

Auburn Vocational School District



Basic Financial Statements

June 30, 2016



Dave Yost • Auditor of State

Board of Education
Auburn Vocational School District
8221 Auburn Road
Concord Township, Ohio 44077

We have reviewed the *Independent Auditor's Report* of the Auburn Vocational School District, Lake County, prepared by Plattenburg & Associates, Inc., for the audit period July 1, 2015 through June 30, 2016. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

January 26, 2017

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INDEPENDENT AUDITOR'S REPORT

Auburn Vocational School District
Lake County
8140 Auburn Road
Concord Township, Ohio 44077

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Auburn Vocational School District (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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2016, and the respective changes in financial position and the respective budgetary comparisons from the General Fund and Adult Education Fund thereof for the year then ended in accordance with 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 that the management's discussion and analysis, and pension information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2016, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion 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.

Plattenburg & Associates, Inc.

Plattenburg & Associates, Inc.
Cincinnati, Ohio
November 29, 2016

**Auburn Vocational School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)**

The discussion and analysis of Auburn Vocational School District's 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 notes to the basic financial statements and financial statements to enhance their understanding of the District's performance.

Financial Highlights

Key financial highlights for 2016 are as follows:

- Net position of governmental activities increased \$291,243 from 2015.
- General revenues accounted for \$8,919,586 in revenue or 75% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$3,017,459 or 25% of total revenues of \$11,937,045.
- The District had \$11,645,802 in expenses related to governmental activities; \$3,017,459 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$8,919,586 were also used to provide for these programs.

Overview of the 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. The General Fund is the major fund of the District.

Government-wide Financial Statements

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 Government-wide Financial Statements answer this question. These statements include *all assets and deferred outflows of resources* and *liabilities and deferred inflows of resources* using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's *net position* and changes in the net position. This change in net position is important because it tells the reader that, for the District as a whole, the financial position has improved or diminished. The causes of this change may be the result of many factors, both

**Auburn Vocational School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)**

financial and non-financial. 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 Government-wide Financial Statements, overall financial position of the District is presented in the following manner:

- Governmental Activities – Most of the District's programs and services are reported here including instruction, support services, operation of non-instructional services, and extracurricular activities.

Fund Financial Statements

The analysis of the District's major funds is presented in the Fund Financial Statements (see Table of Contents). 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.

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 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 determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Position and the Statement of Activities) and governmental *funds* is reconciled in the financial statements.

Fiduciary Funds Fiduciary Funds are used to account for resources held for the benefits of parties outside the government. Fiduciary Funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs.

The District as a Whole

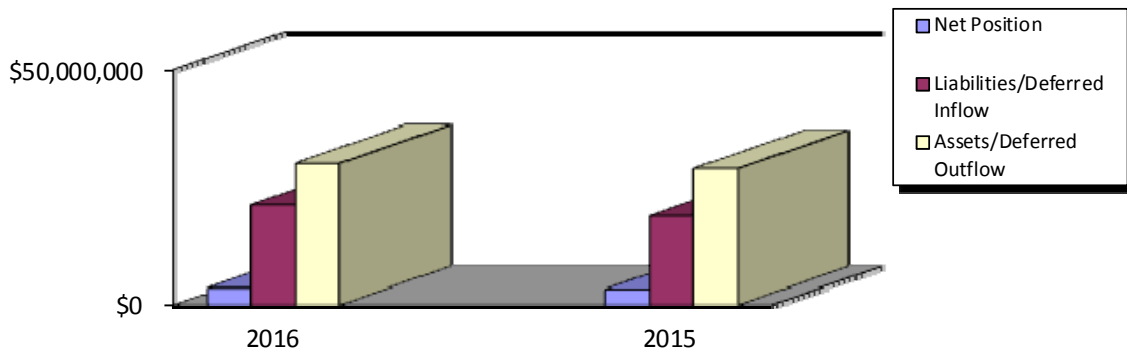
As stated previously, the Statement of Net Position looks at the District as a whole. Table 1 provides a summary of the District's net position for 2016 compared to 2015:

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**Auburn Vocational School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)**

**Table 1
Net Position**

	Governmental Activities	
	2016	2015
Assets:		
Current and Other Assets	\$11,894,992	\$11,111,812
Capital Assets	18,290,081	17,931,394
Total Assets	30,185,073	29,043,206
Deferred Outflows of Resources:		
Pension	2,108,796	912,639
Total Deferred Outflows of Resources	2,108,796	912,639
Liabilities:		
Other Liabilities	893,222	906,094
Long-Term Liabilities	20,526,635	18,119,956
Total Liabilities	21,419,857	19,026,050
Deferred Inflows of Resources:		
Property Taxes	5,325,865	5,239,440
Pension	1,886,705	2,320,156
Total Deferred Inflows of Resources	7,212,570	7,559,596
Net Position:		
Net Investment in Capital Assets	12,669,942	13,282,763
Restricted	647,663	139,328
Unrestricted	(9,656,163)	(10,051,892)
Total Net Position	\$3,661,442	\$3,370,199



**Auburn Vocational School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)**

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2016, the District's assets and deferred outflows exceeded liabilities and deferred inflows by \$3,661,442.

At year-end, capital assets represented 57% of total assets and deferred outflows. Capital assets include land, land improvements, buildings and improvements, equipment and vehicles. Net investment in capital assets at June 30, 2016, totaled \$12,669,942. These capital assets are used to provide services to the students and are not available for future spending.

A portion of the District's net position, \$647,663 represents resources that are subject to external restriction on how they must be used. The external restriction will not affect the availability of fund resources for future use.

Current assets increased due to an increase in equity in pooled cash and investments, in fiscal year 2016 as compared to fiscal year 2015. Capital assets increased due to depreciation expense being less than current year additions. Total liabilities increased due to an increase in net pension liability.

Table 2 shows the changes in net position for fiscal years 2016 and 2015.

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**Auburn Vocational School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)**

**Table 2
Changes in Net Position**

	Governmental Activities	
	2016	2015
Revenues:		
Program Revenues:		
Charges for Services and Sales	\$1,473,842	\$1,882,748
Operating Grants and Contributions	1,543,617	1,417,217
Total Program Revenues	<u>3,017,459</u>	<u>3,299,965</u>
General Revenues:		
Property Taxes	5,880,458	5,497,572
Grants and Entitlements	2,785,869	2,781,781
Other	253,259	48,234
Total General Revenues	<u>8,919,586</u>	<u>8,327,587</u>
Total Revenues	<u>11,937,045</u>	<u>11,627,552</u>
Program Expenses:		
Instruction	5,826,328	5,297,753
Support Services:		
Pupil and Instructional Staff	1,205,417	1,402,359
School Administrative, General		
Administration, Fiscal and Business	1,964,252	2,101,378
Operations and Maintenance	1,745,379	1,861,478
Pupil Transportation	23,791	18,464
Central	454,140	581,633
Operation of Non-Instructional Services	215,187	245,935
Extracurricular Activities	7,336	7,205
Interest and Fiscal Charges	166,207	148,333
Issuance Cost	37,765	0
Total Program Expenses	<u>11,645,802</u>	<u>11,664,538</u>
Changes in Net Position	291,243	(36,986)
Net Position - Beginning of Year	<u>3,370,199</u>	<u>3,407,185</u>
Net Position - End of Year	<u>\$3,661,442</u>	<u>\$3,370,199</u>

The District revenues came from mainly two sources. Property taxes levied for general purposes and debt service, as well as grants and entitlements comprised 97% of the District's revenues for governmental activities.

