



Dave Yost • Auditor of State

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY
JUNE 30, 2016**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of James A. Garfield Local School District, Portage 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of James A. Garfield Local School District, Portage County, Ohio, as of June 30, 2016, and the respective changes in financial position and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

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

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

The schedule is management's responsibility, and derives from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected the 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 February 6, 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.

Dave Yost
Auditor of State
Columbus, Ohio

February 6, 2017

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)

The management's discussion and analysis of the James A. Garfield Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2016. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2016 are as follows:

- The District's net position of governmental activities increased \$1,330,493 which represents a 13.25% increase from 2015.
- General revenues accounted for \$11,832,788 in revenue or 77.49% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$3,438,163 or 22.51% of total revenues of \$15,270,951.
- The District had \$13,940,458 in expenses related to governmental activities; \$3,438,163 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$11,832,788 were adequate to provide for these programs.
- The District's major governmental fund is the general fund. The general fund had \$13,553,677 in revenues and other financing sources and \$12,331,251 in expenditures. During fiscal year 2016, the general fund's fund balance increased \$1,222,426 from a balance of \$1,575,135 to \$2,797,561.

Using these Basic Financial Statements

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

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

Reporting the District as a Whole

Statement of Net Position and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2016?" The statement of net position and the statement of activities answer this question. These statements include all assets, deferred outflows, liabilities, deferred inflows, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)

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

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

The District's statement of net position and statement of activities can be found on pages 16-17 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps you to determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 18-22 of this report.

Reporting the District's Fiduciary Responsibilities

The District acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position on page 23. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 24-56 of this report.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's net pension liability. The required supplementary information can be found on pages 58-64 of this report.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)

The District as a Whole

The statement of net position provides the perspective of the District as a whole. The table below provides a summary of the District's net position for June 30, 2016 and June 30, 2015.

	Net Position	
	Governmental Activities 2016	Governmental Activities 2015
<u>Assets</u>		
Current and other assets	\$ 8,869,673	\$ 7,971,839
Capital assets, net	<u>10,313,058</u>	<u>10,745,920</u>
Total assets	<u>19,182,731</u>	<u>18,717,759</u>
<u>Deferred outflows of resources</u>		
Unamortized deferred charges on debt refunding	72,810	81,461
Pensions	<u>1,807,562</u>	<u>1,186,180</u>
Total deferred outflows of resources	<u>1,880,372</u>	<u>1,267,641</u>
<u>Liabilities</u>		
Current liabilities	1,627,371	1,636,810
Long-term liabilities:		
Due within one year	431,206	447,281
Due in more than one year:		
Net pension liability	18,249,687	16,672,580
Other amounts	<u>4,023,916</u>	<u>4,349,049</u>
Total liabilities	<u>24,332,180</u>	<u>23,105,720</u>
<u>Deferred inflows of resources</u>		
Property taxes levied for next fiscal year	3,669,157	3,905,001
Pensions	<u>1,774,709</u>	<u>3,018,115</u>
Total deferred inflows of resources	<u>5,443,866</u>	<u>6,923,116</u>
<u>Net position</u>		
Net investment in capital assets	6,760,869	6,831,957
Restricted	446,098	345,058
Unrestricted (deficit)	<u>(15,919,910)</u>	<u>(17,220,451)</u>
Total net position	<u>\$ (8,712,943)</u>	<u>\$ (10,043,436)</u>

During 2015, the District adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27" and GASB Statement 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement 68," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the District's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

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

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

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

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

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

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2016, the District's liabilities and deferred inflows of resources exceeded assets and deferred outflows resources by \$8,712,943. Of this total, \$446,098 is restricted in use.

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

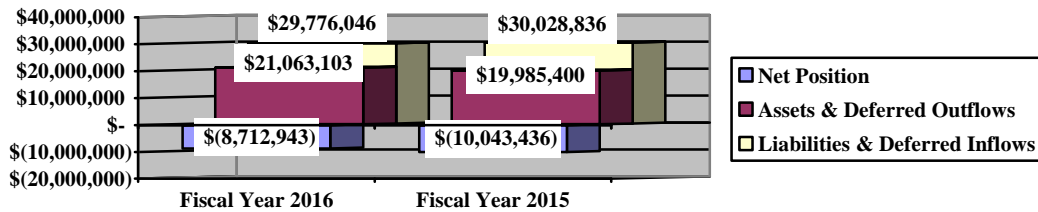
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)

At year-end, capital assets represented 53.76% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture, fixtures and equipment, and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2016, were \$6,760,869. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net position, \$446,098, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position was a deficit of \$15,919,910. The deficit balance in unrestricted net position was the result of reporting the net pension liability required by GASB 68.

The graph below illustrates the District's governmental activities assets plus deferred outflows, liabilities plus deferred inflows and net position at June 30, 2016 and 2015.

Governmental Activities



The table below shows the changes in net position for governmental activities between 2016 and 2015.

Change in Net Position

	Governmental Activities 2016	Governmental Activities 2015
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 1,833,652	\$ 1,775,596
Operating grants and contributions	1,604,511	1,456,128
General revenues:		
Property taxes	4,881,827	4,170,964
Unrestricted grants and entitlements	6,912,936	6,874,364
Investment earnings	13,571	7,516
Miscellaneous	24,454	60,105
Total revenues	\$ 15,270,951	\$ 14,344,673

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)

	Change in Net Position	
	Governmental	Governmental
	Activities	Activities
	<u>2016</u>	<u>2015</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 6,621,629	\$ 6,630,084
Special	1,546,946	1,528,245
Other	-	165
Support services:		
Pupil	657,279	618,482
Instructional staff	203,411	355,985
Board of education	37,026	40,861
Administration	1,220,353	1,095,081
Fiscal	342,685	321,799
Business	5,460	43,532
Operations and maintenance	1,121,058	1,343,658
Pupil transportation	846,566	807,533
Central	34,800	28,403
Operations of non-instructional services:		
Food service operations	656,272	645,112
Other non-instructional services	29,089	22,501
Extracurricular activities	477,158	417,656
Interest and fiscal charges	140,726	156,339
Total expenses	<u>13,940,458</u>	<u>14,055,436</u>
Change in net position	1,330,493	289,237
Net position at beginning of year	<u>(10,043,436)</u>	<u>(10,332,673)</u>
Net position at end of year	<u>\$ (8,712,943)</u>	<u>\$ (10,043,436)</u>

Governmental Activities

Net position of the District's governmental activities increased \$1,330,493. Total governmental expenses of \$13,940,458 were offset by program revenues of \$3,438,163 and general revenues of \$11,832,788. Program revenues supported 24.66% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes and unrestricted grants and entitlements. These revenue sources represent 77.24% of total governmental revenue.

