieu of taxes represent amounts for which there is an enforceable legal claim as of June 30, 2016, but which were levied to finance fiscal year 2017 operations. These amounts have been recorded as a deferred inflow on both the government-wide Statement of Net Position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the School District unavailable revenue includes delinquent property taxes and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension are reported on the government-wide Statement of Net Position. (See Note 17)

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

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

***Pensions***

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

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(CONTINUED)**

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

*Cash and Cash Equivalents*

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

During fiscal year 2016, 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, Federal Home Loan Bank Discount Notes, Negotiable Certificates of Deposit, Money Market Mutual Fund, 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 for the sinking fund payments for the School District's two Qualified Zone Academy Bonds. The balance in these accounts of \$4,080,188 is presented on the financial statements as "restricted assets: cash and cash equivalents with fiscal agents", and represents short-term investments.

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

During fiscal year 2016, the School District invested in STAR Ohio. STAR Ohio (the State Treasury Asset Reserve of Ohio), is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "*Certain External Investment Pools and Pool Participants*." The School District measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides a NAV per share that approximates fair value.

For the fiscal year 2016, there were no limitation or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2016 amounted to \$172,528, which includes \$149,526 assigned from other School District funds.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
 CUYAHOGA COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
 (CONTINUED)**

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

*Cash and Cash Equivalents (Continued)*

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

*Restricted Assets*

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

*Capital Assets*

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

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

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

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

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(CONTINUED)**

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

***Interfund Balances***

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

***Compensated Absences***

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

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

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

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

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

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

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

***Internal Activity***

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

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(CONTINUED)**

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

*Internal Activity* (Continued)

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

*Fund Balance*

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

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

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

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

***Assigned*** Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance includes the remaining amount that is not restricted or committed. These assigned balances are established by the School District’s Board of Education. In the General Fund, assigned amounts represent intended uses established by the School District’s Board of Education or a School District official delegated that authority by State statute. State statute authorizes the Treasurer to assign fund balance for purchases on order provided such amounts have been lawfully appropriated. The School District’s Board of Education assigned fund balance for uniform school supplies and extracurricular activities and to cover a gap between estimated revenues and appropriations in fiscal year 2017’s appropriated budget.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(CONTINUED)**

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

***Fund Balance*** (Continued)

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

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

***Net Position***

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

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

***Bond Premiums***

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

***Deferred Charge on Refunding***

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

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(CONTINUED)**

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

*Estimates*

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

*Budgetary Data*

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

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

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

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(CONTINUED)**

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**NOTE 3: CHANGE IN ACCOUNTING PRINCIPLES**

For the fiscal year ended June 30, 2016, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* and GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*.

GASB Statement No. 72, *Fair Value Measurement of Application*. The objective of this Statement is to address accounting and financial reporting issues related to fair value measurement. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The School District implemented these changes in the fiscal year 2016 financial statements; however, there was no effect on the beginning net position/fund balance.

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, establishes requirements for defined benefit pensions that are not within the scope of GASB Statement No. 68 as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also clarifies the application of certain provisions of GASB Statements 67 and 68. The implementation of GASB Statement No. 73 did not have an effect on the financial statements of the School District.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. The implementation of GASB Statement No. 76 did not have an effect on the financial statements of the School District.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The School District implemented these changes in the fiscal year 2016 financial statements; however, there was no effect on the beginning net position/fund balance.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
 CUYAHOGA COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
 (CONTINUED)**

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**NOTE 4: BUDGETARY BASIS OF ACCOUNTING**

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

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

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

Net Change in Fund Balance	
GAAP Basis	\$ 1,687,654
Net Adjustment for Revenue Accruals	(1,562,889)
Net Adjustments for Expenditure Accruals	(473,094)
Advances In	322,495
Advances Out	(475,420)
Funds with Separate Legally Adopted Budgets	5,901
Adjustment for Encumbrances	(275,686)
Budget Basis	\$ (771,039)

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(CONTINUED)**

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NOTE 5: **ACCOUNTABILITY**

The Public Preschool special revenue fund had a negative cash fund balance of \$4,251. This cash deficit is the result of monies being expended with the expectation that the School District will be reimbursed during fiscal year 2016. Although this cash deficit was not corrected by year end, management has indicated that cash will be closely monitored to prevent future violations.

Fund balances at June 30, 2016, included the following individual fund deficits:

**Special Revenue Funds**

Other Grants	\$ 98,484
Public Preschool	42,108
School Net Professional Development	1,041
Alternative Schools	192
IDEA, Part B Special Education	159,533
Technology II-D Grant	4,175
Title I School Improvement	138,777
Title I Grant	335,452
Preschool Grant	10,600
Class Size Reduction	138,029

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

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
 CUYAHOGA COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
 (CONTINUED)**