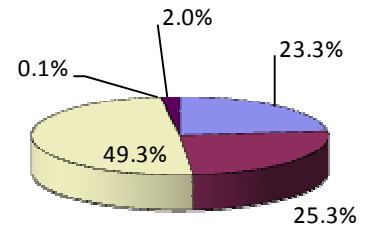
The District depends greatly on property taxes as a revenue source. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenues generated by a levy will not increase solely as a result of inflation. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home were reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

**Auburn Vocational School District
 Management’s Discussion and Analysis
 For the Fiscal Year Ended June 30, 2016
 (Unaudited)**

Property taxes made up 49% of governmental activities for the District in fiscal year 2016. The District’s reliance upon tax revenues is demonstrated in the following graph:

**Governmental Activities
 Revenue Sources**

<u>Revenue Sources</u>	<u>2016</u>	<u>Percent of Total</u>
General Grants	\$2,785,869	23.3%
Program Revenues	3,017,459	25.3%
General Tax Revenues	5,880,458	49.3%
Investment Earnings	7,200	0.1%
Other Revenues	246,059	2.0%
	<u>\$11,937,045</u>	<u>100.0%</u>



Instruction comprises 50% of governmental program expenses. Support services expenses were 48% of governmental program expenses. All other expenses were 2%.

Property tax revenues increased from the prior year mainly due to an increase in property tax advances available. Total Expenses decreased due to decreases in instruction and support expenses.

Governmental Activities

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

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**Auburn Vocational School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)**

**Table 3
Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	2016	2015	2016	2015
Instruction	\$5,826,328	\$5,297,753	(\$4,032,483)	(\$3,125,921)
Support Services:				
Pupil and Instructional Staff	1,205,417	1,402,359	(887,758)	(1,018,240)
School Administrative, General				
Administration, Fiscal and Business	1,964,252	2,101,378	(1,580,699)	(1,758,187)
Operations and Maintenance	1,745,379	1,861,478	(1,477,468)	(1,594,260)
Pupil Transportation	23,791	18,464	(23,791)	(18,464)
Central	454,140	581,633	(352,488)	(572,026)
Operation of Non-Instructional Services	215,187	245,935	(62,348)	(121,937)
Extracurricular Activities	7,336	7,205	(7,336)	(7,205)
Interest and Fiscal Charges	166,207	148,333	(166,207)	(148,333)
Issuance Cost	37,765	0	(37,765)	0
Total Expenses	<u>\$11,645,802</u>	<u>\$11,664,538</u>	<u>(\$8,628,343)</u>	<u>(\$8,364,573)</u>

The District's Funds

The District has two major funds: the General Fund and the Adult Education Fund. Assets of the general fund comprised \$12,176,789 (93%) and assets of the adult education fund comprised \$136,719 (1%) of the total \$13,108,876 governmental funds' assets.

General Fund: Fund balance at June 30, 2016 was \$5,749,358 including \$4,252,005 of unassigned balance. The primary reason for the increase in fund balance is due to revenues being more than expenses.

Adult Education Fund: Fund balance at June 30, 2016 was \$(1,042,274) including \$(1,042,324) of unassigned balance. The Fund balance remained constant with prior year.

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. The District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management. During the course of the year, the District revised the Budget in an attempt to deal with unexpected changes in revenues and expenditures.

**Auburn Vocational School District
Management’s Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)**

For the General Fund, the original budget basis revenue was \$9,105,238, compared to final budget estimates of \$8,893,588. Of this \$258,310 difference, most was due to overestimating taxes and intergovernmental revenues in the original budget.

For the General Fund, the original budget basis expenditures were \$8,821,751, compared to final budget estimates of \$7,942,985. The difference between the original budget basis and final budget were due to underestimates in instructional and operations and maintenance expenditures.

The District’s ending unobligated actual fund balance for the general fund was \$10,942 above the final budgeted amount.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2016, the District had \$18,290,081 invested in land, land improvements, buildings and improvements, equipment and vehicles. Table 4 shows fiscal 2016 balances compared to 2015:

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

	<u>Governmental Activities</u>	
	<u>2016</u>	<u>2015</u>
Land	\$2,089,087	\$2,089,087
Construction in Progress	0	608,931
Land Improvements	662,272	329,006
Buildings and Improvements	14,200,541	13,719,338
Equipment	1,307,728	1,156,803
Vehicles	<u>30,453</u>	<u>28,229</u>
Total Net Capital Assets	<u>\$18,290,081</u>	<u>\$17,931,394</u>

The overall increase in capital assets is due to current year additions exceeding current year depreciation expense and disposals.

See Note 9 to the basic financial statements for further details on the District’s capital assets.

Debt

At June 30, 2016, the District had no outstanding debt.

See Note 19 to the basic financial statements for further details on the District’s other long term liabilities.

**Auburn Vocational School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)**

For the Future

The District has a strong financial position. The Board of Education and the administration closely monitor the District's revenues and expenditures in accordance with its financial forecast and the District's Continuous Improvement Plan.

The District's financial future is not without challenges, though. The nature of school funding in Ohio severely restricts the growth in the District's operating revenues and requires the District periodically seek additional funds from the taxpayers to offset rising operating costs.

In addition, the problem of limited growth in revenue, school districts are faced with the challenge of losing traditional sources of tax revenue through the Ohio General Assembly legislative actions.

Financial aid from the State of Ohio through the State Foundation Program has not been a major source of operating revenue for the District. Because the District is considered a wealthy district in terms of property values, it receives a relatively small amount of revenue from the State to fund operating expenses.

As a result of the challenges mentioned above, the District's administration and the District Finance Committee continue to carefully plan its expenditures to provide adequate resources to meet student needs over the next several years. The administration and the District's Task Force are currently reviewing all programs and services provided to students with the goal of reducing operating costs.

Contacting the District's Financial Management

This report is designed to provide our citizens, taxpayers 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 any questions about this report or need additional financial information, contact Sherry Williamson, Treasurer, at Auburn Vocational School District, 8140 Auburn Road, Concord Township, Ohio 44077.

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Auburn Vocational School District, Ohio
Statement of Net Position
June 30, 2016

	Governmental Activities
Assets:	
Equity in Pooled Cash and Investments	\$5,170,541
Restricted Cash and Investments	283,765
Receivables:	
Taxes	6,177,925
Accounts	8,405
Intergovernmental	60,612
Property Held for Resale	174,081
Prepaid Items	2,474
Inventory	17,189
Nondepreciable Capital Assets	2,089,087
Depreciable Capital Assets, Net	<u>16,200,994</u>
 Total Assets	 <u>30,185,073</u>
Deferred Outflows of Resources:	
Pension	<u>2,108,796</u>
 Total Deferred Outflows of Resources	 <u>2,108,796</u>
Liabilities:	
Accounts Payable	84,249
Contracts Payable	123,087
Retainage Payable	40,296
Accrued Interest Payable	10,466
Accrued Wages	635,124
Long-Term Liabilities:	
Due Within One Year	450,658
Due In More Than One Year:	
Net Pension Liability	14,379,555
Other Amounts	<u>5,696,422</u>
 Total Liabilities	 <u>21,419,857</u>
Deferred Inflows of Resources:	
Property Taxes	5,325,865
Pension	<u>1,886,705</u>
 Total Deferred Inflows of Resources	 <u>7,212,570</u>
Net Position:	
Net Investment in Capital Assets	12,669,942
Restricted for:	
Capital Projects	209,511
Other Grant Programs	429,192
Federally Funded Programs	8,510
Food Service	450
Unrestricted	<u>(9,656,163)</u>
 Total Net Position	 <u>\$3,661,442</u>

See accompanying notes to the basic financial statements.