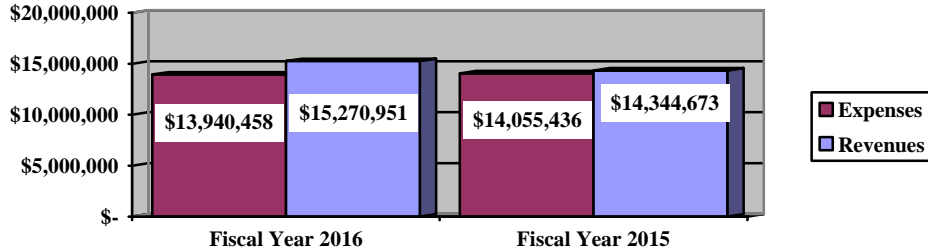
The largest expense of the District is for instructional programs. Instruction expenses totaled \$8,168,575 or 58.60% of total governmental expenses for fiscal 2016.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2016 and 2015.

Governmental Activities - Revenues and Expenses



The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. The following is a comparison of 2016 and 2015.

Governmental Activities

	Total Cost of Services 2016	Net Cost of Services 2016	Total Cost of Services 2015	Net Cost of Services 2015
Program expenses				
Instruction:				
Regular	\$ 6,621,629	\$ 5,164,795	\$ 6,630,084	\$ 5,245,980
Special	1,546,946	466,664	1,528,245	509,921
Other	-	-	165	165
Support services:				
Pupil	657,279	651,603	618,482	618,482
Instructional staff	203,411	200,295	355,985	352,874
Board of education	37,026	37,026	40,861	40,861
Administration	1,220,353	1,170,124	1,095,081	1,049,487
Fiscal	342,685	342,685	321,799	321,799
Business	5,460	5,460	43,532	43,532
Operations and maintenance	1,121,058	1,118,720	1,343,658	1,340,303
Pupil transportation	846,566	805,868	807,533	784,895
Central	34,800	9,304	28,403	8,492
Operations of non-instructional services:				
Food service operations	656,272	14,385	645,112	25,453
Other non-instructional services	29,089	2,333	22,501	(2,524)
Extracurricular activities	477,158	372,307	417,656	327,653
Interest and fiscal charges	140,726	140,726	156,339	156,339
Total expenses	<u>\$ 13,940,458</u>	<u>\$ 10,502,295</u>	<u>\$ 14,055,436</u>	<u>\$ 10,823,712</u>

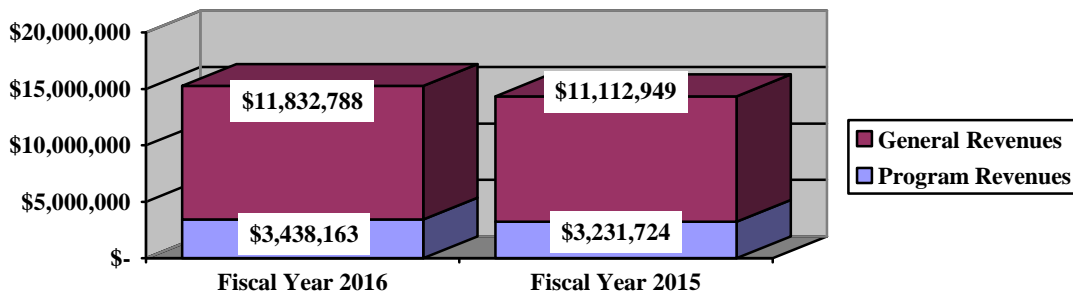
**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)

The dependence upon tax and other general revenues for governmental activities is apparent, 68.94% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 75.34% and 77.01% for fiscal years 2016 and 2015, respectively. The District's taxpayers and unrestricted grants from the State are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal year 2016 and 2015.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds reported a combined fund balance of \$3,142,007, which is greater than last year's balance of \$1,880,232. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2016 and 2015.

	<u>Fund Balance</u> <u>June 30, 2016</u>	<u>Fund Balance</u> <u>June 30, 2015</u>	<u>Increase</u>	<u>Percentage</u> <u>Change</u>
General	\$ 2,797,561	\$ 1,575,135	\$ 1,222,426	77.61 %
Other Governmental	<u>344,446</u>	<u>305,097</u>	<u>39,349</u>	12.90 %
Total	<u>\$ 3,142,007</u>	<u>\$ 1,880,232</u>	<u>\$ 1,261,775</u>	67.11 %

General Fund

The District's general fund balance increased \$1,222,426. The table that follows assists in illustrating the financial activities of the general fund.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)

	<u>2016</u> <u>Amount</u>	<u>2015</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 4,486,580	\$ 3,827,587	\$ 658,993	17.22 %
Tuition	1,388,724	1,349,358	39,366	2.92 %
Earnings on investments	13,571	8,049	5,522	68.60 %
Intergovernmental	7,561,198	7,195,011	366,187	5.09 %
Other revenues	<u>101,807</u>	<u>114,012</u>	<u>(12,205)</u>	(10.71) %
Total	<u>\$ 13,551,880</u>	<u>\$ 12,494,017</u>	<u>\$ 1,057,863</u>	8.47 %
<u>Expenditures</u>				
Instruction	\$ 7,546,403	\$ 7,466,543	\$ 79,860	1.07 %
Support services	4,340,662	4,656,481	(315,819)	(6.78) %
Non-instructional services	5,786	-	5,786	100.00 %
Extracurricular activities	395,950	326,543	69,407	21.26 %
Debt service	<u>42,450</u>	<u>42,450</u>	<u>-</u>	- %
Total	<u>\$ 12,331,251</u>	<u>\$ 12,492,017</u>	<u>\$ (160,766)</u>	(1.29) %

Tax revenue increased \$658,993 or 17.22% from fiscal year 2015. Tax revenue increased primarily due to the amount of tax advances available with the County Auditor at fiscal year-end. Tuition revenue increased \$39,366 or 2.92% from fiscal year 2015 due to greater revenue from open enrollment. Intergovernmental revenue increased \$366,187 or 5.09% from fiscal year 2015 due to more revenue received from the State. Instructional expenditures increased \$79,860 or 1.07% from fiscal year 2015. This is mainly due to customary wage and benefit increases. Overall, expenditures decreased \$160,766 or 1.29% from fiscal year 2015.

