



Dave Yost • Auditor of State



**AVON LOCAL SCHOOL DISTRICT  
LORAIN COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

Avon Local School District  
Lorain County  
35573 Detroit Road  
Avon, Ohio 44011

To the Board of Education:

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Avon Local School District, Lorain County, Ohio (the District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

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

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

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the District's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

***Opinion***

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

***Other Matters***

*Required Supplementary Information*

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

*Supplementary and Other Information*

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

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

The schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling the schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, this schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 17, 2017, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

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

March 17, 2017

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**Avon Local School District**  
**Lorain County, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2016*

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

***Financial Highlights***

Key financial highlights for 2016 are as follows:

- Net position decreased \$1,673,471, which represents a 13% decrease from 2015.
- Capital assets increased \$2,666,814 during fiscal year 2016.
- During the fiscal year, outstanding debt decreased from \$68,571,834 to \$68,302,423 due to principal payments made by the School District.

***Using this Annual Report***

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the School District as a whole 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 School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the School District, the general fund is by far the most significant fund.

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

*Statement of Net Position and the Statement of Activities*

While the basic financial statements contain the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2016?" The *Statement of Net Position* and the *Statement of Activities* answer this question. These statements include all assets, deferred outflows of resources, 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.

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

In the *Statement of Net Position* and the *Statement of Activities*, governmental activities include the School District's programs and services, including instruction, support services, extracurricular activities, and non-instructional services, food service operations and Community Services.

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

***Fund Financial Statements***

The major funds financial statements begin on page 17. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions; however, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the general fund and the debt service fund.

***Governmental Funds*** Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps 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.

***Proprietary Fund*** The School District maintains one type of proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the School District's various functions. The School District uses an internal service fund to account for its health insurance benefits. Because this service predominately benefits governmental functions, it has been included within the governmental activities in the government-wide financial statements. The proprietary fund financial statements begin on page 22.

***Reporting the School District's Fiduciary Responsibilities***

The School District acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in an agency fund. The School District's fiduciary activities are reported in separate Statement of Fiduciary Assets and Liabilities on page 25. These activities are excluded from the School District's other financial statements because the assets cannot be utilized by the School District to finance its operations.

**Avon Local School District**  
**Lorain County, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2016*

**The School District as a Whole**

Recall that the Statement of Net Position provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net position for 2016 compared to 2015:

**Table 1**  
**Net Position**

	Governmental Activities	
	2016	Restated 2015
<b>Assets</b>		
Current and Other Assets	\$ 47,909,786	\$ 54,163,269 *
Capital Assets	84,692,974	82,026,160
<i>Total Assets</i>	132,602,760	136,189,429
<b>Deferred Outflows of Resources</b>		
Pension	5,794,279	3,428,574
<i>Total Deferred Outflows of Resources</i>	5,794,279	3,428,574
<b>Liabilities</b>		
Current and Other Liabilities	5,109,783	7,608,270
Long-Term Liabilities:		
Due Within One Year	1,943,607	1,480,000
Due Within More Than One Year:		
Net Pension Liability	48,428,409	41,624,768
Other Amounts	66,358,816	66,890,076
<i>Total Liabilities</i>	121,840,615	117,603,114
<b>Deferred Inflows of Resources</b>		
Property Taxes and Other	26,728,620	25,881,654
Deferred Charges on Refunding	82,990	91,289
Pension	3,010,219	7,531,996
Payment in Lieu of Taxes	1,505,589	1,607,473 *
<i>Total Deferred Inflows of Resources</i>	31,327,418	35,112,412
<b>Net Position</b>		
Net Investment in Capital Assets	22,973,219	27,196,290
Restricted	4,019,812	5,727,018
Unrestricted	(41,764,025)	(46,020,831)
<i>Total Net Position</i>	\$ (14,770,994)	\$ (13,097,523)

\*These numbers reflect accruals related to payments in lieu of taxes that were not recorded in prior years; however, there was no impact on beginning net position.

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

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

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

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

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

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

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

At year end, capital assets represented 64% of total assets. Capital assets include, land, land improvements, buildings and improvements, furniture and equipment, and vehicles. Net investment in capital assets was \$22,973,219 at June 30, 2016. These capital assets are used to provide services to students and are not available for future spending. Although the School District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the School District's net position, \$4,019,812, represents resources that are subject to external restrictions on how they may be used. The deficit balance of government-wide unrestricted net position was (\$41,764,025), which is primarily caused from the implementation of GASB 68.

Total current and other assets showed a net decrease of \$6,253,483 with a substantial decrease in pooled cash and investments as debt proceeds issued in prior year were used for completion of the school improvement projects. This is partially offset by an increase in taxes receivable.

The increase in capital assets was attributed to the completion of the new middle school, renovation of administration offices and the lease purchase agreement of five buses.

Total liabilities increased \$4,237,501, primarily due to a change in net pension liability partially offset by a decrease in contracts payable and retainage payable from the completion of all school improvement projects in 2016.

Deferred outflows of resources increased and deferred inflows of resources decreased primarily due to accruals related to net pension liability.

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**Avon Local School District**  
**Lorain County, Ohio**  
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In order to further understand what makes up the changes in net position for the current year, the following table gives readers further details regarding the results of activities for 2016 and 2015.

**Table 2**  
**Changes in Net Position**

	Governmental Activities	
	2016	2015
<b>Revenues</b>		
<i>Program Revenues:</i>		
Charges for Services	\$ 2,150,122	\$ 1,983,125
Operating Grants	3,094,260	1,938,769
Capital Grants	0	38,143
<i>Total Program Revenues</i>	<u>5,244,382</u>	<u>3,960,037</u>
<i>General Revenues:</i>		
Property Taxes	29,008,887	27,861,123
Grants and Entitlements Not Restricted	7,813,317	8,745,270
Payments in Lieu of Taxes	1,607,475	1,407,680
Other	345,520	616,808
<i>Total General Revenues</i>	<u>38,775,199</u>	<u>38,630,881</u>
<i>Total Revenues</i>	<u>44,019,581</u>	<u>42,590,918</u>
<b>Program Expenses</b>		
<i>Instruction:</i>		
Regular	18,731,242	15,776,258
Special	7,223,557	6,979,407
Vocational	161,091	167,232
Other	912,034	1,026,667
<i>Support Services:</i>		
Pupils	1,638,852	1,195,907
Instructional Staff	1,203,552	1,159,215
Board of Education	122,957	72,818
Administration	2,924,114	2,234,646
Fiscal	1,135,081	990,438
Business	21,848	6,345
Operation and Maintenance of Plant	3,311,166	2,420,941
Pupil Transportation	2,346,084	2,153,960
Central	303,423	407,789
<i>Operation of Non-Instructional Services:</i>		
Food Service Operations	881,758	726,856
Community Services	914,988	962,690
Extracurricular Activities	861,190	889,563
<i>Debt Service:</i>		
Interest and Fiscal Charges	3,000,115	1,859,117
<i>Total Expenses</i>	<u>45,693,052</u>	<u>39,029,849</u>
<i>Increase (Decrease) in Net Position</i>	<u>\$ (1,673,471)</u>	<u>\$ 3,561,069</u>

**Avon Local School District**  
**Lorain County, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2016*

Overall revenue increased \$1,428,663, mainly due to an increase in operating grant revenue.

Program expenses increased \$6,663,203, mainly due to an increase in wages and benefits and depreciation, an increase in interest expense on debt payments, offset by a decrease in expenses related to the school improvement projects.

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.