Auburn Vocational School District, 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:				
Special	\$370,994	\$0	\$0	(\$370,994)
Vocational	4,478,100	47,566	701,108	(3,729,426)
Adult/Continuing	957,356	728,779	316,392	87,815
Other	19,878	0	0	(19,878)
Support Services:				
Pupil	975,397	114,508	119,162	(741,727)
Instructional Staff	230,020	0	83,989	(146,031)
Board of Education	189,477	0	0	(189,477)
Administration	1,297,736	247,551	110,359	(939,826)
Fiscal	476,949	20,922	4,721	(451,306)
Business	90	0	0	(90)
Operations and Maintenance	1,745,379	206,045	61,866	(1,477,468)
Pupil Transportation	23,791	0	0	(23,791)
Central	454,140	0	101,652	(352,488)
Other Non-instructional services	215,187	108,471	44,368	(62,348)
Extracurricular Activities	7,336	0	0	(7,336)
Interest and Fiscal Charges	166,207	0	0	(166,207)
Issuance Cost	37,765	0	0	(37,765)
Totals	\$11,645,802	\$1,473,842	\$1,543,617	(8,628,343)

General Revenues:	
Property Taxes Levied for:	
General Purposes	5,404,795
Debt Service Purposes	475,663
Grants and Contributions not restricted	2,785,869
Investment Earnings	7,200
Other Revenues	246,059
Total General Revenues	8,919,586
Change in Net Position	291,243
Net Position - Beginning of Year	3,370,199
Net Position - End of Year	\$3,661,442

See accompanying notes to the basic financial statements.

Auburn Vocational School District, Ohio
Balance Sheet
Governmental Funds
June 30, 2016

	General	Adult Education	Other Governmental Funds	Total Governmental Funds
Assets:				
Equity in Pooled Cash and Investments	\$4,546,104	\$136,669	\$487,768	\$5,170,541
Restricted Cash and Investments	0	0	283,765	283,765
Receivables:				
Taxes	6,177,925	0	0	6,177,925
Accounts	87	0	8,318	8,405
Intergovernmental	51,010	0	9,602	60,612
Interfund	1,213,884	0	0	1,213,884
Property Held for Resale	174,081	0	0	174,081
Prepaid Items	2,417	50	7	2,474
Inventory	11,281	0	5,908	17,189
Total Assets	12,176,789	136,719	795,368	13,108,876
Liabilities:				
Accounts Payable	69,915	11,093	3,241	84,249
Contracts Payable	87,866	0	35,221	123,087
Accrued Wages	620,643	12,900	1,581	635,124
Retainage Payable	0	0	40,296	40,296
Interfund Payable	0	1,155,000	58,884	1,213,884
Total Liabilities	778,424	1,178,993	139,223	2,096,640
Deferred Inflows of Resources:				
Property Taxes	5,649,007	0	0	5,649,007
Grants	0	0	1,736	1,736
Total Deferred Inflows of Resources	5,649,007	0	1,736	5,650,743
Fund Balances:				
Nonspendable	1,342,779	50	7	1,342,836
Restricted	0	0	654,402	654,402
Assigned	154,574	0	0	154,574
Unassigned	4,252,005	(1,042,324)	0	3,209,681
Total Fund Balances	5,749,358	(1,042,274)	654,409	5,361,493
Total Liabilities, Deferred Inflows and Fund Balances	\$12,176,789	\$136,719	\$795,368	\$13,108,876

See accompanying notes to the basic financial statements.

Auburn Vocational School District, Ohio
 Reconciliation of Total Governmental Fund Balance to
 Net Position of Governmental Activities
 June 30, 2016

Total Governmental Fund Balance \$5,361,493

Amounts reported for governmental activities in the
 statement of net position are different because:

Capital assets used in governmental activities are not financial
 resources and, therefore, are not reported in the funds.

Capital assets used in the operation of Governmental Funds 18,290,081

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

Delinquent Property Taxes	323,142	
Intergovernmental	<u>1,736</u>	
		324,878

In the statement of net position interest payable is accrued when
 incurred; whereas, in the governmental funds interest is
 reported as a liability only when it will require the use of
 current financial resources. (10,466)

Some liabilities reported in the statement of net position do not
 require the use of current financial resources and, therefore,
 are not reported as liabilities in governmental funds.

Compensated Absences (526,941)

Deferred outflows and inflows or resources related to pensions
 are applicable to future periods and, therefore, are not
 reported in the funds.

Deferred outflows of resources related to pensions	2,108,796	
Deferred inflows of resources related to pensions	<u>(1,886,705)</u>	
		222,091

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

Net Pension Liability	(14,379,555)	
Other Amounts	<u>(5,620,139)</u>	
		<u>(19,999,694)</u>

Net Position of Governmental Activities \$3,661,442

See accompanying notes to the basic financial statements.

Auburn Vocational School District, Ohio
Statement of Revenues, Expenditures
and Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended June 30, 2016

	General	Adult Education	Other Governmental Funds	Total Governmental Funds
Revenues:				
Property and Other Taxes	\$5,326,913	\$0	\$475,663	\$5,802,576
Tuition and Fees	47,567	1,215,436	0	1,263,003
Investment Earnings	5,937	0	1,263	7,200
Intergovernmental	2,853,667	274,265	1,169,882	4,297,814
Charges for Services	52,504	0	75,902	128,406
Other Revenues	301,153	47,029	10,246	358,428
Total Revenues	8,587,741	1,536,730	1,732,956	11,857,427
Expenditures:				
Current:				
Instruction:				
Special	382,000	0	0	382,000
Vocational	3,512,650	0	397,091	3,909,741
Adult/Continuing	0	831,325	143,884	975,209
Other	0	9,076	657	9,733
Support Services:				
Pupil	775,661	159,841	90,239	1,025,741
Instructional Staff	2,750	0	103,502	106,252
Board of Education	189,006	0	0	189,006
Administration	972,696	324,275	22,387	1,319,358
Fiscal	442,053	27,682	0	469,735
Business	90	0	0	90
Operations and Maintenance	1,209,366	113,938	26,286	1,349,590
Pupil Transportation	11,755	0	0	11,755
Central	370,710	0	44,301	415,011
Other Non-instructional services	28,716	0	219,854	248,570
Extracurricular Activities	7,563	0	0	7,563
Capital Outlay	302,565	0	1,092,231	1,394,796
Debt Service:				
Principal Retirement	18,492	0	340,000	358,492
Interest and Fiscal Charges	31,386	0	135,663	167,049
Issuance Cost	0	0	37,765	37,765
Total Expenditures	8,257,459	1,466,137	2,653,860	12,377,456
Excess of Revenues Over (Under) Expenditures	330,282	70,593	(920,904)	(520,029)
Other Financing Sources (Uses):				
Proceeds of Capital Leases	0	0	1,330,000	1,330,000
Transfers In	0	0	106,928	106,928
Transfers (Out)	(106,928)	0	0	(106,928)
Total Other Financing Sources (Uses)	(106,928)	0	1,436,928	1,330,000
Net Change in Fund Balance	223,354	70,593	516,024	809,971
Fund Balance - Beginning of Year	5,526,004	(1,112,867)	138,385	4,551,522
Fund Balance - End of Year	\$5,749,358	(\$1,042,274)	\$654,409	\$5,361,493

See accompanying notes to the basic financial statements.

Auburn Vocational School District, Ohio
 Reconciliation of the Statement of Revenues, Expenditures, and Changes
 in Fund Balance of Governmental Funds to the Statement of Activities
 For the Fiscal Year Ended June 30, 2016

Net Change in Fund Balance - Total Governmental Funds \$809,971

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital asset additions as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of the difference between capital asset additions and depreciation in the current period.

Capital assets used in governmental activities	1,181,269	
Depreciation Expense	<u>(996,663)</u>	184,606

Governmental funds report district pension contributions as expenditures. However in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.