General Fund Budgeting Highlights

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

During the course of fiscal year 2016, the District amended its general fund budget a few times. For the general fund, original budgeted revenues and other financing sources were \$12,533,806 and final budgeted revenues and other financing sources were \$13,184,566. Actual revenues and other financing sources for fiscal 2016 were \$13,343,661. This represents a \$159,095 increase from final budgeted revenues and other financing sources.

General fund original appropriations (appropriated expenditures including other financing uses) of \$13,208,010 were decreased to \$12,667,706 in the final appropriations. The actual budget basis expenditures and other financing uses for fiscal year 2016 totaled \$12,529,958, which was \$137,748 below the final budget appropriations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2016, the District had \$10,313,058 invested in land, land improvements, buildings and improvements, furniture, fixtures and equipment, and vehicles. This entire amount is reported in governmental activities.

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

	Governmental Activities	
	2016	2015
Land	\$ 137,302	\$ 137,302
Building and improvements	9,526,387	9,798,803
Furniture, fixtures and equipment	368,516	454,435
Vehicles	280,853	355,380
Total	<u>\$ 10,313,058</u>	<u>\$ 10,745,920</u>

The overall decrease in capital assets of \$432,862 is due to capital outlays of \$24,261 being less than depreciation expense of \$455,119 and disposals of \$2,004 (net of accumulated depreciation) in the current fiscal year.

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

Debt Administration

At June 30, 2016, the District had \$3,495,000 in general obligation bonds and \$3,514 in capital lease obligations outstanding. Of the total bond and lease obligations, \$333,514 is due within one year and \$3,165,000 is due in more than one year. The following table summarizes the bonds and leases outstanding.

Outstanding Debt, at Year End

	Governmental Activities	
	2016	2015
General obligation bonds	\$ 3,495,000	\$ 3,810,000
Capital lease obligations	3,514	43,911
Total	<u>\$ 3,498,514</u>	<u>\$ 3,853,911</u>

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)

Current Financial Related Activities

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

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

The Portage County Educational Service Center closed effective June 30, 2015 and the District has partnered with the Educational Service Center of Cuyahoga County starting July 1, 2015. With this transition, the District is now responsible for the day to day operations of the special education school age and preschool units. The District has also contracted with Renhill Group and Sendero Therapies for aide and therapy services previously provided by the Portage County Educational Service Center.

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

Contacting the District's Financial Management

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

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

STATEMENT OF NET POSITION
JUNE 30, 2016

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 3,716,512
Receivables:	
Taxes	4,727,646
Accounts.	1,577
Intergovernmental	363,620
Prepayments	26,418
Materials and supplies inventory.	33,900
Capital assets:	
Nondepreciable capital assets	137,302
Depreciable capital assets, net.	10,175,756
Capital assets, net	10,313,058
Total assets.	19,182,731
 Deferred outflows of resources:	
Unamortized deferred charges on debt refunding	72,810
Pension - STRS	1,485,205
Pension - SERS	322,357
Total deferred outflows of resources	1,880,372
 Liabilities:	
Accounts payable.	14,052
Accrued wages and benefits payable	1,360,563
Intergovernmental payable	42,715
Pension & postemployment obligation payable	198,166
Accrued interest payable	11,650
Unearned revenue	225
Long-term liabilities:	
Due within one year.	431,206
Due in more than one year:	
Net pension liability (See Note 13)	18,249,687
Other amounts due in more than one year	4,023,916
Total liabilities	24,332,180
 Deferred inflows of resources:	
Property taxes levied for the next fiscal year.	3,669,157
Pension - STRS.	1,471,689
Pension - SERS.	303,020
Total deferred inflows of resources	5,443,866
 Net position:	
Net investment in capital assets	6,760,869
Restricted for:	
Debt service.	326,521
Locally funded programs	21,605
Federally funded programs	37,470
Student activities	20,985
Other purposes	39,517
Unrestricted (deficit)	(15,919,910)
Total net position.	\$ (8,712,943)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

		Program Revenues		Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
Instruction:				
Regular	\$ 6,621,629	\$ 1,369,401	\$ 87,433	\$ (5,164,795)
Special	1,546,946	44,653	1,035,629	(466,664)
Support services:				
Pupil	657,279	-	5,676	(651,603)
Instructional staff	203,411	-	3,116	(200,295)
Board of education	37,026	-	-	(37,026)
Administration	1,220,353	-	50,229	(1,170,124)
Fiscal	342,685	-	-	(342,685)
Business	5,460	-	-	(5,460)
Operations and maintenance	1,121,058	2,338	-	(1,118,720)
Pupil transportation	846,566	4,458	36,240	(805,868)
Central	34,800	25,496	-	(9,304)
Operation of non-instructional services:				
Food service operations	656,272	282,455	359,432	(14,385)
Other non-instructional services	29,089	-	26,756	(2,333)
Extracurricular activities	477,158	104,851	-	(372,307)
Interest and fiscal charges	140,726	-	-	(140,726)
Total governmental activities	\$ 13,940,458	\$ 1,833,652	\$ 1,604,511	(10,502,295)
 General revenues:				
Property taxes levied for:				
General purposes				4,444,780
Debt service				437,047
Grants and entitlements not restricted				
to specific programs				6,912,936
Investment earnings				13,571
Miscellaneous				24,454
Total general revenues				11,832,788
Change in net position				1,330,493
Net position at beginning of year				(10,043,436)
Net position at end of year				\$ (8,712,943)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash and cash equivalents	\$ 3,373,089	\$ 343,423	\$ 3,716,512
Receivables:			
Taxes	4,307,718	419,928	4,727,646
Accounts	1,527	50	1,577
Intergovernmental	166,270	197,350	363,620
Prepayments	25,744	674	26,418
Materials and supplies inventory	33,900	-	33,900
Due from other funds	62,219	-	62,219
Total assets	<u>\$ 7,970,467</u>	<u>\$ 961,425</u>	<u>\$ 8,931,892</u>
Liabilities:			
Accounts payable	\$ 10,553	\$ 3,499	\$ 14,052
Accrued wages and benefits payable	1,236,650	123,913	1,360,563
Intergovernmental payable	41,256	1,459	42,715
Pension & postemployment obligation payable	198,166	-	198,166
Due to other funds	-	62,219	62,219
Unearned revenue	225	-	225
Total liabilities	<u>1,486,850</u>	<u>191,090</u>	<u>1,677,940</u>
Deferred inflows of resources:			
Property taxes levied for the next fiscal year	3,349,582	319,575	3,669,157
Delinquent property tax revenue not available	171,751	18,063	189,814
Intergovernmental revenue not available	164,723	88,251	252,974
Total deferred inflows of resources	<u>3,686,056</u>	<u>425,889</u>	<u>4,111,945</u>
Fund balances:			
Nonspendable:			
Materials and supplies inventory	33,900	-	33,900
Prepays	25,744	674	26,418
Restricted:			
Debt service	-	320,108	320,108
Special education	-	1	1
Extracurricular activities	-	20,985	20,985
Other purposes	-	61,122	61,122
Committed:			
Other purposes	11,000	-	11,000
Assigned:			
Student instruction	42,611	-	42,611
Student and staff support	94,960	-	94,960
Extracurricular activities	426	-	426
Subsequent year's appropriations	143,773	-	143,773
Other purposes	48,069	-	48,069
Unassigned (deficit)	<u>2,397,078</u>	<u>(58,444)</u>	<u>2,338,634</u>
Total fund balances	<u>2,797,561</u>	<u>344,446</u>	<u>3,142,007</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 7,970,467</u>	<u>\$ 961,425</u>	<u>\$ 8,931,892</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2016