**Table 3**  
**Governmental Activities**

	Total Cost of Service		Net Cost of Service	
	2016	2015	2016	2015
Instruction:				
Regular	\$ 18,731,242	\$ 15,776,258	\$ 17,711,019	\$ 14,855,249
Special	7,223,557	6,979,407	5,722,970	6,064,412
Vocational	161,091	167,232	146,457	137,832
Other	912,034	1,026,667	912,034	1,026,667
Support Services:				
Pupils	1,638,852	1,195,907	1,411,611	976,726
Instructional Staff	1,203,552	1,159,215	1,104,841	1,133,989
Board of Education	122,957	72,818	122,957	72,818
Administration	2,924,114	2,234,646	2,854,116	2,234,646
Fiscal	1,135,081	990,438	1,135,081	990,438
Business	21,848	6,345	21,848	6,345
Operation and Maintenance of Plant	3,311,166	2,420,941	3,311,166	2,382,798
Pupil Transportation	2,346,084	2,153,960	2,164,714	2,153,960
Central	303,423	407,789	293,523	396,989
Operation of Non-Instructional Services:				
Food Service Operations	881,758	726,856	(70,028)	(61,324)
Community Services	914,988	962,690	51,097	211,775
Extracurricular Activities	861,190	889,563	555,149	627,375
Debt Service:				
Interest and Fiscal Charges	3,000,115	1,859,117	3,000,115	1,859,117
<i>Total Expenses</i>	\$ 45,693,052	\$ 39,029,849	\$ 40,448,670	\$ 35,069,812

The dependence upon general revenues for governmental activities is apparent. Almost 88% of governmental activities are supported through taxes and other general revenues; such revenues are 88% of total governmental revenues. The community, as a whole, is by far the primary support for the School District students.

**Avon Local School District**  
**Lorain County, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2016*

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***Governmental Funds***

Information about the School District's major funds starts on page 17. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$45,003,834 and expenditures of \$48,859,692 for the fiscal year. The net change in fund balances for the fiscal year was a decrease of \$3,428,518 for all governmental funds with the most significant decrease in the other governmental funds.

The general fund's net change in fund balance for fiscal year 2016 was a decrease of \$747,235. This decrease is primarily an increase in wages and fringe benefits, offset by a slight increase in grant monies.

The debt service fund's net change in fund balance for fiscal year 2016 was an increase of \$528,240. This increase is primarily from the timing of taxes collected as compared to when debt payments are due.

***General Fund Budgeting Highlights***

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

During the course of fiscal year 2016, the School District amended its general fund budget. The School District uses site-based budgeting and budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the general fund, actual budget basis revenue was \$1,187,414 lower than the final budget basis revenue of \$36,718,048. The underestimation of intergovernmental revenues was the primary difference.

Original budget basis revenue of \$36,718,048 equaled the final budget basis revenue.

Final expenditure appropriations of \$36,463,805 were \$1,465,417 lower than the actual expenditures of \$37,929,222, due to the under estimation of expenditures.

Final expenditure appropriations of \$36,463,805 were \$2,618,740 higher than the original budget expenditures of \$33,845,065, primarily due to an increase in regular instruction.

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**Avon Local School District**  
**Lorain County, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2016*

**Capital Assets and Debt Administration**

**Capital Assets**

At the end of fiscal year 2016, the School District had \$84,692,974 invested in capital assets, net of accumulated depreciation. Table 4 shows fiscal year 2016 balances compared with 2015.

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

	Governmental Activities	
	2016	2015
Land	\$ 3,603,900	\$ 3,603,900
Construction in Progress	0	33,056,716
Land Improvements	3,261,169	1,613,619
Buildings and Improvements	76,403,063	42,904,895
Furniture and Equipment	785,021	511,246
Vehicles	639,821	335,784
<i>Totals</i>	\$ 84,692,974	\$ 82,026,160

The \$2,666,814 increase in capital assets was attributable to additional current year purchases exceeding depreciation and disposals. See Note 10 for more information about the capital assets of the School District.

**Debt**

At June 30, 2016, the School District had \$68,302,423 in debt outstanding. See Note 11 for additional details. Table 5 summarizes debt outstanding.

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

	Governmental Activities	
	2016	2015
Bonds Payable	\$ 57,698,955	\$ 58,948,955
Accretion on Capital Appreciation Bonds	3,234,532	2,652,731
Premium on Bonds	3,536,058	3,707,398
Compensated Absences	3,495,647	3,262,750
Capital Lease	337,231	0
<i>Total</i>	\$ 68,302,423	\$ 68,571,834

**Avon Local School District**  
**Lorain County, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2016*

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***Current Issues***

The Avon Local School District has committed itself to a fiscal discipline based on long-term plans. The School District is financially stable. The Board of Education and administration have implemented fiscal management disciplines that utilize a variety of formal plans. They have kept to the plan of working within the five-year budget plan, finished the building and renovation projections and are working towards the next phases. The enrollment and community continue to grow at a steady pace.

The financial future of the School District is not without its challenges. These challenges are internal and external in nature. The internal challenges will continue to exist, as the School District must rely heavily on local property taxes to fund its operations. Thus management must diligently plan expenses staying carefully within its five-year forecast. Additional revenues than what was estimated must not be treated as a windfall to expand programs but as an opportunity to extend the time horizon of the five-year forecast. The School District has the necessary revenue base to support current program levels for the next fiscal year. Future revenue base is dependent upon the renewal of all emergency levies. Decisions on how to proceed about renewing those emergency levies and as well as seeking additional operational funds for the future will need to be made in a relatively short time frame.

The tax base has seemed to steady, consequently the housing market is continuing to grow. The valuation of the community grew higher than any other tax base in the county.

As the community continues to grow, State funding because a question, this will require management to plan carefully and prudently to provide the resources to meet student needs over the next several years. If the trend of continued enrollment growth, staffing needs, state funding reductions, and negotiated contract issues are realized, the Avon Local School District will have to address the financial operating needs of the School District prior to fiscal year. These assumptions also include the renewal of prior approved emergency levies. All of the School District's financial abilities will be needed to meet the challenges of the future.

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

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, Katie Henes, Treasurer, can be contacted at the Avon Local School District, 36600 Detroit Road, Avon, Ohio 44011.

**Avon Local School District**  
**Lorain County, Ohio**  
*Statement of Net Position*  
*June 30, 2016*

	Governmental Activities
<b>Assets</b>	
Equity in Pooled Cash and Investments	\$ 14,262,937
Cash and Cash Equivalents with Fiscal Agent	942,812
Receivables:	
Intergovernmental	271,440
Revenue in Lieu of Taxes	1,505,589
Property Taxes	30,927,008
Nondepreciable Capital Assets	3,603,900
Depreciable Capital Assets (Net)	81,089,074
<i>Total Assets</i>	132,602,760
<b>Deferred Outflows of Resources</b>	
Pension	5,794,279
<i>Total Deferred Outflows of Resources</i>	5,794,279
<b>Liabilities</b>	
Accounts Payable	225,269
Accrued Wages and Benefits	3,407,954
Contracts Payable	134,145
Intergovernmental Payable	715,069
Matured Compensated Absences Payable	31,496
Accrued Interest Payable	157,930
Claims Payable	437,920
Long Term Liabilities:	
Due Within One Year	1,943,607
Due In More Than One Year:	
Net Pension Liability (See Note 14)	48,428,409
Other Amounts Due in More Than One Year	66,358,816
<i>Total Liabilities</i>	121,840,615
<b>Deferred Inflows of Resources</b>	
Property Taxes Levied for the Next Year	26,728,620
Pension	3,010,219
Deferred Charges on Refunding	82,990
Payment in Lieu of Taxes Levied for the Next Year	1,505,589
<i>Total Deferred Inflows of Resources</i>	31,327,418
<b>Net Position</b>	
Net Investment in Capital Assets	22,973,219
Restricted For:	
Capital Outlay	689,285
Debt Service	2,130,555
Other Purposes	1,199,972
Unrestricted	(41,764,025)
<i>Total Net Position</i>	\$ (14,770,994)

See accompanying notes to the basic financial statements.