District pension contributions	740,405	
Cost of benefits earned net of employee contributions	<u>(638,925)</u>	101,480

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

Delinquent Property Taxes	77,882	
Intergovernmental	<u>(4,987)</u>	72,895

Repayment of bond and lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

358,492

In the statement of activities interest expense is accrued when incurred; whereas, in governmental funds an interest expenditure is reported when due.

842

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Compensated Absences		92,957
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Proceeds from debt issues are an other financing source in the funds, but a debt issue increases long-term liabilities in the statement of net position.

(1,330,000)

Change in Net Position of Governmental Activities

\$291,243

See accompanying notes to the basic financial statements.

Auburn Vocational School District, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2016

	General Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Revenues:				
Taxes	\$6,034,957	\$5,894,676	\$5,906,447	\$11,771
Tuition and Fees	\$48,602	\$47,472	\$47,567	\$95
Investment Earnings	8,872	8,666	8,683	17
Intergovernmental	2,857,848	2,791,418	2,796,992	5,574
Charges for Services	20,369	19,895	19,935	40
Other Revenues	134,590	131,461	131,724	263
Total Revenues	9,105,238	8,893,588	8,911,348	17,760
Expenditures:				
Current:				
Instruction:				
Special	397,934	358,577	358,577	0
Vocational	3,488,098	3,143,117	3,143,117	0
Support Services:				
Pupil	856,511	771,800	771,800	0
Instructional Staff	3,053	2,751	2,751	0
General Administration	219,305	197,615	197,615	0
School Administration	1,033,303	931,107	931,107	0
Fiscal	495,692	446,667	446,667	0
Business	100	90	90	0
Operations and Maintenance	1,369,140	1,233,729	1,233,729	0
Pupil Transportation	13,346	12,026	12,026	0
Central	366,940	330,649	330,649	0
Operation of Non-Instructional Services	7	6	6	0
Extracurricular Activities	8,393	7,563	7,563	0
Capital Outlay	514,577	463,684	463,684	0
Debt Service:				
Principal Retirement	18,492	18,492	18,492	0
Interest and Fiscal Charges	36,860	31,386	31,386	0
Total Expenditures	8,821,751	7,949,259	7,949,259	0
Excess of Revenues Over (Under) Expenditures	283,487	944,329	962,089	17,760
Other Financing Sources (Uses):				
Advances In	9,710	9,484	9,503	19
Advances (Out)	(65,347)	(58,884)	(58,884)	0
Transfers (Out)	(726,223)	(654,398)	(654,398)	0
Total Other Financing Sources (Uses)	(781,860)	(703,798)	(703,779)	19
Net Change in Fund Balance	(498,373)	240,531	258,310	17,779
Fund Balance - Beginning of Year (includes prior year encumbrances appropriated)	4,109,325	4,109,325	4,109,325	0
Fund Balance - End of Year	\$3,610,952	\$4,349,856	\$4,367,635	\$17,779

See accompanying notes to the basic financial statements.

Auburn Vocational School District, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2016

	Adult Education Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Revenues:				
Tuition and Fees	\$1,547,482	\$1,206,996	\$1,215,436	8,440
Intergovernmental	349,192	272,361	274,265	1,904
Other Revenues	67,105	52,340	52,706	366
Total Revenues	1,963,779	1,531,697	1,542,407	10,710
Expenditures:				
Current:				
Instruction:				
Adult/Continuing	1,104,960	988,190	986,130	2,060
Support Services:				
Pupil	169,762	151,821	151,505	316
School Administration	367,780	328,914	328,228	686
Fiscal	31,018	27,740	27,682	58
Operations and Maintenance	152,164	136,084	135,800	284
Total Expenditures	1,825,684	1,632,749	1,629,345	3,404
Net Change in Fund Balance	138,095	(101,052)	(86,938)	14,114
Fund Balance - Beginning of Year (includes prior year encumbrances appropriated)	202,399	202,399	202,399	0
Fund Balance - End of Year	\$340,494	\$101,347	\$115,461	\$14,114

See accompanying notes to the basic financial statements.

Auburn Vocational School District, Ohio
Statement of Fiduciary Net Position
Fiduciary Fund
June 30, 2016

	<u>Agency</u>
Assets:	
Equity in Pooled Cash and Investments	<u>\$98,097</u>
Total Assets	<u>98,097</u>
Liabilities:	
Accounts Payable	1,404
Other Liabilities	<u>96,693</u>
Total Liabilities	<u>\$98,097</u>

See accompanying notes to the basic financial statements.

**Auburn Vocational School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016**

Note 1 – Description of the District

The Auburn Vocational 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. Auburn Vocational School District is a joint vocational school district as defined by Section 3311.18 of the Ohio Revised Code. This District operates under an elected Board of Education (11 members) and is responsible for the provision of public education to residents of the District.

Average daily membership (ADM) as of June 30, 2016 was 584. The District employed 59 certificated employees and 30 non-certificated employees.

Reporting Entity

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the basic financial statements are not misleading. The primary government of the District consists of only the funds of those organizational entities for which its elected governing body is financially accountable. For the District, this includes education, pupil transportation, food service and maintenance of the District facilities.

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; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or 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. The District has no component units.

The District participates in two jointly governed organizations, a claims servicing pool and an insurance purchasing pool. These organizations are the Ohio Schools Council, the Ohio School Boards Association Workers’ Compensation Group Retrospective Rating Program, the Lake-Geauga Computer Association and Health Care Benefits Program of Lake County Schools Council. These organizations are discussed in Notes 10, 14 and 15 to the basic financial statements.

Note 2 – Summary of Significant Accounting Policies

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

Basis of Presentation

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

Auburn Vocational School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

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

Fund Financial Statements

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

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. For fiscal year 2016, 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 and deferred outflows of resources and liabilities and deferred inflows of resources is reported as fund balance. The following are the District's major governmental funds:

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

Auburn Vocational School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Adult Education Fund – The adult education special revenue fund is used to account for grants and tuition associated with providing education to adults.

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

Fiduciary Funds

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

Measurement Focus

Government-wide Financial Statements

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

Fund Financial Statements

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

Basis of Accounting

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

Auburn Vocational School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Revenues – Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the 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 8). 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 fiscal 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.

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes 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, deferred outflows of resources are reported on the government-wide statement of net position for pension. The deferred outflows of resources related to pension are explained in Note 11.

In addition to liabilities, the statement of net position reports 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 pension. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2016, but which were levied to finance the fiscal year 2017 operations. These amounts have been recorded as deferred inflows on both the government-wide statement of net position and the governmental fund financial statements. Deferred inflows of resources related to pension are reported on the government-wide statement of net position. (See Note 11)

Auburn Vocational School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

Cash and Investments

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

During fiscal year 2016, investments were limited to STAR Ohio. Except for non-participating investment contracts, investments are reported at fair value, which is based on quoted market prices. Non-participating investment contracts are reported at cost.

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

Following Ohio statues, 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 the fiscal year 2016 amounted to \$5,937 in the general fund, and \$1,263 in other governmental funds.

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 presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months, not purchased from the pool, are reported as investments.

Restricted Assets

Assets are reported as restricted when limitations on their use change in nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws or other governments or imposed by enabling legislation. There are no restricted assets in 2016.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2016 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Auburn Vocational School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Inventory

Inventories are presented at the lower of cost or market on a first-in, first-out basis and are expended/expensed when used. Inventories consist of donated foods, purchased foods, school supplies and homes being built by students held for resale and material and supplies for consumption.

Capital Assets

All capital assets are classified as general capital assets. These assets generally result from expenditures in the governmental funds. They are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements.

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$5,000. 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.

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

<u>Description</u>	Governmental Activities <u>Estimated Lives</u>
Land Improvements	5 - 20 years
Building and Building Improvements	10 - 50 years
Furniture and Equipment	5 - 10 years
Vehicles	10 years
Library and Text Books	6 years

Net Pension Liability And Pension Expense

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.