**NOTE 6: FUND BALANCES**

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

Fund Balances	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
<i>Restricted for</i>				
Teacher Development	\$ 3,199	\$ -	\$ -	\$ 3,199
Food Service Operations	-	-	1,262,765	1,262,765
Scholarships	-	-	129,580	129,580
Classroom Facilities Maintenance	-	-	604,901	604,901
Athletics	-	-	74,801	74,801
Auxiliary Services	-	-	9,383	9,383
Entry Year Teachers	-	-	183	183
School Improvement	4,080,188	-	13,687	4,093,875
Community Involvement	-	-	10,148	10,148
Non-Public Schools	-	-	6,119	6,119
Drug Free School	-	-	7,776	7,776
Debt Service Payment	-	3,946,294	-	3,946,294
Capital Improvements	-	-	929,841	929,841
Set-Asides	197,867	-	-	197,867
<i>Total Restricted</i>	<u>4,281,254</u>	<u>3,946,294</u>	<u>3,049,184</u>	<u>11,276,732</u>
<i>Assigned to</i>				
Uniform School Supplies	493	-	-	493
Extracurricular Activities	22,682	-	-	22,682
Purchases on Order:				
Instructional Services	83,960	-	-	83,960
Support Services	128,199	-	-	128,199
Extracurricular Activities	459	-	-	459
Fiscal Year 2017 Operations	1,465,868	-	-	1,465,868
<i>Total Assigned</i>	<u>1,701,661</u>	<u>-</u>	<u>-</u>	<u>1,701,661</u>
<i>Unassigned (Deficit)</i>	<u>-</u>	<u>-</u>	<u>(928,391)</u>	<u>(928,391)</u>
<b>Total Fund Balances</b>	<u><u>\$ 5,982,915</u></u>	<u><u>\$ 3,946,294</u></u>	<u><u>\$ 2,120,793</u></u>	<u><u>\$ 12,050,002</u></u>

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
 CUYAHOGA COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
 (CONTINUED)**

NOTE 7: **INTERFUND TRANSACTIONS**

*Interfund Balances*

Interfund balances at June 30, 2016, consisted of the following

<u>Interfund Payable</u>	<u>Interfund Receivable General Fund</u>
<b>Other Governmental Funds:</b>	
Other Grants	\$ 80,000
Public Preschool	21,451
SchoolNet, Professional Development	1,050
Alternative Schools	4,610
Title VI-B	166,150
Technology II-D Grant	4,250
Title I School Improvement	144,610
Title I	327,500
Preschool Grant	25,000
Classroom Size Reduction	123,600
	\$ 898,221

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, 2016, were as follows:

<u>Transfers To</u>	<u>Transfers From General Fund</u>
<b>Other Governmental Funds:</b>	
Athletics and Music	\$ 135,000
Preschool Grant	7,200
Alternative Schools	2,250
	\$ 144,450

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.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(CONTINUED)**

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**NOTE 8: DEPOSITS AND INVESTMENTS**

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

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal 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.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
 CUYAHOGA COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
 (CONTINUED)**

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

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

***Deposits***

***Custodial Credit Risk*** Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, \$850,000 of the School District's bank balance of \$1,603,825 was uninsured and uncollateralized. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

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

***Investments***

The School District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs. The following table identify the School District's recurring fair value measurement as of December 31, 2016. Star Ohio is reported at its net asset value. All other investments of the School District are valued using quoted market prices (Level 1 inputs). As of June 30, 2016, the School District had the following investments:

Investment Type	Fair Value/NAV	Maturity	Standard and Poors Rating	Percentage of Total Investments
Federal National Mortgage Association Notes	\$ 345,596	Less than five years	AA+	3.54%
Federal Home Loan Bank Notes	105,717	Less than three years	AA+	1.08%
Federal Home Loan Mortgage Corporation Notes	175,051	Less than five years	AA+	1.79%
Federal Farm Credit Bank Notes	115,100	Less than three years	AA+	1.18%
Federal Home Loan Bank Discount Notes	4,079,689	Less than one year	AA+	41.78%
Negotiable CD's	560,039	Less than five years	N/A	5.74%
Money Market Mutual Fund	70,400	On Demand	N/A	0.72%
STAR Ohio	4,313,012	On Demand	AAAm	44.17%
<b>Total Investments</b>	<u>\$ 9,764,604</u>			

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(CONTINUED)**

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

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

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

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

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

***Foreign Currency Risk.*** Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. As of June 30, 2016, the School District had no exposure to foreign currency risk.

NOTE 9: **PROPERTY TAXES**

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar year 2016 represents collections of calendar year 2015 taxes. Real property taxes received in calendar year 2016 were levied after April 1, 2015, on the assessed value listed as of January 1, 2015, 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  
 CUYAHOGA COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
 (CONTINUED)**

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

Public utility property tax revenue received in calendar year 2016 represents collections of calendar year 2015 taxes. Public utility real and tangible personal property taxes received in calendar year 2016 became a lien December 31, 2014, were levied after April 1, 2015, 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, 2016, are available to finance fiscal year 2016 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, 2016, 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, 2016, was \$4,810,150 in the General Fund, \$59,174 in the Classroom Facilities Maintenance Special Revenue Fund, \$1,080,487 in the Bond Retirement Fund, and \$41,308 in the Permanent Improvement Capital Projects Fund. 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.

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 2016 taxes were collected are:

	2015 Second Half Collections		2016 First Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$327,402,650	96.72%	\$ 282,218,360	96.14%
Public Utility Personal	11,099,120	3.28%	11,345,210	3.86%
<b>Total</b>	<b>\$338,501,770</b>	<b>100.00%</b>	<b>\$ 293,563,570</b>	<b>100.00%</b>
 Full Tax Rate per \$1,000 of Assessed Valuation	 \$ 81.06		 \$ 81.06	

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
 CUYAHOGA COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
 (CONTINUED)**

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NOTE 10: **RECEIVABLES**

Receivables at June 30, 2016, consisted of taxes, payments in lieu of taxes, accounts, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables, except for delinquent property taxes, are expected to be collected within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