**Avon Local School District**  
**Lorain County, Ohio**  
*Statement of Activities*  
For the Fiscal Year Ended June 30, 2016

	Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services and Sales	Operating Grants, Contributions and Interest	Governmental Activities
<b>Governmental Activities</b>				
Instruction:				
Regular	\$ 18,731,242	\$ 924,549	\$ 95,674	\$ (17,711,019)
Special	7,223,557	5,814	1,494,773	(5,722,970)
Vocational	161,091	0	14,634	(146,457)
Other	912,034	0	0	(912,034)
Support Services:				
Pupils	1,638,852	36,963	190,278	(1,411,611)
Instructional Staff	1,203,552	0	98,711	(1,104,841)
Board of Education	122,957	0	0	(122,957)
Administration	2,924,114	0	69,998	(2,854,116)
Fiscal	1,135,081	0	0	(1,135,081)
Business	21,848	0	0	(21,848)
Operation and Maintenance of Plant	3,311,166	0	0	(3,311,166)
Pupil Transportation	2,346,084	0	181,370	(2,164,714)
Central	303,423	0	9,900	(293,523)
Operation of Non-Instructional Services:				
Food Service Operations	881,758	693,275	258,511	70,028
Community Services	914,988	199,904	663,987	(51,097)
Extracurricular Activities	861,190	289,617	16,424	(555,149)
Debt Service:				
Interest and Fiscal Charges	3,000,115	0	0	(3,000,115)
<b>Total</b>	<u>\$ 45,693,052</u>	<u>\$ 2,150,122</u>	<u>\$ 3,094,260</u>	<u>(40,448,670)</u>

**General Revenues**

Property Taxes Levied for:

General Purposes	24,657,445
Debt Service	3,640,382
Capital Outlay	711,060
Grants and Entitlements Not Restricted to Specific Programs	7,813,317
Payments in Lieu of Taxes	1,607,475
Investment Earnings	52,268
Miscellaneous	293,252
<b>Total General Revenues</b>	<u>38,775,199</u>

*Change in Net Position* (1,673,471)

*Net Position Beginning of Year (Restated-See Note 20)* (13,097,523)

*Net Position End of Year* \$ (14,770,994)

See accompanying notes to the basic financial statements.

**Avon Local School District**  
**Lorain County, Ohio**  
*Balance Sheet*  
*Governmental Funds*  
*June 30, 2016*

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Equity in Pooled Cash and Investments	\$ 10,178,271	\$ 1,760,333	\$ 2,283,702	\$ 14,222,306
Receivables:				
Interfund	557,586	0	0	557,586
Intergovernmental	0	0	271,440	271,440
Revenue in Lieu of Taxes	1,276,441	199,873	29,275	1,505,589
Property Taxes	26,346,355	3,839,948	740,705	30,927,008
<i>Total Assets</i>	<u>\$ 38,358,653</u>	<u>\$ 5,800,154</u>	<u>\$ 3,325,122</u>	<u>\$ 47,483,929</u>
<b>Liabilities</b>				
Accounts Payable	\$ 65,531	\$ 0	\$ 159,738	\$ 225,269
Accrued Wages and Benefits	3,268,199	0	139,755	3,407,954
Contracts Payable	0	0	134,145	134,145
Intergovernmental Payable	702,312	0	12,757	715,069
Matured Compensated Absences Payable	31,496	0	0	31,496
Interfund Payable	0	0	557,586	557,586
<i>Total Liabilities</i>	<u>4,067,538</u>	<u>0</u>	<u>1,003,981</u>	<u>5,071,519</u>
<b>Deferred Inflows of Resources</b>				
Property Taxes Levied for the Next Year	22,774,002	3,311,796	642,822	26,728,620
Unavailable Revenue	194,716	28,365	199,290	422,371
Payment in Lieu of Taxes Levied for the Next Year	1,276,441	199,873	29,275	1,505,589
<i>Total Deferred Inflows of Resources</i>	<u>24,245,159</u>	<u>3,540,034</u>	<u>871,387</u>	<u>28,656,580</u>
<b>Fund Balances</b>				
Restricted	0	2,260,120	1,819,833	4,079,953
Assigned	2,970,506	0	0	2,970,506
Unassigned	7,075,450	0	(370,079)	6,705,371
<i>Total Fund Balances</i>	<u>10,045,956</u>	<u>2,260,120</u>	<u>1,449,754</u>	<u>13,755,830</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$ 38,358,653</u>	<u>\$ 5,800,154</u>	<u>\$ 3,325,122</u>	<u>\$ 47,483,929</u>

See accompanying notes to the basic financial statements.

**Avon Local School District**  
**Lorain County, Ohio**  
*Reconciliation of Total Governmental Fund Balances to*  
*Net Position of Governmental Activities*  
*June 30, 2016*

<b>Total Governmental Fund Balances</b>		\$ 13,755,830
 <i>Amounts reported for governmental activities in the statement of net position are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		84,692,974
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Intergovernmental	\$ 193,804	
Property Taxes	<u>228,567</u>	422,371
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.		545,523
In the statement of activities, interest is accrued on outstanding bonds, whereas in the governmental funds, an interest expenditure is not reported.		(157,930)
In the statement of activities, a loss on refunding is amortized over the term of the bonds, whereas in governmental funds a refunding loss is reported when bonds are issued		(82,990)
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds:		
Deferred Outflows - Pension	5,794,279	
Deferred Inflows - Pension	(3,010,219)	
Net Pension Liability	<u>(48,428,409)</u>	(45,644,349)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
General Obligation Bonds	(53,860,000)	
Capital Appreciation Bonds	(3,838,955)	
Bond Premium	(3,536,058)	
Accretion of Interest - Capital Appreciation Bonds	(3,234,532)	
Capital Lease Obligation	(337,231)	
Compensated Absences	<u>(3,495,647)</u>	<u>(68,302,423)</u>
<i>Net Position of Governmental Activities</i>		<u><u>\$ (14,770,994)</u></u>

See accompanying notes to the basic financial statements.