The current accounting standard requires School District's to report their proportionate share of the net pension liability using the earning approach to pension accounting instead of the funding approach as previously used. The funding 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. Under the new standards, the net pension liability equals the District's proportionate share of each plan's collective present value of estimated future pension benefits attributable to active and inactive employees' past service minus plan assets available to pay these benefits.

Auburn Vocational School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Pension obligations, whether funded or unfunded, are part of the employment exchange. The employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. The unfunded portion of this benefit of exchange is a liability of the District. However, the District is not responsible for key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Benefit provisions and both employer and employee contribution rates are determined by State statute. The employee and employer enter the employment exchange with the knowledge that the exchange is limited by law. The pension system is responsible for the administration of the plan.

There is no repayment schedule for the net pension liability. The District has no control over the changes in the pension benefits, contributions rate, and return on investments affecting the balance of the net pension liability. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not identify the responsible party for the unfunded portion. Due to the unique nature of how the pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the 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 payments. The liability is an estimate based on the District's past experience of making termination payments. The entire compensated absences liability is reported on the government-wide financial statements.

Accrued Liabilities and Long Term Obligations

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

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

Net Position

Net position represents the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation. Net position is reported as restricted when there are limitations imposed on their 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 District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Auburn Vocational School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

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

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

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

Assigned – Assigned fund balance classifications are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. The purpose constraint that represents the intended use is established by the Board of Education or by their designated official. 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 or by State statute. The Treasurer is authorized to assign fund balance using encumbrances for planned purchases, provided such amounts have been lawfully appropriated. The Board of Education may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year’s appropriated budget.

Unassigned – Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance 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 either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Auburn Vocational School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

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 financial statements.

Estimates

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

Budgetary Data

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting.

The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level for all funds. The Treasurer has been given the authority to allocate Board appropriations to the function and object levels.

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

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

Note 3 – Fund Balances

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

Auburn Vocational School District
Notes to the Basic Financial Statements
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Fund Balances	General	Adult Education	Other Governmental Funds	Total
Nonspendable on:				
Materials and Supplies Inventory	\$11,281	\$0	\$0	\$11,281
Property Held for Resale	174,081	0	0	174,081
Prepays	2,417	50	7	2,474
Long Term Advances	1,155,000	0	0	1,155,000
Total Nonspendable	1,342,779	50	7	1,342,836
Restricted for:				
Lake County Family & Children Wellness Block	0	0	429,192	429,192
Construction Fund	0	0	209,511	209,511
Adult Basic Education	0		7,049	7,049
Lunchroom	0	0	8,650	8,650
Total Restricted	0	0	654,402	654,402
Assigned to:				
Public Schools	2,661	0	0	2,661
Budgetary Resource	148,584	0	0	148,584
Encumbrances	3,329	0	0	3,329
Total Assigned	154,574	0	0	154,574
Unassigned	4,252,005	(1,042,324)	0	3,209,681
Total Fund Balance	\$5,749,358	(\$1,042,274)	\$654,409	\$5,361,493

Note 4 – Accountability

The following funds had a deficit fund balance as of June 30, 2016:

	Amount
Special revenue funds:	
Adult education	\$1,042,274

The general fund is responsible to cover deficit fund balances by means of a transfer or advance. However, this is done when cash is needed rather than when accruals occur.

Note 5 – Budgetary Basis of Accounting

While the District is reporting financial position, results of operations and changes in fund balance/retained earnings on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balances – Budget (Non-GAAP Basis) and Actual presented for the general fund and the adult

Auburn Vocational School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

education special revenue fund are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are as follows:

- (1) Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
- (2) Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
- (3) Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).
- (4) Encumbrances are treated as expenditures (budget basis) rather than assigned or restricted fund balance (GAAP basis).
- (5) The revenues, expenditures and other financing sources and uses of the general fund include activity that is budgeted within special revenue funds (GAAP basis). However, on the budgetary basis, the activity of the special revenue funds is excluded resulting in perspective differences.

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund.

	Net Change in Fund Balance	
	General	Adult Education
GAAP Basis	\$223,354	\$70,593
Revenue Accruals	322,357	5,677
Expenditure Accruals	371,556	(141,702)
Proceeds of Capital Assets	1,250	0
Transfers Out	(547,470)	0
Advances In	9,503	0
Advances Out	(58,884)	0
Encumbrances	(59,426)	(21,506)
Funds Budgeted Elsewhere	(3,930)	0
Budget Basis	\$258,310	(\$86,938)

Note 6 – 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.

Auburn Vocational School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

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 within five years 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 division (1) or (2) of this section 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 bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days 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 interest rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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.

Auburn Vocational School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Cash on hand – At fiscal year end, the District had \$400 in undeposited cash on hand, which is included in the balance sheet of the District as part of equity in pooled cash and cash investments.

Deposits

As of June 30, 2016, \$3,246,439 of the District’s bank balance of \$4,719,736 was exposed to custodial credit risk.

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 the 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 a specific collateral held at the Federal Reserve Bank in the name of the District.

Investments

Investments are reported at fair value. As of June 30, 2016, the District had the following investments:

	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
STAR Ohio	\$889,522	0.13
Total Fair Value	<u>\$889,522</u>	

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs. The above table identifies the District’s recurring fair value measurements as of June 30, 2016. STAR Ohio is reported at its share price.

Interest Rate Risk – It is the possibility that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses caused by rising interest rates, the District’s investment policy requires that operating funds be invested primarily in investments so that the securities mature to meet cash requirements for ongoing operations and long-term debt payments. The stated intent of the policy is to avoid the need to sell securities prior to maturity. To date, no investments have been purchased with a life greater than four years.

Credit Risk – It is the possibility that an issuer or other counterparty to an investment will not fulfill its obligation. STAR Ohio also 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 rating service.

Auburn Vocational School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 7 – 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, public utility and tangible personal property (used for public utility) located in the District. Real property tax revenue received in calendar 2016 represents collections of calendar year 2015 taxes. Real property taxes received in calendar year 2016 were levied after April 1, 2015, on the assessed value listed as of January 1, 2015, the lien date. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2016 represents collections of calendar year 2015 taxes. Public utility real and tangible personal property taxes received in calendar year 2016 became a lien December 31, 2014, were levied after April 1, 2015 and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

The District receives property taxes from Lake County, Geauga County and Trumbull 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 to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property and public utility property taxes which are measurable as of June 30, 2016 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred inflows of resources – property taxes.

The amount available as an advance at June 30, 2016, was \$528,918 in the general fund. The amount available as an advance at June 30, 2015, was \$632,789 in the general fund.

On the accrual basis, collectible delinquent property taxes have been recorded as revenue on the statement of activities.

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

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Auburn Vocational School District
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For the Fiscal Year Ended June 30, 2016

	<u>Lake County</u>	<u>Geauga County</u>	<u>Trumbull County</u>
Real property - 2015 valuations			
Residential/agricultural	\$1,798,547,030	\$1,773,064,580	\$5,705
Other	319,405,230	294,969,570	154
Tangible and Public Utility Personal			
Public utilities	<u>211,558,600</u>	<u>66,739,860</u>	<u>110</u>
Total	<u><u>\$2,329,510,860</u></u>	<u><u>\$2,134,774,010</u></u>	<u><u>\$5,969</u></u>

Note 8 – Receivables

Receivables at June 30, 2016 consisted of taxes, accounts, interfund 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 fiscal year guarantee of Federal funds.