Total governmental fund balances		\$	3,142,007
<i>Amounts reported for governmental activities on the statement of net position are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			10,313,058
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows in the funds.			
Property taxes receivable	\$	189,814	
Intergovernmental receivable		252,974	
Total		<u>442,788</u>	442,788
Unamortized premiums on bonds issued are not recognized in the funds.			(126,485)
Unamortized amounts on refundings are not recognized in the funds.			72,810
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.			(11,650)
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		1,807,562	
Deferred inflows - pension		(1,774,709)	
Net pension liability		<u>(18,249,687)</u>	
Total			(18,216,834)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
General obligation bonds		(3,495,000)	
Capital lease obligations		(3,514)	
Compensated absences		<u>(830,123)</u>	
Total			<u>(4,328,637)</u>
Net position of governmental activities		\$	<u>(8,712,943)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Taxes	\$ 4,486,580	\$ 441,279	\$ 4,927,859
Tuition	1,388,724	-	1,388,724
Transportation fees	4,458	-	4,458
Earnings on investments	13,571	91	13,662
Charges for services	-	280,063	280,063
Extracurricular	24,537	88,951	113,488
Classroom materials and fees	25,330	-	25,330
Other local revenues	47,482	32,420	79,902
Intergovernmental - intermediate	-	43,110	43,110
Intergovernmental - state	7,160,958	82,628	7,243,586
Intergovernmental - federal	400,240	870,237	1,270,477
Total revenues	<u>13,551,880</u>	<u>1,838,779</u>	<u>15,390,659</u>
Expenditures:			
Current:			
Instruction:			
Regular	6,427,883	52,386	6,480,269
Special	1,118,520	447,301	1,565,821
Support services:			
Pupil	663,868	5,398	669,266
Instructional staff	196,935	2,558	199,493
Board of education	37,026	-	37,026
Administration	1,153,588	47,455	1,201,043
Fiscal	338,382	9,606	347,988
Business	5,460	-	5,460
Operations and maintenance	1,129,421	-	1,129,421
Pupil transportation	781,182	14,301	795,483
Central	34,800	-	34,800
Operation of non-instructional services:			
Food service operations	-	645,538	645,538
Other non-instructional services	5,786	23,303	29,089
Extracurricular activities	395,950	90,484	486,434
Debt service:			
Principal retirement	40,397	315,000	355,397
Interest and fiscal charges	2,053	146,100	148,153
Total expenditures	<u>12,331,251</u>	<u>1,799,430</u>	<u>14,130,681</u>
Excess of revenues over expenditures	<u>1,220,629</u>	<u>39,349</u>	<u>1,259,978</u>
Other financing sources:			
Sale of capital assets	1,797	-	1,797
Total other financing sources	<u>1,797</u>	<u>-</u>	<u>1,797</u>
Net change in fund balances	1,222,426	39,349	1,261,775
Fund balances at beginning of year	<u>1,575,135</u>	<u>305,097</u>	<u>1,880,232</u>
Fund balances at end of year	<u>\$ 2,797,561</u>	<u>\$ 344,446</u>	<u>\$ 3,142,007</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Net change in fund balances - total governmental funds	\$	1,261,775
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Capital asset additions	\$ 24,261	
Current year depreciation	(455,119)	
Total		(430,858)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net position.		
		(2,004)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Property taxes	(46,032)	
Intergovernmental	(73,676)	
Total		(119,708)
Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net position. Principal payments during the year were:		
Bonds	315,000	
Capital leases	40,397	
Total		355,397
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. The following items resulted in additional interest being reported in the statement of activities:		
Decrease in accrued interest payable	1,050	
Amortization of bond premiums	15,028	
Amortization of deferred charges	(8,651)	
Total		7,427
Contractually required pension contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows.		
		1,061,034
Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.		
		(773,353)
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		(29,217)
Change in net position of governmental activities	\$	1,330,493

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 3,235,014	\$ 3,402,977	\$ 3,402,977	\$ -
Tuition	1,320,265	1,388,814	1,388,814	-
Transportation fees	4,238	4,458	4,458	-
Earnings on investments	12,901	13,571	13,571	-
Classroom materials and fees	523	550	550	-
Other local revenues	3,663	3,853	3,853	-
Intergovernmental - state	6,692,118	7,039,575	7,039,575	-
Intergovernmental - federal	229,243	241,145	400,240	159,095
Total revenues	<u>11,497,965</u>	<u>12,094,943</u>	<u>12,254,038</u>	<u>159,095</u>
Expenditures:				
Current:				
Instruction:				
Regular	6,809,963	6,531,387	6,507,785	23,602
Special	1,240,493	1,189,748	1,175,192	14,556
Other	343	329	-	329
Support services:				
Pupil	696,785	668,281	652,752	15,529
Instructional staff	232,945	223,416	218,936	4,480
Board of education	41,034	39,355	37,050	2,305
Administration	1,256,230	1,204,841	1,187,395	17,446
Fiscal	344,075	330,000	325,546	4,454
Business	16,673	15,991	14,663	1,328
Operations and maintenance	1,269,913	1,217,964	1,186,262	31,702
Pupil transportation	846,580	811,949	793,023	18,926
Other non-instructional services	6,033	5,786	5,786	-
Extracurricular activities	408,573	391,859	388,768	3,091
Total expenditures	<u>13,169,640</u>	<u>12,630,906</u>	<u>12,493,158</u>	<u>137,748</u>
Excess of expenditures over revenues	<u>(1,671,675)</u>	<u>(535,963)</u>	<u>(239,120)</u>	<u>296,843</u>
Other financing sources (uses):				
Refund of prior year's expenditures	101,471	106,739	106,739	-
Transfers in	890,643	936,886	936,886	-
Advances in	42,019	44,201	44,201	-
Advances (out)	(38,370)	(36,800)	(36,800)	-
Sale of capital assets	1,708	1,797	1,797	-
Total other financing sources (uses)	<u>997,471</u>	<u>1,052,823</u>	<u>1,052,823</u>	<u>-</u>
Net change in fund balance	(674,204)	516,860	813,703	296,843
Fund balance at beginning of year	2,269,461	2,269,461	2,269,461	-
Prior year encumbrances appropriated	108,010	108,010	108,010	-
Fund balance at end of year	<u>\$ 1,703,267</u>	<u>\$ 2,894,331</u>	<u>\$ 3,191,174</u>	<u>\$ 296,843</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUND
JUNE 30, 2016