**Avon Local School District**  
**Lorain County, Ohio**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2016*

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Property and Other Local Taxes	\$ 25,658,781	\$ 3,787,001	\$ 741,162	\$ 30,186,944
Intergovernmental	8,392,151	472,340	1,798,728	10,663,219
Investment Income	52,246	0	143	52,389
Tuition and Fees	924,549	0	0	924,549
Extracurricular Activities	42,777	0	289,617	332,394
Rentals	0	0	50,363	50,363
Charges for Services	0	0	893,179	893,179
Contributions and Donations	91,056	0	16,224	107,280
Payment in Lieu of Taxes	1,371,316	205,540	30,619	1,607,475
Miscellaneous	184,517	0	1,525	186,042
<i>Total Revenues</i>	<u>36,717,393</u>	<u>4,464,881</u>	<u>3,821,560</u>	<u>45,003,834</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	16,793,437	0	460,065	17,253,502
Special	6,727,937	0	367,783	7,095,720
Vocational	158,724	0	0	158,724
Other	912,034	0	0	912,034
Support Services:				
Pupils	1,483,820	0	102,283	1,586,103
Instructional Staff	1,051,415	0	126,767	1,178,182
Board of Education	122,957	0	0	122,957
Administration	2,773,962	0	45,670	2,819,632
Fiscal	1,067,148	63,790	12,464	1,143,402
Business	18,595	0	3,253	21,848
Operation and Maintenance of Plant	3,291,809	0	1,157	3,292,966
Pupil Transportation	2,123,635	0	446,006	2,569,641
Central	254,973	0	79,637	334,610
Extracurricular Activities	657,540	0	284,156	941,696
Operation of Non-Instructional Services:				
Food Service Operations	0	0	881,858	881,858
Community Services	3,600	0	899,156	902,756
Capital Outlay	0	0	3,681,101	3,681,101
Debt Service:				
Principal Retirement	0	1,250,000	90,109	1,340,109
Interest and Fiscal Charges	0	2,622,851	0	2,622,851
<i>Total Expenditures</i>	<u>37,441,586</u>	<u>3,936,641</u>	<u>7,481,465</u>	<u>48,859,692</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(724,193)</u>	<u>528,240</u>	<u>(3,659,905)</u>	<u>(3,855,858)</u>
<b>Other Financing Sources (Uses)</b>				
Inception of Capital Lease	0	0	427,340	427,340
Transfers In	0	0	23,042	23,042
Transfers Out	(23,042)	0	0	(23,042)
<i>Total Other Financing Sources (Uses)</i>	<u>(23,042)</u>	<u>0</u>	<u>450,382</u>	<u>427,340</u>
<i>Net Change in Fund Balance</i>	(747,235)	528,240	(3,209,523)	(3,428,518)
<i>Fund Balances Beginning of Year</i>	<u>10,793,191</u>	<u>1,731,880</u>	<u>4,659,277</u>	<u>17,184,348</u>
<i>Fund Balances End of Year</i>	<u>\$ 10,045,956</u>	<u>\$ 2,260,120</u>	<u>\$ 1,449,754</u>	<u>\$ 13,755,830</u>

See accompanying notes to the basic financial statements.

**Avon Local School District**  
**Lorain County, Ohio**  
*Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Fiscal Year Ended June 30, 2016*

<b>Net Change in Fund Balances - Total Governmental Funds</b>	\$	(3,428,518)
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
 Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Capital Asset Additions	\$ 5,043,073	
Current Year Depreciation	<u>(2,376,259)</u>	2,666,814
 Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Property Taxes	(1,178,057)	
Intergovernmental	<u>193,804</u>	(984,253)
 Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred inflows		
		2,854,125
 Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities		
		(2,770,284)
 Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		
General Obligation Bonds	1,175,000	
Capital Appreciation Bond	75,000	
Accreted Interest on Capital Appreciation Bond	190,000	
Capital Lease	<u>90,109</u>	1,530,109
 Debt proceeds issued in the governmental funds that increase long-term in the statement of net position are not reported as revenues.		
Capital Lease		(427,340)
 Amortization of gain/loss on refunding's on the bonds are not reported in the fund but are allocated as an expense over the life of the debt in the statement of activities.		
		8,299
 In the statement of activities, interest is accrued on outstanding bonds, and bond premium and gain/loss on refunding are amortized over the term of the bonds, whereas in governmental funds, an interest expenditure is reported when bonds are issued.		
Accrued Interest Payable	24,898	
Amortization of Premium on Bonds	<u>171,340</u>	196,238
 The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental expenditures and related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.		
		(112,205)
 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		(434,655)
 Accretion on capital appreciation bonds is an expenditure in the governmental funds, but is allocated as an expense over the life of the bonds in the statement of activities.		
		<u>(771,801)</u>
<i>Change in Net Position of Governmental Activities</i>	\$	<u><u>(1,673,471)</u></u>

See accompanying notes to the basic financial statements.



**Avon Local School District**  
**Lorain County, Ohio**  
*Statement of Revenues, Expenditures, and Changes in Fund Balance -*  
*Budget (Non-GAAP Basis) and Actual*  
*General Fund*  
*For the Fiscal Year Ended June 30, 2016*

	<u>Budgeted Amounts</u>			Variance with Final Budget Over (Under)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues and Other Financing Sources	\$ 36,718,048	\$ 36,718,048	\$ 35,530,634	\$ (1,187,414)
Expenditures and Other Financing Uses	<u>33,845,065</u>	<u>36,463,805</u>	<u>37,929,222</u>	<u>(1,465,417)</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	2,872,983	254,243	(2,398,588)	(2,652,831)
<i>Fund Balance Beginning of Year</i>	11,265,571	11,265,571	11,265,571	0
Prior Year Encumbrances Appropriated	<u>575,385</u>	<u>575,385</u>	<u>575,385</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$ 14,713,939</u>	<u>\$ 12,095,199</u>	<u>\$ 9,442,368</u>	<u>\$ (2,652,831)</u>

See accompanying notes to the basic financial statements.

**Avon Local School District**  
**Lorain County, Ohio**  
*Statement of Fund Net Position*  
*Proprietary Fund*  
*June 30, 2016*

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	Governmental Activities - Internal Service Fund
<b>Assets</b>	
<i>Current Assets</i>	
Equity in Pooled Cash and Investments	\$ 40,631
Cash and Cash Equivalents with Fiscal Agent	942,812
<i>Total Assets</i>	<u>983,443</u>
<b>Liabilities</b>	
<i>Current Liabilities</i>	
Claims Payable	<u>437,920</u>
<b>Net Position</b>	
Unrestricted	<u><u>\$ 545,523</u></u>

See accompanying notes to the basic financial statements.

**Avon Local School District**  
**Lorain County, Ohio**  
*Statement of Revenues, Expenses, and Changes in Fund Net Position*  
*Proprietary Fund*  
*For the Fiscal Year Ended June 30, 2016*

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	Governmental Activities - Internal Service Fund
<b>Operating Revenues</b>	
Charges for Services	\$ 4,448,901
<b>Operating Expenses</b>	
Purchased Services	182,566
Materials and supplies	319,564
Claims	4,058,950
Other	26
<i>Total Operating Expenses</i>	<u>4,561,106</u>
<i>Operating Income (Loss)</i>	(112,205)
<i>Net Position Beginning of Year</i>	<u>657,728</u>
<i>Net Position End of Year</i>	<u><u>\$ 545,523</u></u>

See accompanying notes to the basic financial statements.

**Avon Local School District**  
**Lorain County, Ohio**  
*Statement of Cash Flows*  
*Proprietary Fund*  
For the Fiscal Year Ended June 30, 2016

	Governmental Activities - Internal Service Fund
<b>Cash Flows From Operating Activities</b>	
Cash Received for Charges for Services	\$ 4,448,901
Cash Paid for Goods and Services	(182,566)
Cash Paid for Materials and Supplies	(319,564)
Cash Paid for Claims	(3,974,080)
Cash Paid for Employees Benefits	(2,937)
Other Cash Payments	(1,940)
<i>Net Cash Provided By (Used For) Operating Activities</i>	<u>(32,186)</u>
 <i>Cash and Cash Investments, Beginning of Year</i>	 <u>1,015,629</u>
 <i>Cash and Cash Investments, End of Year</i>	 <u>\$ 983,443</u>
 <b>Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities</b>	
Operating Income (Loss)	\$ (112,205)
Adjustments:	
Increase (Decrease) in Liabilities:	
Accounts Payable	(1,914)
Intergovernmental Payable	(2,937)
Claims Payable	84,870
<i>Total Adjustments</i>	<u>80,019</u>
<i>Net Cash Provided By (Used For) Operating Activities</i>	<u>\$ (32,186)</u>

See accompanying notes to the basic financial statements.