Note 9 – Capital Assets and Property Held for Resale

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Governmental Activities				
Capital Assets, not being depreciated:				
Land	\$2,089,087	\$0	\$0	\$2,089,087
Construction in Progress	608,931	150,770	759,701	0
Capital Assets, being depreciated:				
Land Improvements	1,065,286	377,179	0	1,442,465
Buildings and Improvements	22,470,240	1,177,721	0	23,647,961
Furniture, Fixtures and Equipment	6,203,563	394,081	0	6,597,644
Vehicles	<u>164,931</u>	<u>15,300</u>	<u>0</u>	<u>180,231</u>
Totals at Historical Cost	<u><u>32,602,038</u></u>	<u><u>2,115,051</u></u>	<u><u>759,701</u></u>	<u><u>33,957,388</u></u>
Less Accumulated Depreciation:				
Land Improvements	736,280	43,913	0	780,193
Building Improvements	8,750,902	696,518	0	9,447,420
Furniture, Fixtures and Equipment	5,046,760	243,156	0	5,289,916
Vehicles	<u>136,702</u>	<u>13,076</u>	<u>0</u>	<u>149,778</u>
Total Accumulated Depreciation	<u><u>14,670,644</u></u>	<u><u>996,663</u></u>	<u><u>0</u></u>	<u><u>15,667,307</u></u>
Governmental Activities Capital Assets, Net	<u><u>\$17,931,394</u></u>	<u><u>\$1,118,388</u></u>	<u><u>\$759,701</u></u>	<u><u>\$18,290,081</u></u>

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**Auburn Vocational School District
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For the Fiscal Year Ended June 30, 2016**

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Vocational	\$447,600
Adult Education	6,279
Support Services:	
Pupils	3,987
Instructional Staff	119,500
School Administration	2,492
Fiscal	199
Operations and Maintenance	374,347
Pupil Transportation	299
Central	37,973
Operation of Non-Instructional Services	<u>3,987</u>
Total Depreciation Expense	<u><u>\$996,663</u></u>

Property Held for Resale

Property held for resale of \$174,081 was purchased by the District for housing projects built by the District students. Proceeds from the sale of the land and house will be used for subsequent projects. The sale date of the property cannot be estimated, therefore is included as a long-term asset.

	<u>Balance</u> <u>June 30, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2016</u>
Governmental Activities				
Property held for resale	<u>\$174,081</u>	<u>\$0</u>	<u>\$0</u>	<u>\$174,081</u>

Note 10 – Risk Management

Property and Liability

The District has contracted with an independent third party for their property and casualty insurance program. The program includes property insurance (which includes flood, earthquake, inland marine, crime and boiler and machinery), general liability insurance with limits of \$1,000,000 each occurrence and \$2,000,000 aggregate and sexual misconduct and molestation insurance and school leaders E&O insurance with limits of \$1,000,000 each occurrence and aggregate. The auto liability insurance coverage has limits of \$1,000,000 combined single limit each accident. The District's property and casualty insurance program also has an umbrella liability insurance policy with limits of \$5,000,000 each occurrence and \$5,000,000 aggregate.

The liability policy insures the District, the Board, the board members, administrators, employees, and volunteers with respect to their duties in connection with the District.

Auburn Vocational School District
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For the Fiscal Year Ended June 30, 2016

Settled claims have not exceeded the property and casualty coverage in any of the last three years. There has not been a reduction in coverage from the prior year.

Workers' Compensation

The District participates in the Ohio School Boards Association Workers' Compensation Group Retrospective Rating Program (GRRP), an insurance rating pool. The intent of the GRRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRRP.

A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement ensures that each participant shares equally in the overall performance of the GRRP. Participation in the GRRP is limited to school districts that can meet the GRRP's selection criteria. The firm of Sheakley Uniservice provides administrative, cost control and actuarial services to the GRRP.

Note 11 - Defined Benefit Pension Plans

Net Pension Liability

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 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.

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.

**Auburn Vocational School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016**

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit Age 65 with 5 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, 2.5 percent for years of service credit over 30 or \$86.00 multiplied by the years of service credit. 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 allocation to pension, death benefits, and Medicare B was 14 percent. None of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The District’s contractually required contribution to SERS was \$228,702 for fiscal year 2016. Of this amount \$47,274 is reported as accrued wages and benefits.

Auburn Vocational School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Plan Description - State Teachers Retirement System (STRS)

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

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

Auburn Vocational School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

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 \$602,657 for fiscal year 2016. Of this amount \$43,680 is reported as accrued wages and benefits.

Net Pension Liability

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:

	SERS	STRS	Total
Proportionate Share of the Net Pension Liability	\$2,857,551	\$11,522,004	\$14,379,555
Proportion of the Net Pension Liability	0.05007890%	0.04169039%	
Pension Expense	164,546	515,603	680,149

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

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Auburn Vocational School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$45,964	\$527,010	\$572,974
Net difference between projected and actual earnings on pension plan investments	213,833	578,380	792,213
Changes in employer proportion and differences between contributions and proportionate share of contributions	48	(1,752)	(1,704)
Changes in employer proportionate share of net pension liability	4,908	0	4,908
District contributions subsequent to the measurement date	<u>181,428</u>	<u>558,977</u>	<u>740,405</u>
Total Deferred Outflows of Resources	<u>\$446,181</u>	<u>\$1,662,615</u>	<u>\$2,108,796</u>
Deferred Inflows of Resources			
Net difference between projected and actual earnings on pension plan investments	\$307,602	\$1,440,706	\$1,748,308
Changes in employer proportion and differences between contributions and proportionate share of contributions	911	(33,676)	(32,765)
Changes in employer proportionate share of net pension liability	<u>0</u>	<u>171,162</u>	<u>171,162</u>
Total Deferred Inflows of Resources	<u>\$308,513</u>	<u>\$1,578,192</u>	<u>\$1,886,705</u>

\$740,405 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:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2017	(\$27,714)	(\$300,550)	(\$328,264)
2018	(27,715)	(300,550)	(328,265)
2019	(27,715)	(300,551)	(328,266)
2020	<u>39,384</u>	<u>427,097</u>	<u>466,481</u>
Total	<u>(\$43,760)</u>	<u>(\$474,554)</u>	<u>(\$518,314)</u>

**Auburn Vocational School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016**

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 percent to 22 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

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

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

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted 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:

**Auburn Vocational School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016**

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
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	100.00 %	

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	\$3,962,396	\$2,857,551	\$1,927,180

Actuarial Assumptions - STRS

The total pension liability in the July 1, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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Auburn Vocational School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

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

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males’ ages are set-back two years through age 89 and 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>100.00 %</u>	

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.

Auburn Vocational School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$16,004,933	\$11,522,004	\$7,731,019

Note 12 - Post Employment Benefits

School Employees Retirement System

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

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, 0.00 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2016, this amount was \$23,000. Statutes provides 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 \$12,107.

Auburn Vocational School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

The District's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$29,867, and \$22,683, respectively. The full amount has been contributed for fiscal years 2016 and 2014, and 37.52 percent has been contributed in 2015.

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 Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2016, 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 \$46,670, and \$46,756 respectively. The full amount has been contributed for fiscal years 2016, 2015, and 2014.

Note 13 – Employee Benefits

Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers and administrators do not earn vacation time. Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. Upon retirement, an employee is paid for the accumulated sick days over 30 days up to a maximum of 300 accumulated sick days.

Note 14 – Jointly Governed Organizations

Ohio Schools Council

The Ohio Schools Council (Council) is a jointly governed organization among 200 school districts, educational service centers, joint vocational school districts, and developmental disabilities boards in thirty-five northern Ohio counties. The jointly governed organization was formed to purchase quality products and services at the lowest possible cost to its members. Each member supports the Council by paying an annual participation fee. The Council's Board consists of nine superintendents of the participating districts whose term rotates every year. The degree of control exercised by any school district is limited to its representation on the Board. During fiscal year 2016, the District paid the Council \$84,520 for natural gas purchases, and \$7,314 for membership fees, co-operative purchasing and other services. Financial information can be obtained by contacting William Zelei, the Executive Director of the Ohio Schools Council at 6393 Oak Tree Blvd., Suite 377, Independence, Ohio 44131.