	Agency
Assets:	
Equity in pooled cash and cash equivalents	\$ 32,488
Total assets.	\$ 32,488
Liabilities:	
Accounts payable.	\$ 55
Due to students.	32,433
Total liabilities	\$ 32,488

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

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

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

The District operates under a locally elected five-member Board form of government and provides educational services as mandated by State and/or federal agencies. The Board controls the District's three instructional/support facilities staffed by 58 non-certified, 93 certified personnel and 10 administrators who provide services to 1,472 students and other community members.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

A. Reporting Entity

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

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

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

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

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

JOINTLY GOVERNED ORGANIZATIONS

Stark Portage Area Computer Consortium (SPARCC)

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

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

Portage County School Consortium (the "Consortium")

Portage County School Consortium is an insurance group-purchasing consortium made up of 22 school districts in Columbiana, Portage and Mahoning Counties. All member districts pay an insurance premium directly to the Consortium. The District paid \$1,813,631 in the form of health care premiums to the Consortium for the current fiscal year.

Maplewood Career Center

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

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

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

FIDUCIARY FUNDS

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

C. Basis of Presentation and Measurement Focus

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

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

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

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

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

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

D. Basis of Accounting

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

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

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

Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

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

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

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

See Note 13 for deferred inflows of resources related to the District's net pension liability. This deferred inflow of resources is only reported on the government-wide statement of net position.

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

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

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

E. Budgetary Data

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

The amounts reported as the original budget revenue in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted revenue amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2016. The amounts reported as the original budgeted expenditure amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted expenditure amounts represent the final appropriation amounts passed by the Board during the year.

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

F. Cash and Investments

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

During fiscal year 2016, investments were limited to investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices.

The District has invested funds in STAR Ohio during fiscal year 2016. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price which is the price the investment could be sold for on June 30, 2016.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2016 amounted to \$13,571, which includes \$1,791 assigned from other District funds.

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

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

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

G. Inventory

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

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

H. Capital Assets

General capital assets are those assets specifically related to governmental activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position, but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$2,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are not capitalized. It is the policy of the District to not capitalize interest costs incurred as part of construction.

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

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

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

I. Interfund Balances

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

J. Compensated Absences

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

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

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

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

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

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

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

L. Fund Balance

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

Nonspendable - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash.

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

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

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

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

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

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

M. Net Position

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

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

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

N. Prepayments

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

O. Estimates

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

P. Stabilization Arrangement

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

Q. Interfund Activity

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

R. Pensions

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

S. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2016.

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2016, the District has implemented 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 addresses accounting and financial reporting issues related to fair value measurement. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The implementation of GASB Statement No. 72 did not have an effect on the financial statements of the District.

GASB Statement No. 73 improves the usefulness of information about pensions included in the general purposes external financial reports of state and local governments for making decisions and assessing accountability. The implementation of GASB Statement No. 73 did not have an effect on the financial statements of the District.

GASB Statement No. 76 identifies - in the context of the current governmental financial reporting environment - the hierarchy of generally accepted accounting principles (GAAP). This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The implementation of GASB Statement No. 76 did not have an effect on the financial statements of the District.

GASB Statement No. 79 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 implementation of GASB Statement No. 79 did not have an effect on the financial statements of the District.

B. Deficit Fund Balances

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

<u>Nonmajor funds</u>	<u>Deficit</u>
Food service operations	\$ 31,271
Title VI-B	12,505
Title I	10,498
Improving teacher quality	3,496

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

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 4 - 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. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

A. Deposits with Financial Institutions

At June 30, 2016, the carrying amount of all District deposits was \$1,145,723, which is exclusive of STAR Ohio reported as an investment below. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2016, \$627,334 of the District's bank balance of \$1,398,697 was exposed to custodial risk as discussed below, while \$771,363 was covered by the FDIC.

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

B. Investments

As of June 30, 2016, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair value</u>	<u>Investment Maturities</u> 6 months or less
STAR Ohio	\$ 2,603,277	\$ 2,603,277

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

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2016:

<u>Investment type</u>	<u>Fair value</u>	<u>% of total</u>
STAR Ohio	\$ 2,603,277	100.00%

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

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net position as of June 30, 2016:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 1,145,723
Investments	<u>2,603,277</u>
Total	<u>\$ 3,749,000</u>
 <u>Cash and investments per statement of net position</u>	
Governmental activities	\$ 3,716,512
Agency fund	<u>32,488</u>
Total	<u>\$ 3,749,000</u>

NOTE 5 - INTERFUND TRANSACTIONS

Due to/from other funds at June 30, 2016 as reported on the fund financial statements, consist of the following:

<u>Due from other funds</u>	<u>Due to other funds</u>	<u>Amount</u>
General fund	Nonmajor governmental funds	\$ 62,219

The purpose of the due to/from other funds balance at June 30, 2016 is to show the liability of certain nonmajor governmental funds to the general fund for their portion of pension liabilities and to cover negative cash balances.

Due to/from other funds between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2016 are reported on the statement of net position.

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real property and public utility property. Real property tax revenues received in calendar year 2016 represent the collection of calendar year 2015 taxes. Real property taxes received in calendar year 2016 were levied after April 1, 2015, on the assessed values as of January 1, 2015, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Public utility property tax revenues received in calendar year 2016 represent the collection of calendar year 2015 taxes. Public utility real and personal property taxes received in calendar year 2016 became a lien on 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 is currently assessed at varying percentages of true value.

The District receives property taxes from Portage County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2016, are available to finance fiscal year 2016 operations. The amount available as an advance at June 30, 2016 was \$786,385 in the general fund and \$82,290 in the bond retirement fund, a nonmajor governmental fund. This amount is recorded as revenue. The amount available for advance at June 30, 2015 was \$496,820 in the general fund and \$51,823 in the bond retirement fund, a nonmajor governmental fund. The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and delinquent tangible personal property taxes which are measurable as of June 30, 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.