Intergovernmental Receivables	Amount
Federal Lunch Reimbursement	\$ 145,333
Early Childhood Education	1,584
Special Education part B-IDEA	45,766
Title I - School Improvement	5,825
Title I	198,527
Early Childhood Special Education, IDEA	14,394
Title II-A Improving Teacher Quality	14,711
Foundation FTE adjustment	3,960
Total Intergovernmental Receivable	\$ 430,100

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.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
 CUYAHOGA COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
 (CONTINUED)**

**NOTE 11: CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2016, was as follows:

	Balance 6/30/2015	Additions	Deletions	Balance 6/30/2016
<b><u>Governmental Activities</u></b>				
Capital Assets, not being depreciated:				
Land	\$ 1,216,751	\$ -	\$ -	\$ 1,216,751
Total Capital Assets, not being depreciated	<u>1,216,751</u>	<u>-</u>	<u>-</u>	<u>1,216,751</u>
Capital Assets, being depreciated:				
Land Improvements	1,056,759	-	-	1,056,759
Buildings and Improvements	69,159,626	109,850	-	69,269,476
Furniture and Equipment	3,294,028	369,897	-	3,663,925
Vehicles	1,602,252	20,000	-	1,622,252
Total Capital Assets, being depreciated	<u>75,112,665</u>	<u>499,747</u>	<u>-</u>	<u>75,612,412</u>
Less Accumulated Depreciation:				
Land Improvements	(658,003)	(40,391)	-	(698,394)
Buildings and Improvements	(19,528,805)	(1,609,592)	-	(21,138,397)
Furniture and Equipment	(2,043,787)	(215,374)	-	(2,259,161)
Vehicles	(946,200)	(111,204)	-	(1,057,404)
Total Accumulated Depreciation	<u>(23,176,795)</u>	<u>(1,976,561)</u>	<u>-</u>	<u>(25,153,356)</u>
Total Capital Assets being depreciated, Net	<u>51,935,870</u>	<u>(1,476,814)</u>	<u>-</u>	<u>50,459,056</u>
<b>Governmental Activities</b>				
<b>Capital Assets, Net</b>	<u>\$53,152,621</u>	<u>\$(1,476,814)</u>	<u>\$ -</u>	<u>\$51,675,807</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 1,660,392
Special	7,354
Supporting Services:	
Pupil	2,946
Instructional Staff	10,715
Administration	6,251
Business	2,036
Operation and Maintenance of Plant	155,006
Pupil Transportation	87,664
Operation of Food Service	44,025
Extracurricular Activities	172
<b>Total Depreciation Expense</b>	<u>\$ 1,976,561</u>

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(CONTINUED)**

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NOTE 12: **RISK MANAGEMENT**

*Workers' Compensation*

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

*Property and Liability*

Property (buildings and contents), boiler and machinery insurance, and casualty and fleet insurance, are provided through Liberty Mutual-Todd Associates, Inc. Blanket limit for the property insurance is \$146,215,451 with \$5,000 deductible. For the casualty and fleet insurance, there is a combined single limit of \$1,000,000, with \$1,000 comprehensive and \$1,000 collision deductibles. The School District also maintains a variety of liability insurance coverages with varying deductibles, including public official and employee liability insurance coverage. The renewal date is July 1, 2017.

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**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(CONTINUED)**

**NOTE 13: LONG-TERM LIABILITIES**

Changes in long-term obligations of the School District during fiscal year 2016 were as follows:

	Principal Outstanding 6/30/2015	Additions	Deductions	Principal Outstanding 6/30/2016	Amount Due in One Year
<b>Governmental Activities</b>					
<b>General Obligation Bonds</b>					
School Improvement Bonds - 2001					
Term Bonds	\$ 2,165,000	\$ -	\$ -	\$ 2,165,000	\$ 2,165,000
Capital Appreciation Bonds	342,275	-	(342,275)	-	-
Accretion on Capital Appreciation Bonds	1,283,142	99,583	(1,382,725)	-	-
<b>Total School Improvement Bonds - 2001</b>	<b>3,790,417</b>	<b>99,583</b>	<b>(1,725,000)</b>	<b>2,165,000</b>	<b>2,165,000</b>
Energy Conservation Improvement Bonds - 2006					
Serial Bonds	945,000	-	(155,000)	790,000	160,000
Premium on Bond	16,621	-	(3,022)	13,599	-
<b>Total Energy Conservation Improvement Bonds -2006</b>	<b>961,621</b>	<b>-</b>	<b>(158,022)</b>	<b>803,599</b>	<b>160,000</b>
Refunding School Improvement Bonds - 2006					
Serial Bonds	1,905,000	-	(35,000)	1,870,000	35,000
Term Bonds	6,355,000	-	-	6,355,000	-
Premium on Bond	440,376	-	(121,801)	318,575	-
<b>Total Refunded Bonds - 2006</b>	<b>8,700,376</b>	<b>-</b>	<b>(156,801)</b>	<b>8,543,575</b>	<b>35,000</b>
Refunding School Improvement Bonds - 2012					
Serial Bonds- 6,820,000 @ 2%-2.75%	6,085,000	-	(505,000)	5,580,000	-
Premium on Bond	71,665	-	(6,301)	65,364	-
Capital Appreciation Bonds - \$74,719 @1.72%-2.19%	74,719	-	-	74,719	34,557
CAB Accretion - \$605,281@46.5%	183,483	133,942	-	317,425	180,443
CAB Premium-	306,510	-	(76,628)	229,882	-
<b>Total Refunded Bonds - 2012</b>	<b>6,721,377</b>	<b>133,942</b>	<b>(587,929)</b>	<b>6,267,390</b>	<b>215,000</b>
Refunding School Improvement Bonds - 2015					
Serial Bonds - 18,020,000 @ .65% - 3.1%	18,020,000	-	(215,000)	17,805,000	455,000
Capital Appreciation Bonds - \$1,134,897 @ 1.5%	1,134,897	-	-	1,134,897	-
CAB Accretion - \$1,635,103 @ 38.56%	30,731	482,999	-	513,730	-
Premium on CAB	1,495,764	-	(149,576)	1,346,188	-
<b>Total Refunded Bonds - 2015</b>	<b>20,681,392</b>	<b>482,999</b>	<b>(364,576)</b>	<b>20,799,815</b>	<b>455,000</b>
<b>Total General Obligation Bonds</b>	<b>40,855,183</b>	<b>716,524</b>	<b>(2,992,328)</b>	<b>38,579,379</b>	<b>3,030,000</b>
<b>Net Pension Liability</b>					
SERS	9,273,521	1,260,106	-	10,533,627	-
STRS	41,959,856	6,301,694	-	48,261,550	-
<b>Total Net Pension Liability</b>	<b>51,233,377</b>	<b>7,561,800</b>	<b>-</b>	<b>58,795,177</b>	<b>-</b>
<b>Other Long-term Obligations</b>					
Compensated Absences	5,454,640	494,809	(158,149)	5,791,300	164,730
2003 QZAB	3,000,000	-	-	3,000,000	-
2004 QZAB	2,000,000	-	-	2,000,000	-
Early Retirement Incentive	233,917	58,335	(123,084)	169,168	99,167
Capital leases	826,294	-	(192,710)	633,584	197,932
<b>Total Other Long-term Obligations</b>	<b>11,514,851</b>	<b>553,144</b>	<b>(473,943)</b>	<b>11,594,052</b>	<b>461,829</b>
<b>Total Governmental Activities</b>					
<b>Long-Term Liabilities</b>	<b>\$ 103,603,411</b>	<b>\$ 8,831,468</b>	<b>\$ (3,466,271)</b>	<b>\$ 108,968,608</b>	<b>\$ 3,491,829</b>

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
 CUYAHOGA COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
 (CONTINUED)**

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

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

***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 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:

Year	Issue
2016	\$ 2,165,000
	\$ 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.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
 CUYAHOGA COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
 (CONTINUED)**

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

***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.

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, 2016.

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:

Year	Issue
2025	\$ 6,355,000
	\$ 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.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
 CUYAHOGA COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
 (CONTINUED)**

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

*2012 Refunding Bonds* (Continued)

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, 2016. 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, 2016, is \$74,719. The accretion recorded for 2016 was \$317,425, for a total outstanding bond liability of \$392,144 at June 30, 2016.

*2015 Refunding Bonds*

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

**2006 Refunding Bonds**

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

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

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
 CUYAHOGA COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
 (CONTINUED)**

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

*2015 Refunding Bonds* (Continued)

<b><u>2006 Refunding Bonds</u></b>	
Serial Bonds	\$ 21,060,000
Premium on Bonds	1,461,612
	<hr/>
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	(20,427,169)
	<hr/>
2015 Refunding Accounting Loss	\$ (729,808)

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, 2016, is \$1,134,897. The accretion recorded for 2016 was \$513,730, for a total outstanding bond liability of \$1,648,627 at June 30, 2016.

The overall debt margin of the School District as of June 30, 2016, 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  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(CONTINUED)**

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

Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2016, are as follows:

Fiscal Year Ending June 30	School Improvement Bonds					
	Serial Bonds		Capital Appreciation Bonds		Term Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
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	3,115,000	488,325	0	0	0	270,088
2022-2026	15,330,000	1,053,845	0	0	4,410,000	1,256,727
2027	625,000	8,594	0	0	1,945,000	41,331
Total	<u>\$ 26,045,000</u>	<u>\$ 5,258,350</u>	<u>\$ 1,209,616</u>	<u>\$ 2,240,384</u>	<u>\$ 8,520,000</u>	<u>\$ 1,626,330</u>

**NOTE 14: CAPITAL LEASES**

**Equipment Lease**

In prior years, the School District entered into a lease for HVAC systems. The lease obligation meets the criteria of a capital lease and has been recorded on the government-wide statements. The original amount capitalized for the capital lease and the book value as of June 30, 2016, follows:

<u>Asset</u>	<u>Amounts</u>
Equipment	\$ 1,295,650
Less: Accumulated Depreciation	<u>(996,654)</u>
Current Book Value	<u>\$ 298,996</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, 2016.

	<u>Amounts</u>
2017	\$ 139,411
2018	139,411
2019	<u>69,699</u>
Total Minimum Lease Payments	348,521
Less: Amount Representing Interest	<u>(21,158)</u>
Present Value of Minimum Lease Payments	<u>\$ 327,363</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  
 CUYAHOGA COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
 (CONTINUED)**

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

**2003 QZABs**

The School District entered into a capital lease for the improvement of several buildings in the School District. The lease obligation meets the criteria of a capital lease and has been recorded on the government-wide statements. As part of this agreement, the Bank of New York, as lessor, deposited \$3,000,000 into the School District's account. The School District will be making annual interest payments over a 15 year period to Bank of New York, its escrow agent, which will pay the annual interest and invest the sinking fund dollars at an interest rate that will generate at least \$909,800 over the lease period, the difference between the sinking payments and the lease principal payment. At June 30, 2016, the market value of the escrow account with fiscal agent is \$2,489,599. It is the assumption of the School District that the money in the sinking fund will be invested and earn enough interest to allow the lease to be paid in full in March 2018.