**Avon Local School District**  
**Lorain County, Ohio**  
*Statement of Fiduciary Assets and Liabilities*  
*Fiduciary Funds*  
*June 30, 2016*

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	<u>Agency</u>
<b>Assets</b>	
Equity in Pooled Cash and Investments	\$ 66,725
<i>Total Assets</i>	<u>\$ 66,725</u>
<b>Liabilities</b>	
Due to Others	\$ 9,538
Due to Students	57,187
<i>Total Liabilities</i>	<u>\$ 66,725</u>

See accompanying notes to the basic financial statements.

**Avon Local School District**  
**Lorain County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2016*

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**NOTE 1: DESCRIPTION OF THE REPORTING ENTITY**

The Avon Local School District (the School District) was established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The School District operates under an elected Board of Education, consisting of five members, and is responsible for providing public education to residents of the School District.

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

Within the School District boundaries, there are various nonpublic schools. Current State legislation provides funding to these nonpublic schools. These monies are received and disbursed by the School District on behalf of the nonpublic schools by the Treasurer of the School District, as directed by the nonpublic schools. These transactions are reported as a governmental activity of the School District.

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

The School District is associated with Connect, the Lorain County Joint Vocational School District, Great Lakes Council of Governments, and the Ohio Schools Council which are considered to be jointly governed organizations. These organizations and their relationships with the School District are described in more detail in Note 16.

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

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

**A. Basis of Presentation**

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

**Avon Local School District**  
**Lorain County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2016*

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**Government-wide Financial Statements**

The statement of net position and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is also eliminated to avoid “doubling up” revenues and expenses.

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

**Fund Financial Statements**

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

**B. Fund Accounting**

The School District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary, and fiduciary.

**Governmental Funds**

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

**Avon Local School District**  
**Lorain County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2016*

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

**Debt Service Fund** - the Debt Service Fund receives property taxes for the payment of general obligation bonds and notes payable.

The other governmental funds of the School District account for grants and other resources to which the District is bound to observe constraints imposed upon the use of the resources.

**Proprietary Funds**

Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows. The School District's only proprietary fund is internal service.

**Internal Service Fund** The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the School District, or to other governments, on a cost reimbursement basis. The School District's internal service fund is:

**Self-Insurance Fund** This fund accounts for monies received from other funds as payment for providing employee benefits. The self-insurance fund may make payments for services provided to employees, for reimbursements to employees who have paid providers, to third party administrators for claim payments or administration, for stop-loss coverage, or other reinsurance or other similar purpose.

**Fiduciary Funds**

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

**C. 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 School District are included on the statement of net position. The statement of activities presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position.



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**Fund Financial Statements**

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

Like the government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of these funds are included on the statement of fund net position. The statement of changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its proprietary activities.

The agency fund does not report a measurement focus as it does not report operations.

**D. Basis of Accounting**

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

**Revenues – Exchange and Non-Exchange Transactions**

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

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 7). Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

**Deferred Inflows of Resources and Deferred Outflows of Resources**

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School District, deferred outflows of resources are reported on the government-wide statement of net position for pension. The deferred outflows of resources related to pension are explained in Note 14.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the School District, deferred inflows of resources include property taxes, payment in lieu of taxes, pension, deferred charges on refunding and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2016, but which were levied to finance fiscal year 2017 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and governmental fund financial statements. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the School District, unavailable revenue may include delinquent property taxes, payment in lieu of taxes, intergovernmental grants, and miscellaneous revenues. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension are reported on the government-wide statement of net position. (See Note 14).

**Expenses/Expenditures**

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as intergovernmental revenue.

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

**E. Cash and Investments**

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

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During fiscal year 2016, investments were limited to Federal Home Loan Mortgage Corporation bonds, Federal National Mortgage Association bonds, mutual fund, commercial paper and STAR Ohio. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as nonnegotiable certificates of deposit and repurchase agreements are reported at cost.

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

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

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2016 amounted to \$52,246, which includes \$12,772 assigned from other School District funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as "equity in pooled cash and investments." Investments with an original maturity of more than three months that are not made from the pool are reported as "investments."

**F. Capital Assets**

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the dates received. The School District maintains a capitalization threshold of \$5,000. The School District does not possess any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of capital assets is not capitalized.

All reported capital assets except land and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets.

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Depreciation is computed using the straight-line method over the following useful lives:

Description	Estimated Lives
Land Improvements	20 years
Buildings	20 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	8 years

**G. Interfund Balances**

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

**H. Compensated Absences**

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

Sick leave benefits are accrued as a liability using the vesting 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 School District's past experience of making termination payments. The entire compensated absences liability is reported on the government-wide financial statements.

For the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured compensated absences payable" in the fund from which the employees who have accumulated leave are paid.

**I. Pension**

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.

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

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

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In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, claims and judgments and compensated absences and net pension liability that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year. In general, liabilities that mature or come due for payment during the fiscal year are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements when due.

**K. Bond Premiums**

Bond premiums are recorded as another financing source on the governmental fund statements. On the government-wide financial statements, bond premiums are deferred and amortized over the term of the bond using the bond outstanding method. Bond premiums are presented as an increase of the face amount of the bonds payable.

**L. Net Position**

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. At June 30, 2016, there was no net position restricted by enabling legislation.

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

**M. Fund Balance**

In accordance with Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the School District classifies its fund balance based on the purpose for which the resources were received and the level of constraint placed on the resources. The classifications are as follows:

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

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

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

*Assigned* – Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the School District Board of Education. The Board of Education has by resolution authorized the Treasurer to assign fund balance. 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 School District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

#### **N. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, these revenues are charges for its employee self-insurance program. Operating expenses are necessary costs incurred to provide services that are the primary activity of the fund. All revenues and expenses not meeting these definitions are reported as non-operating.

#### **O. 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.

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**P. 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.

**Q. Budgetary Data**

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

The certificate of estimated resources may be amended during the 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 in effect when the final appropriations were passed.

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

**R. Implementation of New Accounting Policies**

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

GASB Statement No. 72 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 School District's fiscal year 2016 note disclosures; however, there was no effect on beginning net position/fund balance.

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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 School District.

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 School 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. These changes were incorporated in the School District's fiscal year 2016 note disclosures; however, there was no effect on beginning net position/fund balance.

**NOTE 3: ACCOUNTABILITY**

The following funds had GAAP deficit balances at June 30, 2016:

<u>Nonmajor Governmental Funds:</u>	<u>Fund Balance</u>
Building Fund	\$ 274,630
IDEA Part B	56,150
Title I	39,299

These deficits were caused by the application of generally accepted accounting principles. The general fund provides transfers to cover deficit balances in other funds; however, this is when cash is needed rather than when accruals occur.

**NOTE 4: FUND BALANCE**

Fund balance can be classified as nonspendable, restricted, assigned and/or unassigned based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in governmental funds.