**Auburn Vocational School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016**

Lake-Geauga Computer Association

The Lake-Geauga Computer Association (LGCA) is a jointly governed organization that was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. The executive committee (governing board) consists of the superintendents and treasurers of the member school districts. Each of the governments of these schools supports LGCA based on a per pupil charge. The degree of control exercised by any participating school district is limited to its representation on the Assembly. Continued existence of the LGCA Computer Center is not dependent on the District's continued participation. During fiscal year 2016, the District paid \$15,370 to LGCA. Financial information can be obtained from LGCA, 8221 Auburn Road, Painesville, OH 44077.

Note 15 – Claims Servicing Pool

The District participates in the Health Care Benefits Program of Lake County Schools Council (the Program), a claims servicing pool comprised of eleven Lake County school districts. Each school district has a representative on the assembly (usually the superintendent or designee). Each member pays an administrative fee to the pool. The plan's business and affairs are conducted by a five-member Board of Directors elected by the Program's assembly. The assembly elects officers for one-year terms to serve on the Board of Directors. The District pays a monthly contribution, which is placed in a common fund from which the claim payments are made for all participating school districts. Claims are paid for all participants regardless of claim flow. The program is operated as a full indemnity program with no financial liability (other than the monthly premiums) or risk to the District. The Program shall pay the run out of all claims for a withdrawing member. Any member that withdraws from the Program pursuant to the Program Agreement shall have no claim to the Program's assets. Financial information can be obtained from Mike Vaccariello, Treasurer, Madison Local School District, 1956 Red Bird Road, Madison, OH 44057.

Note 16 – Contingencies

Foundation Funding

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

Grants

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

Auburn Vocational School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, the effect of any such disallowed claims on the overall financial position of the District at June 30, 2016, if applicable, cannot be determined at this time.

Litigation

The District is a party to legal proceedings. The District is of the opinion that the ultimate disposition of the claims will not have a material effect, if any, on the financial condition of the District.

Note 17 – Interfund Transactions

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

Advances from the general fund to:	
Adult education	\$1,155,000
Nonmajor governmental funds	58,884

All balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, or (3) payments between funds are made. As of June 30, 2016, the \$58,884 interfund loan outstanding is anticipated to be repaid in fiscal year 2017. The \$1,155,000 interfund loans outstanding are classified as long-term and are anticipated to be repaid in installments of \$100,000 until the loan is paid off.

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the fund collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund transfers for the year ended June 30, 2016, consisted of the following:

Transfers from the general fund to:	
Nonmajor governmental funds	106,928

Note 18 – Set-Asides

The District is required by the state law to annually set aside in the general fund an amount based on a statutory formula for the acquisition and construction of capital improvements. The District may replace using general fund revenues with proceeds from various sources (offsets), such as bond or levy proceeds related to the acquisition, replacement, enhancement, maintenance or repair of permanent improvements. Amounts not spent by fiscal year end or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year end and carried forward to be used for the same purposes in future fiscal years.

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

Auburn Vocational School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

The following information describes the change in the year-end set-aside amounts for capital maintenance.

	Capital Acquisition
Set Aside Reserve Balance as of June 30, 2015	\$0
Current Year Set Aside Requirements	54,124
Current Year Offsets	<u>(106,856)</u>
Set Aside Balance as of June 30, 2016	<u>(\$52,732)</u>
and carried forward to future fiscal years	<u>\$0</u>

Note 19 – Long-Term Obligations

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

	Rate	Beginning Balance	Additions	Deductions	Ending Balance	Due In One Year
Governmental Activities:						
General Obligation Bonds:						
2011 School Improvement Bond	3.61%	\$2,180,000	\$0	\$165,000	\$2,015,000	\$170,000
2012 School Improvement Bond	2.34%	1,890,000	0	140,000	1,750,000	140,000
2012 School Improvement Bond - Series B	2.48%	515,000	0	35,000	480,000	40,000
Total General Obligation Bonds		4,585,000	0	340,000	4,245,000	350,000
Net Pension Liability:						
STRS		10,322,575	1,998,963	799,534	11,522,004	
SERS		2,528,852	521,300	192,601	2,857,551	0
Total Net Pension Liability		12,851,427	2,520,263	992,135	14,379,555	0
Capital Leases Payable:						
Copier		63,631	0	18,492	45,139	19,438
TLC Addition		0	1,330,000	0	1,330,000	60,000
Total Capital Leases		63,631	1,330,000	18,492	1,375,139	79,438
Compensated Absences		619,898	21,219	114,176	526,941	21,220
Long-Term Debt		<u>\$18,119,956</u>	<u>\$3,871,482</u>	<u>\$1,464,803</u>	<u>\$20,526,635</u>	<u>\$450,658</u>

General Obligation Bonds: General obligation bonds are direct obligations of the District for which its full faith and credit are pledged for repayment. General obligation bonds are to be repaid from voted and unvoted general property taxes. Property tax monies will be received in and the debt will be repaid from the bond retirement debt service fund.

On July 20, 2011, the District issued \$2,800,000 in general obligation bonds which include serial bonds with an interest rate of 3.61% for the purpose of construction, renovating, rehabilitating and equipping school facilities, including installations, modifications and remodeling of school buildings to conserve energy.

In August 2012, the District issued \$2,300,000 in School Improvement Bonds for the purpose of constructing, renovating, rehabilitating, equipping and remodeling school facilities to conserve energy. The first payment on these bonds was due on December 1, 2012. These bonds are to be repaid from the debt service fund and are scheduled to mature in June, 2027.

Auburn Vocational School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

In November 2012, the District issued \$600,000 in School Improvement Bonds for the purpose of constructing a new school facility for the District’s industrial arts program. The first payment on the bonds was due on June 1, 2013. These bonds are to be repaid from the debt service fund and are scheduled to mature in June, 2027.

Compensated absences will be paid from the fund from which the employees' are paid.

The District pays pension obligations related to employee compensation from the fund benefitting from their service.

Principal and interest requirements to amortize all bonds outstanding at June 30, 2016 are as follows:

Fiscal Year Ending June 30	General Obligation Bonds		
	Principal	Interest	Total
2017	\$350,000	\$125,596	\$475,596
2018	365,000	115,190	480,190
2019	375,000	104,308	479,308
2020	380,000	93,128	473,128
2021	390,000	81,768	471,768
2022-2026	2,155,000	225,102	2,380,102
2027	230,000	5,452	235,452
Total	<u>\$4,245,000</u>	<u>\$750,544</u>	<u>\$4,995,544</u>

Note 20 – Capitalized Leases – Lessee Disclosure

During a prior fiscal year, the District entered into a capitalized lease agreement for the acquisition of copiers. Capital lease payments have been reclassified and are reflected as debt service expenditures in the fund financial statements of governmental funds. These expenditures are reflected as program/function expenditures on a budgetary basis.

Capital assets acquired by lease have been capitalized as equipment in the amount of \$93,852, which is equal to the present value of the future minimum lease payments on the government-wide financial statements.

In September 2015, the District entered into a capitalized lease agreement for the acquisition of building additions. Capital assets acquired by lease have been capitalized as building additions in the amounts of \$1,007,177 through 2016, which is equal to present value of the future minimum lease payments on the government-wide financial statements.

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments at year-end.