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

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

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

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

**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, 2016, the market value of the escrow account with fiscal agent is \$1,520,339. It is the assumption of the School District that the money in the sinking fund will be invested and earn enough interest to allow the lease to be paid in full in September 2018.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(CONTINUED)**

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

**2004 QZABs** (Continued)

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

	Amounts
2017	\$ 16,800
2018	16,800
2019	2,016,800
Total Minimum Lease Payments	2,050,400
Less: Amount Representing Interest	(50,400)
Present Value of Minimum Lease Payments	\$ 2,000,000

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

Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Sinking Fund Payments</u>	<u>Total Lease Payments</u>
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
	\$ 2,000,000	\$ 50,400	\$ 233,428	\$ 2,283,828

**2015 Equipment and Vehicles Lease**

In prior years, the School District entered into a capital lease for the purchase of several pieces of equipment and vehicles. As part of this agreement, First Merit Bank, as lessor, deposited \$377,319 into the School District's account. At fiscal year end, \$6,295 remains in the Permanent Improvement Fund.

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, 2016.

	Amounts
2017	82,342
2018	82,342
2019	82,342
2020	82,342
Total Minimum Lease Payments	329,368
Less: Amount Representing Interest	(23,147)
Present Value of Minimum Lease Payments	\$ 306,221

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(CONTINUED)**

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**NOTE 15: JOINTLY GOVERNED ORGANIZATIONS**

**Connect**

Connect (formerly known as North Coast Council) is a jointly governed computer service bureau owned and operated by 2 educational service centers and 29 public school districts. The primary function of Connect is to provide to its members the support and leadership which enables organizations to achieve their objectives through innovative and cost effective shared technology solutions. Major areas of service provided by Connect include accounting, payroll, inventory, career guidance services, handicapped student tracking, pupil scheduling, attendance reporting and grade reporting. Connect is wholly owned by its member districts and is governed by a Board of Directors (member Superintendents). Connect's current membership includes the Educational Service Center of Cuyahoga County, Educational Service Center of Lorain County and 29 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 Connect. The degree of control exercised by any participating school district is limited to its representation on the Board. Each school district supports Connect based upon a per pupil charge dependent upon the software packages used. In fiscal year 2016, the School District paid \$113,567 to Connect. Financial information can be obtained by contacting the Treasurer of the fiscal agent at 5700 West Canal Road, Valley View, Ohio 44125.

**Cuyahoga Valley Career Center**

The Cuyahoga Valley Career Center (a joint vocational school district) is a distinct political subdivision of the State of Ohio operated under the direction of a Board, consisting of representatives from each participating school district's elected board, which possess its own budgeting and taxing authority. Accordingly, the Cuyahoga Valley Career Center is not part of the School District and its operations are not included as part of the reporting entity. The degree of control exercised by any participating school district is limited to its representation on the Board. The School District made no contributions to the Cuyahoga Valley Career Center during fiscal year 2016. Financial information can be obtained by contacting the Treasurer at the Cuyahoga Valley Career Center, 8001 Brecksville Road, Brecksville, Ohio 44141.

**Ohio Schools' Council**

The Ohio Schools Council (Council) is a jointly governed organization among 203 school districts. The jointly governed organization was created by school districts for the purpose of saving money through volume purchases. Each district supports the Council by paying an annual participation fee. Each school district member's superintendent serves as a representative of the Assembly. The Assembly elects five of the Council's Board members and the remaining four are representatives of the Greater Cleveland School Superintendents' Association. The Council operates under a nine-member Board of Directors (the Board). The Board is the policy making authority of the Council. The Board meets monthly September to June. The Board appoints an Executive Director who is responsible for receiving and disbursing funds, investing available funds, preparing financial reports for the Board and Assembly and carrying out such other responsibilities as designated by the Board. The degree of control exercised by any participating school district is limited to its representation on the Board. In fiscal year 2016, the School District paid \$153,955 to the Council.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(CONTINUED)**

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**NOTE 15: JOINTLY GOVERNED ORGANIZATIONS**

**Ohio Schools' Council** (Continued)

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

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

**NOTE 16: PUBLIC ENTITY RISK POOL**

**Suburban Health Consortium**

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

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

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

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(CONTINUED)**

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

**Suburban Health Consortium** (Continued)

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

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

NOTE 17: **DEFINED BENEFIT PENSION PLANS**

***Net Pension Liability***

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

The net pension liability represents the School District's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
 CUYAHOGA COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
 (CONTINUED)**

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

*Net Pension Liability* (Continued)

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 Statement No. 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.

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.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(CONTINUED)**

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

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

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on years of service; 2.2 percent for the first 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, 2016, the allocation to pension, death benefits, and Medicare B was 14.00 percent. No allocation was made to the Health Care Fund.

The School District's contractually required contribution to SERS was \$791,072 for fiscal year 2016. Of this amount \$42,126 is reported as an intergovernmental payable.

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

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

New members have a choice of three retirement plans: a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with 5 years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(CONTINUED)**

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

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

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 Statement No. 68 reporting purposes.