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

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 6 - PROPERTY TAXES - (Continued)

The assessed values upon which the fiscal year 2016 taxes were collected are:

	2015 Second Half Collections		2016 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 160,546,540	96.40	\$ 164,847,010	96.04
Public utility personal	<u>5,991,680</u>	<u>3.60</u>	<u>6,801,000</u>	<u>3.96</u>
Total	<u>\$ 166,538,220</u>	<u>100.00</u>	<u>\$ 171,648,010</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$ 65.56		\$ 65.33	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2016 consisted of taxes, accounts and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net position follows:

Governmental activities:

Taxes	\$ 4,727,646
Accounts	1,577
Intergovernmental	<u>363,620</u>
Total	<u>\$ 5,092,843</u>

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

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 8 - CAPITAL ASSETS

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

	Balance <u>06/30/15</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>06/30/16</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 137,302	\$ -	\$ -	\$ 137,302
Total capital assets, not being depreciated	<u>137,302</u>	<u>-</u>	<u>-</u>	<u>137,302</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	286,374	-	-	286,374
Buildings and improvements	14,551,088	-	-	14,551,088
Furniture, fixtures and equipment	1,359,083	24,261	(11,169)	1,372,175
Vehicles	<u>1,108,567</u>	<u>-</u>	<u>-</u>	<u>1,108,567</u>
Total capital assets, being depreciated	<u>17,305,112</u>	<u>24,261</u>	<u>(11,169)</u>	<u>17,318,204</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(286,374)	-	-	(286,374)
Buildings and improvements	(4,752,285)	(272,416)	-	(5,024,701)
Furniture, fixtures and equipment	(904,648)	(108,176)	9,165	(1,003,659)
Vehicles	<u>(753,187)</u>	<u>(74,527)</u>	<u>-</u>	<u>(827,714)</u>
Total accumulated depreciation	<u>(6,696,494)</u>	<u>(455,119)</u>	<u>9,165</u>	<u>(7,142,448)</u>
Total capital assets being depreciated, net	<u>10,608,618</u>	<u>(430,858)</u>	<u>(2,004)</u>	<u>10,175,756</u>
Governmental activities capital assets, net	<u>\$ 10,745,920</u>	<u>\$ (430,858)</u>	<u>\$ (2,004)</u>	<u>\$ 10,313,058</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 276,923
Special	6,891

Support services:

Pupil	948
Instructional staff	10,072
Administration	41,375
Fiscal	491
Operations and maintenance	24,281
Pupil transportation	72,709
Extracurricular	2,917
Food service operations	<u>18,512</u>
Total depreciation expense	<u>\$ 455,119</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 9 - CAPITALIZED LEASES - LESSEE DISCLOSURE

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

Capital assets consisting of office equipment have been capitalized in the amount of \$175,243. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability is recorded in the government-wide financial statements. Accumulated depreciation as of June 30, 2016 was \$169,401, leaving a current book value of \$5,842. Principal payments in fiscal year 2016 totaled \$40,397 paid by the general fund.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2016:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2017	\$ 3,537
Total	3,537
Less: amount representing interest	<u>(23)</u>
Present value of minimum lease payments	<u>\$ 3,514</u>

NOTE 10 - LONG-TERM OBLIGATIONS

A. During the fiscal year 2016, the following changes occurred in governmental activities long-term obligations:

	<u>Balance</u>		<u>Balance</u>	<u>Amounts</u>
	<u>06/30/15</u>	<u>Additions</u>	<u>06/30/16</u>	<u>Due in</u>
				<u>One Year</u>
General obligation bonds	\$ 3,810,000	\$ -	\$ 3,495,000	\$ 330,000
Capital lease obligation	43,911	-	3,514	3,514
Net pension liability	16,672,580	1,577,107	18,249,687	-
Compensated absences	<u>800,906</u>	<u>101,441</u>	<u>830,123</u>	<u>97,692</u>
Total	<u>\$ 21,327,397</u>	<u>\$ 1,678,548</u>	22,578,324	<u>\$ 431,206</u>
Add: Unamortized premium on refunding			<u>126,485</u>	
Total on statement of net position			<u>\$ 22,704,809</u>	

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

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

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

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

- B.** On March 1, 2007, the District issued general obligation bonds (series 2007 refunding bonds) to advance refund the callable portion of the series 1999 current interest general obligation bonds (callable principal \$5,105,000). The issuance proceeds of \$5,258,550 were used to purchase securities which were placed in an irrevocable trust to provide resources for all future debt service payments on the refunded debt. This refunded debt is considered defeased (in-substance) and accordingly, has been removed from the statement of net position. At June 30, 2016, \$3,160,000 of this debt was outstanding.

The refunding issue is comprised of current interest bonds, par value \$4,865,000 at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The interest rate on the refunding issue is 4%.

The reacquisition price exceeded the net carrying amount of the old debt by \$153,550. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is equal to the life of the new debt issued.

The following is a summary of the future debt service requirements to maturity for the 2007 series refunding bonds:

Fiscal Year Ending June 30,	Current Interest Bonds		
	Principal	Interest	Total
2017	\$ 330,000	\$ 133,200	\$ 463,200
2018	345,000	119,700	464,700
2019	360,000	105,600	465,600
2020	370,000	91,000	461,000
2021	390,000	75,800	465,800
2022 - 2025	<u>1,700,000</u>	<u>139,400</u>	<u>1,839,400</u>
Total	<u>\$ 3,495,000</u>	<u>\$ 664,700</u>	<u>\$ 4,159,700</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

C. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2016, are a voted debt margin of \$12,273,429 (including available funds of \$320,108) and an unvoted debt margin of \$171,648.

NOTE 11 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

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

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

B. Group Health and Dental Insurance

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

C. Early Retirement Incentive

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

For fiscal year 2016, any certified or classified employee eligible to retire as of March 1, 2016 will receive the early retirement incentive if they notify the District by March 1, 2016 and retire by July 1, 2016.

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 11 - OTHER EMPLOYEE BENEFITS - (Continued)

For certified employees, the amount of the retirement incentive is a one-time payment of \$15,000 to be made by January 31 of the year following retirement. No certified employees took the retirement incentive during fiscal year 2016.

For classified employees, the amount of the retirement incentive bonus is a one-time payment equal to one third of the employee's previous year's pay to be made by January 31 of the year following retirement. No classified employees took the retirement incentive bonus during fiscal year 2016.