Auburn Vocational School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Fiscal Year Ending June 30	Lease
2017	\$122,723
2018	135,569
2019	117,237
2020	114,452
2021	111,900
2022-2026	563,430
2027-2031	557,188
Total Minimum Lease Payments	\$1,722,499
Amount Representing Interest	(347,360)
Present Value of Minimum Lease Payments	<u>\$1,375,139</u>

Note 21 – Operating Lease – Lessor Disclosure

The District collectively the “lessor”) entered into an agreement to lease certain space in the building at 8221 Auburn Road, Concord Township, Ohio 44077 to Lake County Educational Service Center and Lake Geauga Computer Association. The lease was effective May 1, 2016 through April 30, 2035, and May 1 2016 through May 31, 2036. Monthly payments were established at \$5,417 per month and \$4,583 per month, respectively.

For Lake County Educational Service Center, this agreement shall be cancelled should the General Assembly adapt legislation eliminating Educational Service Centers or that eliminates the need to administer ESC’s. For Lake Geauga Computer Association, this agreement may be cancelled upon the determination by the lessor that the premises is needed for Auburn Career Center Vocational District purposes.

Note 22 – Implementation of New Accounting Principles

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

GASB Statement No. 72 clarifies the definition of fair value for financial reporting purposes, establishes general principles for measuring fair value, provides additional fair value application guidance, and enhances disclosures about fair value measurements. These changes were incorporated in the District’s fiscal year 2016 note disclosures; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 73 establishes requirements for defined benefit pensions that are not within the scope of GASB Statement No. 68 as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also clarifies the application of certain provisions of GASB Statements 67 and 68. The implementation of GASB Statement No. 73 did not have an effect on the financial statements of the District.

Auburn Vocational School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

GASB Statement No. 76 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 addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The implementation of GASB Statement No. 79 did not have an effect on the financial statements of the District.

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REQUIRED SUPPLEMENTARY INFORMATION

Auburn Career Center
 Required Supplementary Information
 Schedule of the District's Proportionate Share
 of the Net Pension Liability
 State Teachers Retirement System of Ohio
 Last Three Fiscal Years (1)

	2015	2014	2013
District's Proportion of the Net Pension Liability	0.04169039%	0.04243876%	0.04243880%
District's Proportionate Share of the Net Pension Liability	\$11,522,004	\$10,322,575	\$12,296,184
District's Covered-Employee Payroll	\$4,351,193	\$4,669,615	\$4,345,892
District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	264.80%	221.06%	282.94%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.10%	74.70%	69.30%

(1) - Information prior to 2013 is not available

Auburn Career Center
 Required Supplementary Information
 Schedule of the District's Proportionate Share
 of the Net Pension Liability
 School Employees Retirement System of Ohio
 Last Three Fiscal Years (1)

	2015	2014	2013
District's Proportion of the Net Pension Liability	0.05007890%	0.04996800%	0.04996800%
District's Proportionate Share of the Net Pension Liability	\$2,857,551	\$2,528,852	\$2,971,437
District's Covered-Employee Payroll	\$1,385,220	\$1,466,638	\$1,354,293
District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	206.29%	172.43%	219.41%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.16%	71.70%	65.52%

(1) - Information prior to 2013 is not available

Auburn Career Center
 Required Supplementary Information
 Schedule of District Contributions
 State Teachers Retirement System of Ohio
 Last Four Fiscal Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$602,657	\$609,167	\$607,050	\$581,924
Contributions in Relation to the Contractually Required Contribution	<u>(602,657)</u>	<u>(609,167)</u>	<u>(607,050)</u>	<u>(581,924)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
District Covered-Employee Payroll	\$4,304,693	\$4,351,193	\$4,669,615	\$4,476,338
Contributions as a Percentage of Covered-Employee Payroll	14.00%	14.00%	13.00%	13.00%

Auburn Career Center
 Required Supplementary Information
 Schedule of District Contributions
 School Employees Retirement System of Ohio
 Last Four Fiscal Years

	2016	2015	2014	2013
Contractually Required Contribution	\$228,702	\$182,572	\$203,276	\$173,497
Contributions in Relation to the Contractually Required Contribution	<u>(228,702)</u>	<u>(182,572)</u>	<u>(203,276)</u>	<u>(173,497)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
District Covered-Employee Payroll	\$1,633,586	\$1,385,220	\$1,466,638	\$1,253,591
Contributions as a Percentage of Covered-Employee Payroll	14.00%	13.18%	13.86%	13.84%

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Auburn Vocational School District



Single Audit Reports

June 30, 2016

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AUBURN VOCATIONAL SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

Federal Grant/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE				
Passed Through Ohio Department of Education:				
Nutrition Cluster:				
School Breakfast Program	3L70	10.553	\$7,528	\$0
National School Lunch Program	3L60	10.555	39,599	5,665
Total Nutrition Cluster			<u>47,127</u>	<u>5,665</u>
Total U.S. Department of Agriculture			<u>47,127</u>	<u>5,665</u>
U.S. DEPARTMENT OF EDUCATION				
Direct Assistance:				
Rural Education Achievement Program	N/A	84.358	32,571	0
Student Financial Assistance Cluster:				
Federal Pell Grant Program	N/A	84.063	253,454	0
Federal Direct Student Loans	N/A	84.268	493,410	0
Total Student Financial Assistance Cluster			<u>746,864</u>	<u>0</u>
Passed Through Ohio Department of Education:				
Adult Education	AE15	84.002	261,229	0
Career and Technical Education	3L90	84.048	337,105	0
Improving Teacher Quality	3Y60	84.367	1,904	0
Total U.S Department of Education			<u>1,379,673</u>	<u>0</u>
Total Federal Assistance			<u>\$1,426,800</u>	<u>\$5,665</u>

AUBURN VOCATIONAL SCHOOL DISTRICT

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards includes federal grant activity of the District and is presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of 2 CFR 200, Subpart F. The District did not elect to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 2: FEDERAL DIRECT LOAN PROGRAM

The District participates in the Federal Direct Loan Program. The District originates the loans which are then funded through the U.S. Department of Education.

<u>CFDA Number</u>	<u>Program Name</u>	<u>Amount</u>
84.268	Federal Subsidized Loans	\$192,430
84.268	Federal Unsubsidized Loans	<u>300,980</u>
	Total Federal Direct Student Loans	<u><u>\$493,410</u></u>

NOTE 3: 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 4: 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.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Auburn Vocational School District
Lake County
8140 Auburn Road
Concord Township, Ohio 44077

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Auburn Vocational School District (the District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 29, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *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 deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Plattenburg & Associates, Inc.

Plattenburg & Associates, Inc.
Cincinnati, Ohio
November 29, 2016

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE AND REPORT ON SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS REQUIRED BY UNIFORM GUIDANCE**

Auburn Vocational School District
Lake County
8140 Auburn Road
Concord Township, Ohio 44077

Report on Compliance for Each Major Federal Program

We have audited the Auburn Vocational School District (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2016. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on 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 that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion 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, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. 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 type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. 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.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of 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. We issued our report thereon dated November 29, 2016, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Plattenburg & Associates, Inc.

Plattenburg & Associates, Inc.
Cincinnati, Ohio
November 29, 2016

**AUBURN VOCATIONAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2016**

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? No
- Significant Deficiency(s) identified? None reported

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? No
- Significant Deficiency(s) identified? None reported

Type of auditor’s report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? No

Identification of major federal programs:

Student Financial Aid Cluster

Dollar threshold used to distinguish between Type A and Type B Programs \$750,000

Auditee qualified as low-risk auditee? Yes

Section II – Findings Related to the Financial Statements Required to be reported in Accordance with GAGAS

None

Section III – Federal Award Findings and Questioned Costs

None

AUBURN VOCATIONAL SCHOOL DISTRICT
June 30, 2016

SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS

The Auburn Vocational School District had no prior audit findings or questioned costs.



Dave Yost • Auditor of State

AUBURN VOCATIONAL SCHOOL DISTRICT

LAKE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 7, 2017**