The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented as follows:



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	General	Debt Service	Other Governmental Funds	Total
Restricted for:				
Debt Service	\$ 0	\$2,260,120	\$ 0	\$ 2,260,120
Capital Outlay	0	0	619,281	619,281
Food Service	0	0	750,061	750,061
Other Grants	0	0	19,935	19,935
Latchkey	0	0	159,119	159,119
Athletics	0	0	212,666	212,666
Auxiliary Services	0	0	58,771	58,771
Total Restricted	<u>0</u>	<u>2,260,120</u>	<u>1,819,833</u>	<u>4,079,953</u>
Assigned for:				
Encumbrances:				
Instructional	260,432	0	0	260,432
Support Services	108,411	0	0	108,411
Extracurricular Activities	115	0	0	115
Subsequent Year Appropriations	2,478,864	0	0	2,478,864
Other Purposes	122,684	0	0	122,684
Total Assigned	<u>2,970,506</u>	<u>0</u>	<u>0</u>	<u>2,970,506</u>
Unassigned	<u>7,075,450</u>	<u>0</u>	<u>(370,079)</u>	<u>6,705,371</u>
Total Fund Balance	<u>\$10,045,956</u>	<u>\$2,260,120</u>	<u>\$1,449,754</u>	<u>\$13,755,830</u>

**NOTE 5: BUDGETARY BASIS OF ACCOUNTING**

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

The major differences between the budget basis and GAAP basis are:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than restricted, committed or assigned of fund balance for (GAAP basis).

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4. Some funds are included in the general fund (GAAP), but have separate legally adopted budgets.

The following tables summarize the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund:

**Net Change in Fund Balance**

GAAP Basis	\$ (747,235)
Net adjustments for revenue accruals	(705,360)
Net adjustments for expenditure accruals	(423,329)
Funds budgeted elsewhere**	(65,409)
Adjustments for encumbrances	<u>(457,255)</u>
Budget Basis	<u>\$ (2,398,588)</u>

\*\* As part of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes miscellaneous trusts, uniform school support, rotary shared services, public school support, and underground storage.

**NOTE 6: DEPOSITS AND INVESTMENTS**

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

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

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

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

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

1. United States Treasury Notes, Bill, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to payment of principal and interest by the United States;

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2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and marked to market daily, and that the term of the agreement must not exceed 30 days;
4. Bonds and other obligations of the State of Ohio, its political subdivisions, or other units or agencies of this state or its political subdivisions;
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 and STAR Plus);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed 40% of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity.

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.

According to State law, public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by Federal Deposit Insurance Corporation (FDIC), or may pledge a pool of government securities valued at least 105% of the total value of uninsured public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within five years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the School District's name. During fiscal year 2016, the School District and public depositories complied with the provisions of these statutes.

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**Deposits with Financial Institutions**

Custodial credit risk is the risk that, in the event of a bank failure, the School District's deposits may not be returned. According to state law, public depositories must give security for all public funds on deposit in excess of those funds that are insured by the FDIC or by any other agency or instrumentality of the federal government. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the FDIC, or may pledge a pool of government securities valued at least 105 percent of the total value of uninsured public monies on deposit at the institution. The School District's policy is to deposit money with financial institutions that are able to abide by the laws governing insurance and collateral of public funds.

At fiscal year-end, the carrying amount of the School District's deposits was \$5,590,743. Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, as of June 30, 2016, \$523,828 of the School District's bank balance of \$5,832,648 was exposed to custodial risk as discussed above, while \$5,308,820 was covered by FDIC.

The School District had \$942,812 in cash with fiscal agent related to the Internal Service Fund.

**Investments**

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

Entity	S & P Global Ratings	Measurement Amount	Investment Maturity		Percent of Total
			0-12 months	12 -36 months	
STAROhio	AAAm	\$ 30,225	\$ 30,225	\$ 0	0.35%
Commercial Paper	AAAm	3,234,521	3,234,521	0	37.01%
General Obligation Fund Account	AAAm	470,933	470,933	0	5.39%
Federal Home Loan Mortgage Corporation	AA+	4,002,640	0	4,002,640	45.80%
Federal National Mortgage Association	AA+	1,000,600	0	1,000,600	11.45%
		<u>\$ 8,738,919</u>	<u>\$ 3,735,679</u>	<u>\$ 5,003,240</u>	<u>100.00%</u>

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

***Interest Rate Risk.*** Is the possibility that changes in interest rates will adversely affect the fair value of an investment. The School District's investment policy does not address limits on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

STAR Ohio is an investment pool operated by the Ohio State Treasurer. It is unclassified since it is not evidenced by securities that exist in physical or book entry form. Ohio law requires STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The weighted average of maturity of the portfolio held by STAR Ohio as of June 30, 2016, is 49 days. The School District has no investment policy that would further limit its investment choices.

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***Custodial Credit Risk.*** For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District's policy is to invest money with financial institutions that are able to abide by the laws governing insurance and collateral of public funds.

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

**NOTE 7: PROPERTY TAXES**

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

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

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

The School District receives property taxes from Lorain County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2016, are available to finance fiscal year 2016 operations. The amount available as an advance at June 30, 2016 in the general fund, debt service fund and capital project fund was \$3,377,637, \$499,787, and \$92,397, respectively. The amount available for advance at June 30, 2015, in the general fund, debt service fund and capital project fund was \$2,642,198, \$407,922, and \$79,331, respectively. The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

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

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

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

	2015 Second Half Collections		2016 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$ 573,754,960	75.98%	\$ 633,809,990	77.67%
Commercial/Industrial	168,064,920	22.25%	168,060,590	20.60%
Public Utilities	13,371,550	1.77%	14,083,250	1.73%
	<u>\$ 755,191,430</u>	<u>100.00%</u>	<u>\$ 815,953,830</u>	<u>100.00%</u>
Full Tax Rate per \$1,000 of assessed value	<u>\$ 56.83</u>		<u>\$ 58.53</u>	

**NOTE 8: RECEIVABLES**

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

**NOTE 9: INTERFUND ACTIVITY**

**Interfund Balances**

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

	Interfund Receivable	Interfund Payable
General Fund	\$ 557,586	\$ 0
Nonmajor Governmental Funds:		
Building Fund	0	288,520
Auxiliary Services	0	219,851
IDEA	0	16,039
Title I	0	31,976
Title V	0	1,200
	<u>\$ 557,586</u>	<u>\$ 557,586</u>

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

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Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances are reported on the Statement of Net Position.

**Interfund Transfers**

Transfers made during fiscal year 2016 were as follows:

	Transfers In	Transfers Out
General Fund	\$ 0	\$ 23,042
Nonmajor Governmental Funds	23,042	0
	\$ 23,042	\$ 23,042

These transfers were made to move unrestricted balances to support programs and projects accounted for in other funds. The general fund transferred \$20,623 to the building fund and \$2,419 to the Title I fund.

**NOTE 10: CAPITAL ASSETS**

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

	Balance June 30, 2015	Additions	Deletions	Balance June 30, 2016
<b>Governmental Activities</b>				
<i>Capital Assets, Not Being Depreciated</i>				
Land	\$ 3,603,900	\$ 0	\$ 0	\$ 3,603,900
Construction in Progress	33,056,716	3,629,565	(36,686,281)	0
<i>Total Capital Assets, Not Being Depreciated</i>	36,660,616	3,629,565	(36,686,281)	3,603,900
<i>Capital Assets, Being Depreciated</i>				
Land Improvements	2,038,872	1,725,488	0	3,764,360
Buildings and Improvements	59,780,168	35,528,631	0	95,308,799
Furniture and Equipment	1,405,022	381,870	0	1,786,892
Vehicles	3,171,750	463,800	(375,000)	3,260,550
<i>Total Capital Assets, Being Depreciated</i>	66,395,812	38,099,789	(375,000)	104,120,601
<i>Accumulated Depreciation</i>				
Land Improvements	(425,253)	(77,938)	0	(503,191)
Buildings and Improvements	(16,875,273)	(2,030,463)	0	(18,905,736)
Furniture and Equipment	(893,776)	(108,095)	0	(1,001,871)
Vehicles	(2,835,966)	(159,763)	375,000	(2,620,729)
<i>Total Accumulated Depreciated</i>	(21,030,268)	(2,376,259)	375,000	(23,031,527)
<i>Total Capital Assets Being Depreciated, Net</i>	45,365,544	35,723,530	0	81,089,074
<i>Governmental Activities, Capital Assets, Net</i>	\$ 82,026,160	\$ 39,353,095	\$ (36,686,281)	\$ 84,692,974