NOTE 12 - RISK MANAGEMENT

A. Comprehensive

The District participates in the Portage County School Consortium (the "Consortium"), which is a cooperative entity among 22 educational-service providers formed in 1981 to facilitate effective risk management and to share the cost of providing various insurance coverages and employee benefits. The Health and Welfare Trust is organized under the provisions of Section 501(c) (9) of the Internal Revenue Code. Its purpose is to facilitate the management of risks associated with providing employee benefits coverage such as health insurance, disability insurance and life insurance. A third party administrator is retained by the consortium to facilitate the operation of the Health and Welfare Trust. The District pays all insurance premiums directly to the consortium. The insurance agreement with the Consortium also provides that the Consortium will reinsure through commercial companies for claims over \$200,000 per employee. Although the District does not participate in the day-to-day management of the Consortium, one of its administrators serves as a trustee of the Consortium's governing board, as provided in the Consortium's enabling authority. Although the District recognizes that it retains a contingent liability to provide insurance coverage should the assets of the Consortium become depleted, it is the opinion of management that the assets of the Consortium are sufficient to meet its claims.

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. During fiscal year 2016, the District contracted with the following carriers for various insurance coverages, as follows:

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

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

B. Workers' Compensation

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

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 13 - DEFINED BENEFIT PENSION PLANS

Net Pension Liability

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

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

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

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

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

Plan Description - School Employees Retirement System (SERS)

Plan Description –District non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS' fiduciary net position. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

Age and service requirements for retirement are as follows:

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

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

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, the entire 14 percent was allocated to pension, death benefits, and Medicare B and no portion of the employer contribution rate was allocated to the Health Care Fund.

The District’s contractually required contribution to SERS was \$271,926 for fiscal year 2016. Of this amount, \$34,225 is reported as pension & postemployment benefits payable.

Plan Description - State Teachers Retirement System (STRS)

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

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

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

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

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2016, plan members were required to contribute 13 percent of their annual covered salary. The District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

The District's contractually required contribution to STRS was \$789,108 for fiscal year 2016. Of this amount, \$132,988 is reported as pension & postemployment benefits payable.

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 13 - 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 District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate share of the net pension liability	\$ 3,037,218	\$ 15,212,469	\$ 18,249,687
Proportion of the net pension liability	0.05322760%	0.05504370%	
Pension expense	\$ 127,425	\$ 645,928	\$ 773,353

At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred outflows of resources			
Differences between expected and actual experience	\$ 50,431	\$ 696,097	\$ 746,528
District contributions subsequent to the measurement date	<u>271,926</u>	<u>789,108</u>	<u>1,061,034</u>
Total deferred outflows of resources	<u>\$ 322,357</u>	<u>\$ 1,485,205</u>	<u>\$ 1,807,562</u>
Deferred inflows of resources			
Net difference between projected and actual earnings on pension plan investments	\$ 128,641	\$ 1,144,034	\$ 1,272,675
Changes in proportionate share	<u>174,379</u>	<u>327,655</u>	<u>502,034</u>
Total deferred inflows of resources	<u>\$ 303,020</u>	<u>\$ 1,471,689</u>	<u>\$ 1,774,709</u>

\$1,061,034 reported as deferred outflows of resources related to pension resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

Fiscal Year Ending June 30:	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
2017	\$ (101,161)	\$ (344,598)	\$ (445,759)
2018	(101,161)	(344,598)	(445,759)
2019	(101,162)	(344,597)	(445,759)
2020	<u>50,895</u>	<u>258,201</u>	<u>309,096</u>
Total	<u>\$ (252,589)</u>	<u>\$ (775,592)</u>	<u>\$ (1,028,181)</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.

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 22.00 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.

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	1.00 %	0.00 %
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	15.00	7.50
Total	<u>100.00 %</u>	

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

Sensitivity of the 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 each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$ 4,211,531	\$ 3,037,218	\$ 2,048,351

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 change is a reduction in the discount rate from 7.75 percent to 7.5 percent. Although the exact amount of these changes is not known, the impact on the District's net pension liability is expected to be significant.

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

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
Cost-of-Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date.

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

Actuarial assumptions used in the June 30, 2015, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

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

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

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

Discount Rate - The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 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 District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following table presents the District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$ 21,131,266	\$ 15,212,469	\$ 10,207,242

NOTE 14 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

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

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

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 14 - POSTEMPLOYMENT BENEFITS - (Continued)

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, none of the employer contribution was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2016, this amount was \$23,000. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2016, the District's surcharge obligation was \$30,953.

The District's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$30,953, \$42,384, and \$31,542, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

B. State Teachers Retirement System

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

Funding Policy - Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal years 2016 and 2015, STRS did not allocate any employer contributions to post-employment health care. The District's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$0, and \$59,994, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

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

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

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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

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

Net Change in Fund Balance

	<u>General fund</u>
Budget basis	\$ 813,703
Net adjustment for revenue accruals	199,632
Net adjustment for expenditure accruals	121,210
Net adjustment for other sources/uses	(106,739)
Funds budgeted elsewhere **	92,774
Adjustment for encumbrances	101,846
GAAP basis	\$ 1,222,426

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

NOTE 16 - CONTINGENCIES

A. Grants

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

B. Litigation

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

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 16 – CONTINGENCIES - (Continued)

C. Foundation Funding

District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2015-2016 school year, traditional Districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the District, which can extend past the fiscal year-end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2016 Foundation funding for the 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 liability of the District.

NOTE 17 - SET-ASIDES

The District is required by State law to annually set-aside certain general fund revenue amounts, as defined by statutory formula, for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at fiscal year-end. This amount must be carried forward to be used for the same purpose in future years. Expenditures exceeding the set-aside requirement may not be carried forward to the next fiscal year.

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

	<u>Capital Improvements</u>
Set-aside balance June 30, 2015	\$ -
Current year set-aside requirement	264,220
Current year qualifying expenditures	<u>(502,635)</u>
Total	<u>\$ (238,415)</u>
Balance carried forward to fiscal year 2017	<u>\$ -</u>
Set-aside balance June 30, 2016	<u>\$ -</u>

NOTE 18 - OTHER COMMITMENTS

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

<u>Fund</u>	<u>Year-End</u>
General fund	\$ 97,719
Other governmental	<u>23,204</u>
Total	<u>\$ 120,923</u>

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

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 19 - SUBSEQUENT EVENTS

On December 2, 2016, the District entered into a lease-purchase agreement in the amount of \$520,000. The purpose of the lease-purchase agreement is to pay for improvements to be made at the high school/middle school building and the stadium. The lease-purchase agreement bears an interest rate of 2.10% and matures on December 1, 2021.