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

**Funding Policy** – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2016, plan members were required to contribute 13 percent of their annual covered salary. Effective July 1, 2016, the statutory maximum employee contribution rate was increased one percent to 14 percent. The School District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

The School District's contractually required contribution to STRS was \$2,656,338 for fiscal year 2016. Of this amount \$454,916 is reported as an intergovernmental payable.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
 CUYAHOGA COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
 (CONTINUED)**

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

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

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School District's proportion of the net pension liability was based on the School District's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net Pension Liability Prior Measurement Date	0.1832370%	0.17250775%	
Proportion of the Net Pension Liability Current Measurement Date	<u>0.1846030%</u>	<u>0.17462611%</u>	
Change in Proportionate Share	<u>0.0013660%</u>	<u>0.0021184%</u>	
Proportionate share of the Net Pension Liability	\$10,533,627	\$48,261,550	\$ 58,795,177
Pension Expense	\$1,013,812	\$2,284,241	\$3,298,053

At June 30, 2016, 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	\$169,610	\$2,200,117	\$2,369,727
Changes in proportion and differences between School District contributions and proportionate share of contributions	1,032,818	484,498	1,517,316
School District contributions subsequent to the measurement date	<u>791,072</u>	<u>2,656,338</u>	<u>3,447,410</u>
Total Deferred Outflows of Resources	<u>\$1,993,500</u>	<u>\$5,340,953</u>	<u>\$7,334,453</u>
<b>Deferred Inflows of Resources</b>			
Net difference between projected and actual earnings on pension plan investments	<u>\$ 349,013</u>	<u>\$ 3,470,918</u>	<u>\$ 3,819,931</u>

\$3,447,410 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, 2017.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
 CUYAHOGA COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
 (CONTINUED)**

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

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

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

Fiscal Year Ending June 30:	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
2017	\$ 216,691	\$ (662,146)	\$ (445,455)
2018	216,691	(662,146)	(445,455)
2019	215,888	(662,147)	(446,259)
2020	<u>204,145</u>	<u>1,200,136</u>	<u>1,404,281</u>
Total	<u>\$ 853,415</u>	<u>\$ (786,303)</u>	<u>\$ 67,112</u>

***Actuarial Assumptions – SERS***

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

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

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

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
 CUYAHOGA COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
 (CONTINUED)**

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

*Actuarial Assumptions – SERS* (Continued)

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2015, 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:

<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.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(CONTINUED)**

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

*Actuarial Assumptions – SERS* (Continued)

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

***Sensitivity of the School District’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*** Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact, the following table presents the net pension liability calculated using the discount rate of 7.75 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	\$14,606,354	\$10,533,627	\$7,104,054

***Changes Between Measurement Date and Report Date*** – In April 2016, the SERS Board adopted certain assumption changes which impacted their annual actuarial valuation prepared as of June 30, 2016. The most significant changes is a reduction in the discount rate from 7.75 percent to 7.5 percent. Although the exact amount of these changes is now known, the impact to the School District’s net pension liability is expected to be significant.

***Actuarial Assumptions – STRS***

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022 – Scale AA) for Males and Females. Males’ ages are set back two years through age 89 and 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, 2015, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
 CUYAHOGA COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
 (CONTINUED)**

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

*Actuarial Assumptions – SERS* (Continued)

The 10 year expected real rate of return on pension plan investments was determined by STRS' investment consultant by developing best estimates of expected future real rates of return for each major asset class.

The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

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

*Actuarial Assumptions – STRS*

**Discount Rate** The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2015. 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, 2015. 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, 2015.

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

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
 CUYAHOGA COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
 (CONTINUED)**

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

*Actuarial Assumptions – STRS* (Continued)

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$67,038,932	\$48,261,550	\$32,382,471

NOTE 18: **POST-EMPLOYMENT BENEFITS**

*School Employees Retirement System*

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

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

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

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer 14% contribution to the Health Care Fund in accordance with the funding policy. For the year ended June 30, 2016, the health care allocation is 0.00%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. By statute no employer shall pay a health care surcharge greater than 2.0% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2016, the minimum compensation level was established at \$23,000. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The School District's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014, were \$93,449, \$45,842 and \$7,454, respectively. For fiscal year 2016, the full amount is reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2015 and 2014.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(CONTINUED)**

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

*State Teachers Retirement System*

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

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

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

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

*Funding Policy* - Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14.00 percent employer contribution rate, 0.00 percent of covered payroll was allocated to post-employment health care for the year ended June 30, 2016, and 2015. For the year ended June 30, 2014, 1.00 percent of covered payroll was allocated to post-employment health care. The 14.00 percent employer contribution rate is the maximum rate established under Ohio law. For the fiscal years ended June 30, 2016, 2015, and 2014, the District's contributions to post-employment health care were \$0, \$0, and \$174,943, respectively. The full amount has been contributed for fiscal year 2014.

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.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(CONTINUED)**

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

*Compensated Absences* (Continued)

**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 ten percent of their monthly premium, and classified employees contribute eleven percent of their monthly premium. The insurance plans include no deductibles for network family or single coverage, with the exception of \$50 for emergency room services.

*Retirement Incentive*

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

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

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

**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.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(CONTINUED)**

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

*Retirement Incentive* (Continued)

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

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

NOTE 20: **CONTINGENCIES**

*Grants*

The School District received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2016.

*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 total impact of enrollment adjustments to the June 30, 2016, 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.