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Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 1,678,378
Special	100,465
Support Services:	
Pupils	15,961
Administration	48,766
Operations and Maintenance of Plant	53,520
Pupil Transportation	181,579
Central	1,922
Operation of Non-Instructional Services:	
Food Service Operation	15,059
Community Services	7,479
Extracurricular Activities	273,130
Total Depreciation	\$ 2,376,259

**NOTE 11: LONG-TERM OBLIGATIONS**

The original issue date, interest rate, original issuance and date of maturity for each of the School District's long-term obligations follow:

	Original Issue Date	Interest Rate	Original Issue Amount	Date of Maturity
General Obligation Bonds:				
School Improvement Serial	1996	4.80%	\$ 3,310,000	12/01/20
School Improvement Capital Appreciation	2003	10.49% - 10.80%	395,000	12/01/18
School Improvement Refunding Capital Appreciation	2004	17.62% - 17.93%	190,000	12/01/17
School Improvement Refunding				
Serial and Term	2007	4.00% - 4.50%	12,329,999	12/01/29
Capital Appreciation	2007	17.43%	119,991	12/01/20
School Improvement Refunding Taxable Serial	2013B	.40% - 4.00%	3,260,000	12/01/20
School Improvement				
Serial and Term	2013A	2.00% - 3.00%	33,945,000	12/01/41
Capital Appreciation	2013A	2.53% - 17.22%	3,073,980	12/01/30
School Improvement Refunding				
Serial and Term	2014	1.00% - 4.00%	9,000,000	12/01/29
Capital Appreciation	2014	2.00%	134,895	12/01/21

The original amount of bonds issued in 2003 was \$14,950,000. The general obligation bonds included serial and capital appreciation bonds. The serial bonds have matured.

The original amount of bonds issued in 2004 was \$ 6,540,000. The general obligation bonds included serial and capital appreciation bonds. The serial bonds have matured.



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During 2013, the School District issued \$3,260,000 of general obligation refunding bonds to provide resources to purchase US government securities that were placed in an escrow account for the purpose of generating resources for all future debt service payments. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities of the statement of net position.

During 2015, the School District advance refunded portions of certain general obligation bonds issued in 2006 with a new general obligation bond issue. The School District issued \$ 9,134,985 of general obligation school refunding bonds to provide resources to purchase U.S. government securities that were placed in escrow for the purpose of generating resources for all future debt service payments of the refunded debt. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the financial statements. The advance refunding was undertaken to reduce total debt service payments over the 22 years by \$1,346,018 and to obtain an economic gain of \$147,940.

The School District defeased 1996 general obligation bonds in 2004, in 2007 defeased 2000 and 2003 general obligation bonds, by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds and in 2013 defeased 2004 refunding general obligation bonds by placing the proceeds of the new bonds in an escrow fund. Accordingly, the trust/escrow fund account assets and liability for the defeased bonds are not included in the School District's financial statements. At June 30, 2016, \$23,965,000 of bonds outstanding are considered to be defeased.

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

	Balance 6/30/15	Additions	Reductions	Balance 6/30/16	Amounts Due in One Year
<b>Governmental Activities:</b>					
<i>General Obligation Bonds:</i>					
School Improvement Bonds - 1996					
Serial Bonds	\$ 640,000	\$ 0	\$ 640,000	\$ 0	\$ 0
School Improvement Bonds - 2003					
Capital Appreciation Bonds	395,000	0	75,000	320,000	95,000
Accretion on Capital Appreciation Bonds	838,661	223,163	190,000	871,824	254,816
Unamortized Premium	294,329	0	21,008	273,321	0
Total School Improvement Refunding Bonds - 2003	<u>1,527,990</u>	<u>223,163</u>	<u>286,008</u>	<u>1,465,145</u>	<u>349,816</u>
School Improvement Refunding Bonds - 2004					
Capital Appreciation Bonds	190,000	0	0	190,000	100,000
Accretion on Capital Appreciation Bonds	1,073,377	234,694	0	1,308,071	701,045
Total School Improvement Refunding Bonds - 2004	<u>1,263,377</u>	<u>234,694</u>	<u>0</u>	<u>1,498,071</u>	<u>801,045</u>
School Improvement Refunding Bonds - 2007					
Serial Bonds	8,345,000	0	355,000	7,990,000	445,000
Capital Appreciation Bonds	119,990	0	0	119,990	0
Accretion on Capital Appreciation Bonds	367,015	88,598	0	455,613	0
Unamortized Premium	142,131	0	12,921	129,210	0
Total School Improvement Bonds - 2007	<u>8,974,136</u>	<u>88,598</u>	<u>367,921</u>	<u>8,694,813</u>	<u>445,000</u>
School Improvement Bond - 2013					
Serial Bond	3,115,000	0	110,000	3,005,000	5,000
School Improvement Refunding Bonds - 2013					
Serial Bonds	33,935,000	0	10,000	33,925,000	10,000
Capital Appreciation Bonds	3,073,980	0	0	3,073,980	0
Accretion on Capital Appreciation Bonds	373,678	182,394	0	556,072	0
Unamortized Premium	2,451,861	0	94,302	2,357,559	0
Total School Improvement Refunding Bonds - 2013	<u>39,834,519</u>	<u>182,394</u>	<u>104,302</u>	<u>39,912,611</u>	<u>10,000</u>
School Improvement Refunding Bonds - 2014					
Serial Bonds	9,000,000	0	60,000	8,940,000	60,000
Capital Appreciation Bonds	134,985	0	0	134,985	0
Accretion on Capital Appreciation Bonds	0	42,952	0	42,952	0
Unamortized Premium	819,077	0	43,109	775,968	0
Total School Improvement Refunding Bonds - 2014	<u>9,954,062</u>	<u>42,952</u>	<u>103,109</u>	<u>9,893,905</u>	<u>60,000</u>
Total General Obligation Bonds	<u>65,309,084</u>	<u>771,801</u>	<u>1,611,340</u>	<u>64,469,545</u>	<u>1,670,861</u>
<i>Net Pension Liability:</i>					
STRS	34,191,457	5,802,085	0	39,993,542	0
SERS	7,433,311	1,001,556	0	8,434,867	0
Total Net Pension Liability	<u>41,624,768</u>	<u>6,803,641</u>	<u>0</u>	<u>48,428,409</u>	<u>0</u>
<i>Other Long-term Obligations:</i>					
Compensated Absences	3,262,750	434,655	201,758	3,495,647	191,797
Capital Leases	0	427,340	90,109	337,231	80,949
Total Governmental Activities	<u>\$ 110,196,602</u>	<u>\$ 8,437,437</u>	<u>\$ 1,903,207</u>	<u>\$ 116,730,832</u>	<u>\$ 1,943,607</u>

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The bonds payable and the capital lease will be repaid from the Debt Service Fund and Permanent Improvement Fund, respectively. The compensated absences will be repaid from the funds from which employees' salaries are paid. Obligations related to employee compensation will be paid from the fund benefitting from their service.