On December 2, 2016, the District issued \$3,165,000 school improvement general obligation refunding bonds, series 2016. The purpose of the series 2016 bonds was to refund the outstanding balance of the series 2007 general obligation refunding bonds. The interest rates on the 2016 bonds range from 1.07% - 2.14% with final maturity on December 1, 2024.

REQUIRED SUPPLEMENTARY INFORMATION

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

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

LAST THREE FISCAL YEARS

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

Note: Information prior to fiscal year 2014 was unavailable.

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

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

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

LAST THREE FISCAL YEARS

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

Note: Information prior to fiscal year 2014 was unavailable.

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

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

SCHEDULE OF DISTRICT CONTRIBUTIONS
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST TEN FISCAL YEARS

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually required contribution	\$ 271,926	\$ 211,200	\$ 232,680	\$ 224,834	\$ 223,225
Contributions in relation to the contractually required contribution	<u>(271,926)</u>	<u>(211,200)</u>	<u>(232,680)</u>	<u>(224,834)</u>	<u>(223,225)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 1,942,329	\$ 1,602,428	\$ 1,678,788	\$ 1,624,523	\$ 1,659,665
Contributions as a percentage of covered-employee payroll	14.00%	13.18%	13.86%	13.84%	13.45%

<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 204,447	\$ 220,323	\$ 156,817	\$ 153,093	\$ 180,179
<u>(204,447)</u>	<u>(220,323)</u>	<u>(156,817)</u>	<u>(153,093)</u>	<u>(180,179)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 1,626,468	\$ 1,627,201	\$ 1,593,669	\$ 1,558,992	\$ 1,687,069
12.57%	13.54%	9.84%	9.82%	10.68%

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

SCHEDULE OF DISTRICT CONTRIBUTIONS
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST TEN FISCAL YEARS

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually required contribution	\$ 789,108	\$ 817,733	\$ 750,779	\$ 832,604	\$ 796,190
Contributions in relation to the contractually required contribution	<u>(789,108)</u>	<u>(817,733)</u>	<u>(750,779)</u>	<u>(832,604)</u>	<u>(796,190)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 5,636,486	\$ 5,840,950	\$ 5,775,223	\$ 6,404,646	\$ 6,124,538
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	13.00%	13.00%	13.00%

<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 779,171	\$ 754,827	\$ 742,656	\$ 735,969	\$ 698,488
<u>(779,171)</u>	<u>(754,827)</u>	<u>(742,656)</u>	<u>(735,969)</u>	<u>(698,488)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 5,993,623	\$ 5,806,362	\$ 5,712,738	\$ 5,661,300	\$ 5,372,985
13.00%	13.00%	13.00%	13.00%	13.00%

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

Changes in benefit terms : There were no changes in benefit terms from the amounts reported for fiscal years 2014-2016.

Changes in assumptions : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2016. See the notes to the basic financials for the methods and assumptions in this calculation.

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

Changes in benefit terms : There were no changes in benefit terms from the amounts reported for fiscal years 2014-2016.

Changes in assumptions : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2016. See the notes to the basic financials for the methods and assumptions in this calculation.

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

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

FEDERAL GRANTOR Pass Through Grantor Program / Cluster Title	Federal CFDA Number	Pass Through Entity Identifying Number	Total Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
<i>Passed Through Ohio Department of Education</i>			
Nutrition Cluster:			
Non Cash Assistance (Food Distribution)	10.555	N/A	\$ 47,070
National School Breakfast Program	10.553	049205-3L70-2016	66,305
National School Lunch Program	10.555	049205-3L60-2016	<u>247,980</u>
Total Nutrition Cluster			<u>361,355</u>
 Team Nutrition Grant	 10.574	 049205-3GF0-2016	 <u>1,200</u>
Total U.S. Department of Agriculture			<u>362,555</u>
U.S. DEPARTMENT OF EDUCATION			
<i>Passed Through Ohio Department of Education</i>			
Title I Grants to Local Educational Agencies	84.010	049205-3M00-2015	22,245
Title I Grants to Local Educational Agencies	84.010	049205-3M00-2016	<u>200,855</u>
Total Title 1 Grants to Local Educational Agencies			<u>223,100</u>
Special Education Cluster:			
Special Education Grants to States (IDEA, Part B)	84.027	049205-3M20-2015	46,656
Special Education Grants to States (IDEA, Part B)	84.027	049205-3M20-2016	213,100
Special Education Preschool Grants	84.173	049205-3C50-2016	<u>486</u>
Total Special Education Cluster			<u>260,242</u>
 Improving Teacher Quality State Grants	 84.367	 049205-3Y60-2015	 3,792
Improving Teacher Quality State Grants	84.367	049205-3Y60-2016	<u>40,382</u>
Total Improving Teacher Quality State Grants			<u>44,174</u>
Total U.S. Department of Education			<u>527,516</u>
Total Expenditures of Federal Awards			<u>\$ 890,071</u>

The accompanying notes are an integral part of this schedule.

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

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

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the James A. Garfield Local School District (the District) under programs of the federal government for the year ended June 30, 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 or changes in net position of the District.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following, 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 fair value. The District allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.

NOTE E - TRANSFERS BETWEEN PROGRAM YEARS

The District generally must spend Federal assistance within 15 months of receipt. However, with Ohio Department of Education (ODE) approval, a School can transfer (carryover) unspent Federal assistance to the succeeding year, thus allowing the School a total of 27 months to spend the assistance. During fiscal year 2016, the District requested the Ohio Department of Education to authorize the following transfers:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount Transferred from 2016 to 2017</u>
Special Education Grants to States (IDEA, Part B)	84.027	\$17,966
Special Education Preschool Grants	84.173	3,803
Title I Grants to Local Educational Agencies	84.010	32,124
Improving Teacher Quality State Grants	84.367	4,583



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

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

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the James A. Garfield Local School District, Portage County, (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements and have issued our report thereon dated February 6, 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 opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the District's internal control. Accordingly, we have not opined on it.

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Dave Yost
Auditor of State
Columbus, Ohio

February 6, 2017



Dave Yost • Auditor of State

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

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

To the Board of Education:

Report on Compliance for the Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on the Major Federal Program

In our opinion, the James A. Garfield Local School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2016.

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 compliance requirement will not be prevented, or timely detected and corrected. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

Dave Yost
Auditor of State
Columbus, Ohio

February 6, 2017

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE 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?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unmodified
<i>(d)(1)(vi)</i>	Are there any reportable findings under 2 CFR § 200.516(a)?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Special Education Cluster, CFDA# 84.027 and 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?	Yes

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None