*Litigation*

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

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
 CUYAHOGA COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
 (CONTINUED)**

**NOTE 21: SET-ASIDES**

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

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

	<u>Capital Improvements Reserve</u>
Set-Aside Balance as of June 30, 2015	\$ -
Current Year Set-Aside Requirements	633,839
Qualifying Disbursements	(213,552)
Qualifying Offsets	(222,420)
Total	<u>\$ 197,867</u>
Set-Aside Balance Carried Forward to Future Fiscal Years	<u>\$ 197,867</u>
Set-Aside Balance as of June 30, 2016	<u>\$ 197,867</u>

**NOTE 22: ENCUMBRANCES**

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

	<u>Outstanding Encumbrances</u>
General Fund	\$ 214,407
Nonmajor governmental funds	120,865
	<u>\$ 335,272</u>

**NOTE 23: SUBSEQUENT EVENTS**

On July 21, 2016, the District's Board of Education passed a resolution to issue and sell bonds in a maximum aggregate principal amount of \$8,190,000 for the purpose of refunding it School Improvement Refunding Bonds, Series 2006.

## **REQUIRED SUPPLEMENTARY INFORMATION**

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

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

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

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

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Contractually Required Contribution	\$ 791,072	\$ 736,823	\$ 738,230	\$ 628,435	\$ 666,775	\$ 793,957	\$1,038,457	\$ 732,534	\$ 700,081	\$ 661,842
Contributions in Relation to the Contractually Required Contribution	<u>(791,072)</u>	<u>(736,823)</u>	<u>(738,230)</u>	<u>(628,435)</u>	<u>(666,775)</u>	<u>(793,957)</u>	<u>(1,038,457)</u>	<u>(732,534)</u>	<u>(700,081)</u>	<u>(661,842)</u>
Contribution Deficiency (Excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>						
School District Covered Payroll	\$5,650,514	\$5,590,463	\$5,326,335	\$4,540,715	\$4,957,435	\$6,316,285	\$7,669,549	\$7,444,451	\$7,129,134	\$6,197,022
Contributions as a Percentage of Covered Payroll	14.00%	13.18%	13.86%	13.84%	13.45%	12.57%	13.54%	9.84%	9.82%	10.68%

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

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually Required Contribution	\$ 2,656,338	\$ 2,555,021	\$ 2,315,572	\$ 2,156,796	\$ 2,158,654	\$ 2,154,403	\$ 2,256,236	\$ 2,076,719	\$ 2,053,863	\$ 1,913,786
Contributions in Relation to the Contractually Required Contribution	(2,656,338)	(2,555,021)	(2,315,572)	(2,156,796)	(2,158,654)	(2,154,403)	(2,256,236)	(2,076,719)	(2,053,863)	(1,913,786)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
School District Covered Payroll	\$ 18,973,843	\$ 18,250,150	\$ 17,812,092	\$ 16,590,738	\$ 16,605,031	\$ 16,572,331	\$ 17,355,662	\$ 15,974,762	\$ 15,798,946	\$ 14,721,431
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2016**

<b>FEDERAL GRANTOR Pass Through Grantor Program / Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Federal Expenditures</b>	<b>Non-Cash Federal Expenditures</b>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
<i>Passed Through Ohio Department of Education</i>			
Child Nutrition Cluster:			
School Breakfast Program - 2016	10.553	\$ 426,236	\$ -
National School Lunch Program - 2016	10.555	1,001,259	93,897
Total Child Nutrition Cluster		<u>1,427,495</u>	<u>93,897</u>
Total U.S. Department of Agriculture		<u><b>1,427,495</b></u>	<u><b>93,897</b></u>
<b>U.S. DEPARTMENT OF EDUCATION</b>			
<i>Passed Through Ohio Department of Education</i>			
Title I Grants to Local Education Agencies - 2015	84.010	181,040	-
Title I Grants to Local Education Agencies - 2016	84.010	1,110,838	-
Total Title I Grants to Local Education Agencies		<u>1,291,878</u>	<u>-</u>
Special Education Cluster:			
Special Education Grants to States - 2015	84.027	38,299	-
Special Education Grants to States - 2016	84.027	832,201	-
Total Special Education Grants to States		<u>870,500</u>	<u>-</u>
Special Education Preschool Grants - 2016	84.173	14,970	-
Total Special Education Cluster		<u>885,470</u>	<u>-</u>
Improving Teacher Quality State Grants - 2015	84.367	11,350	-
Improving Teacher Quality State Grants - 2016	84.367	94,594	-
Total Improving Teacher Quality State Grants		<u>105,944</u>	<u>-</u>
Total U.S. Department of Education		<u><b>2,283,292</b></u>	<u>-</u>
<b>Total Expenditures of Federal Awards</b>		<u><b>\$ 3,710,787</b></u>	<u><b>\$ 93,897</b></u>

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

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
2 CFR 200.510(b)(6)  
FOR THE YEAR ENDED JUNE 30, 2016**

**NOTE A – BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the Garfield Heights City School District (the District's) under programs of the federal government for the year ended June 30, 2016. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the District.

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

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in OMB Circular A-87 *Cost Principles for State, Local, and Indian Tribal Governments* (codified in 2 CFR Part 225), or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. The District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**NOTE C – CHILD NUTRITION CLUSTER**

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

**NOTE D – FOOD DONATION PROGRAM**

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



# Dave Yost • Auditor of State

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

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

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Garfield Heights City School District, Cuyahoga County, (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated April 17, 2017.

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

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

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

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

***Compliance and Other Matters***

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

***Purpose of this Report***

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

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

April 17, 2017



# Dave Yost • Auditor of State

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

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

To the Board of Education:

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

We have audited the Garfield Heights City School District's (the District) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect each of the District's major federal programs for the year ended June 30, 2016. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the District's major federal programs.

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

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

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

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

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

Lausche Building, 615 Superior Ave., NW, Twelfth Floor, Cleveland, Ohio 44113-1801  
Phone: 216-787-3665 or 800-626-2297 Fax: 216-787-3361

[www.ohioauditor.gov](http://www.ohioauditor.gov)

**Basis for Qualified Opinion on Each Major Federal Program**

As described in Findings 2016-001 and 2016-002 in the accompanying schedule of findings, the District did not comply with requirements regarding the following:

Finding #	CFDA #	Program (or Cluster) Name	Compliance Requirement
2016-001	84.010	Title I	Procurement and Suspension and Debarment
2016-001	84.027, 84.173	Special Education Cluster	Procurement and Suspension and Debarment
2016-002	10.553, 10.555	Child Nutrition Cluster	Special Tests and Provisions – Verification of Free and Reduced Price Applications (NSLP)

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

**Qualified Opinion on Each Major Federal Program**

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on Each Major Federal Program* paragraph, the Garfield Heights City School District complied, in all material respects, with the requirements referred to above that could directly and materially affect each of the District's major federal programs for the year ended June 30, 2016.

**Other Matter**

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 the Uniform Guidance, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. Therefore, we cannot assure we have identified all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. However, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses, described in the accompanying schedule of findings as items 2016-001 and 2016-002.

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 the Uniform Guidance requirements. Accordingly, this report is not suitable for any other purpose.

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

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

April 17, 2017

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**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
2 CFR § 200.515  
JUNE 30, 2016**

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

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

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

None

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
2 CFR § 200.515  
JUNE 30, 2016  
(Continued)**

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

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

<b>Finding Number</b>	2016-001		
<b>CFDA Title and Number</b>	Title I – CFDA #84.010 Special Education Cluster – CFDA #84.027, 84.173		
<b>Federal Award Identification Number / Year</b>	2016		
<b>Federal Agency</b>	United States Department of Education		
<b>Pass-Through Entity</b>	Ohio Department of Education		
<b>Repeat Finding from Prior Audit?</b>	Yes	<b>Finding Number (if repeat)</b>	2015-003

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 non-procurement 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.

In its Title I and Special Education Cluster Major Federal Programs, the following number of vendors received \$25,000 or more from the federal programs and no verification evidence was maintained by the District that the vendors were not suspended or debarred by checking the EPLS maintained by the General Services Administration (GSA), or signed certification from the entity was maintained, and the District did not add a clause or condition to the contract with the vendor:

<u>Major Federal Program</u>	<u>Number of Vendors</u>
Title I	1
Special Education Cluster	5
<b>Total</b>	<b>6</b>

We subsequently determined the vendors were not suspended or debarred and were eligible for federal funds. Failure to properly check the EPLS may result in the District conducting business with suspended or debarred vendors.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
2 CFR § 200.515  
JUNE 30, 2016  
(Continued)**

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

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.

**Official’s Response:** The District will take the necessary steps to ensure that all vendors paid from federal funds are not suspended or disbarred.

**2. Price Equity Calculation – Special Tests and Provisions - Paid Lunch Equity**

<b>Finding Number</b>	2016-002		
<b>CFDA Title and Number</b>	Child Nutrition Cluster – CFDA #10.553, 10.555		
<b>Federal Award Identification Number / Year</b>	2016		
<b>Federal Agency</b>	United States Department of Agriculture		
<b>Pass-Through Entity</b>	Ohio Department of Education		
<b>Repeat Finding from Prior Audit?</b>	Yes	<b>Finding Number (if repeat)</b>	2015-004

NONCOMPLIANCE AND MATERIAL WEAKNESS

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

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

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

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

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
2 CFR § 200.515  
JUNE 30, 2016  
(Continued)**

<b>3. FINDINGS FOR FEDERAL AWARDS (Continued)</b>
---

**2. Price Equity Calculation – Special Tests and Provisions - Paid Lunch Equity (Continued)**

The price equity calculation we completed showed the District needed to raise lunch prices for the 2015-2016 school year to meet the requisite weighted average price. The District did not complete this calculation for fiscal year 2016, 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.

**Official's Response:** Procedures will be implemented to ensure that the price calculation will be completed annually and that the lunch prices meet with all federal requirements.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2016**

<b>Finding Number</b>	<b>Finding Summary</b>	<b>Status</b>	<b>Additional Information</b>
2015-001	Timely Depositing	Fully Corrected	
2015-002	Schedule of Federal Awards Expenditures	Fully Corrected	
2015-003	Excluded Parties List System	Partially Corrected	Re-Issued as Finding 2016-001, verified for one vendor
2015-004	Price Equity Calculation	Not Corrected	Re-Issued as Finding 2016-002
2015-005	Free and Reduced Lunch Application Updates	Fully Corrected	
2015-006	Student Eligibility	Fully Corrected	

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**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**CORRECTIVE ACTION PLAN  
2 CFR § 200.511(c)  
JUNE 30, 2016**

<b>Finding Number</b>	<b>Planned Corrective Action</b>	<b>Anticipated Completion Date</b>	<b>Responsible Contact Person</b>
2016-001	The District will obtain the necessary documentation which can be provided as evidence of compliance with this requirement.	Immediately	Allen Sluka, Treasurer
2016-002	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	Allen Sluka, 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  
MAY 4, 2017**