Debt service requirements, including principal and interest, to retire bonds payable at June 30, 2016, consisted of:

Fiscal Year Ending June 30,	General Obligation Bonds			Capital Appreciation Bonds			Total		
	Principal	Interest	Total	Principal	Accretion	Total	Principal	Accretion	Total
2017	\$ 520,000	\$ 1,983,953	\$ 2,503,953	\$ 195,000	\$ 1,030,000	\$ 1,225,000	\$ 715,000	\$ 3,013,953	\$ 3,728,953
2018	585,000	1,964,194	2,549,194	195,000	1,155,000	1,350,000	780,000	3,119,194	3,899,194
2019	1,535,000	1,928,461	3,463,461	120,000	445,000	565,000	1,655,000	2,373,461	4,028,461
2020	1,570,000	1,881,698	3,451,698	86,598	648,420	735,018	1,656,598	2,530,118	4,186,716
2021	2,115,000	1,827,834	3,942,834	33,393	301,607	335,000	2,148,393	2,129,441	4,277,834
2022-2026	5,675,000	9,779,996	15,454,996	2,428,282	1,336,718	3,765,000	8,103,282	11,116,714	19,219,996
2027-2031	7,420,000	7,121,227	14,541,227	780,682	4,974,318	5,755,000	8,200,682	12,095,545	20,296,227
2032-2036	15,785,000	4,831,324	20,616,324	0	0	0	15,785,000	4,831,324	20,616,324
2037-2041	15,575,000	1,939,039	17,514,039	0	0	0	15,575,000	1,939,039	17,514,039
2042	3,080,000	53,900	3,133,900	0	0	0	3,080,000	53,900	3,133,900
	<u>\$ 53,860,000</u>	<u>\$ 33,311,626</u>	<u>\$ 87,171,626</u>	<u>\$ 3,838,955</u>	<u>\$ 9,891,063</u>	<u>\$ 13,730,018</u>	<u>\$ 57,698,955</u>	<u>\$ 43,202,689</u>	<u>\$ 100,901,644</u>

**NOTE 12: CAPITAL LEASES – LESSEE DISCLOSURE**

In fiscal year 2016, the School District entered into capitalized leases for five buses. The leases meet the criteria of a capital lease since they transfer benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the basic financial statements for the governmental funds.

Equipment acquired by lease has been capitalized in the government wide financial statements in the amount of \$427,340, which is equal to the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation was \$52,527 as of June 30, 2016, leaving a current book value of \$374,813.

Future minimum lease payments are as follows:

Year Ending June 30,	Lease Payment
2017	\$ 90,109
2018	90,109
2019	90,110
2020	90,110
Total Minimum Lease Payments	360,438
Less: Amount Representing Interest	23,207
Present Value of Minimum Lease Payments	<u>\$ 337,231</u>

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**NOTE 13: RISK MANAGEMENT**

**Property and Liability**

The School District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions, injuries to employees and natural disasters. During fiscal year 2016, the School District contracted with Ohio School Plan for their insurance needs. The plan covered a liability aggregate limit of \$13,000,000. Vehicles were covered at a \$11,000,000 combined single limit liability.

Performance bonds are maintained for the Superintendent and Treasurer. The bond for the Treasurer is held by Hartford Plaza in the amount of \$25,000. The Superintendent's bond is held by Cincinnati Insurance Company in the amount of \$20,000.

**Worker's Compensation**

The School District participates in the Ohio Bureau of Workers Compensation (BWC). During fiscal year 2016, 1-888 Ohio Comp was the Managed Care Organization. During open enrollment they switched and are now involved with Comp Management Health Systems for both Third Party Administrator and Managed Care Organization services.

**Employee Medical Benefits**

The School District participates in the Great Lakes Council of Governments (the Council), to process and pay health benefit claims incurred by its members. The Council contracted with a third party administrator, Medical Mutual Services, LLC for the year ended June 30, 2016. Payments are made by members to the Council for monthly health insurance premiums, monthly stop-loss premiums, and administrative charges. The Fiscal Officer approves monthly payments to the third party administrators for actual insurance claims processed, stop-loss premiums and administrative charges incurred on behalf of the Council members. If the members aggregate contributions less expenses cause it to have a negative cash balance, the Council shall direct the Fiscal Agent to promptly notify in writing each member of any additional funds necessary to correct the deficiency. Whereupon each Member shall appropriate (pursuant to Chapter 5705 of the Revised Code) the amount stated in that notice and remit the same to the Fiscal Agent within the time periods determined by the Council. The Council employs reinsurance agreements (stop-loss coverage) to reduce its risk that large losses may be incurred on medical claims. This allows the Council to recover a portion of losses on claims from re-insurers, although it does not discharge their primary liability.

As of June 30, 2016, claims outstanding were \$437,920. The liability is the School District's best estimate based on available information. Changes in claims activity for fiscal years ended June 30, 2015 and 2016 are as follows:

	Balance Beginning of Year	Current Year Claims	Claims Payments	Balance End of Year
2015	\$ 304,200	\$ 3,552,177	\$ 3,503,327	\$ 353,050
2016	\$ 353,050	\$ 4,058,950	\$ 3,974,080	\$ 437,920

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**NOTE 14: DEFINED BENEFIT PENSION PLANS**

**Net Pension Liability**

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

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

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

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

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

**Plan Description - School Employees Retirement System (SERS)**

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

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Age and service requirements for retirement are as follows:

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

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

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

One year after an effective benefit date, a benefit recipient is entitled to a 3% 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% of their annual covered salary and the School District is required to contribute 14% 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% for plan members and 14% 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%. SERS did not allocate any employer contributions to the Health Care Fund for fiscal year 2016.

The School District’s contractually required contribution to SERS was \$740,696 for fiscal year 2016. Of this amount, \$54,392 is reported as an intergovernmental payable.

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

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

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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% 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 2% of the original base benefit. For members retiring August 1, 2013, or later, the first 2% is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

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

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

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

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

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

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The School District's contractually required contribution to STRS was \$2,113,429 for fiscal year 2016. Of this amount, \$419,120 is reported as an intergovernmental payable.

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

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

	<u>STRS</u>	<u>SERS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$ 39,993,542	\$ 8,434,867	\$ 48,428,409
Proportion of the Net Pension Liability	0.14470975%	0.14782200%	
Pension Expense	\$ 2,007,180	\$ 763,104	\$ 2,770,284

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

	<u>STRS</u>	<u>SERS</u>	<u>Total</u>
<b>Deferred Outflows of Resources</b>			
Differences between expected and actual experience	\$ 1,815,929	\$ 135,513	\$ 1,951,442
Changes in proportion	946,848	41,864	988,712
School District contributions subsequent to the measurement date	2,113,429	740,696	2,854,125
<b>Total Deferred Outflows of Resources</b>	<u>\$ 4,876,206</u>	<u>\$ 918,073</u>	<u>\$ 5,794,279</u>

<b>Deferred Inflows of Resources</b>			
Net difference between projected and actual earnings on pension plan investments	\$ 2,736,573	\$ 273,646	\$ 3,010,219
<b>Total Deferred Inflows of Resources</b>	<u>\$ 2,736,573</u>	<u>\$ 273,646</u>	<u>\$ 3,010,219</u>

\$2,854,125 reported as deferred outflows of resources related to pension resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2017. 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>STRS</u>	<u>SERS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2017	\$ (368,222)	\$ (86,278)	\$ (454,500)
2018	(368,222)	(86,278)	(454,500)
2019	(368,225)	(86,915)	(455,140)
2020	1,130,873	163,202	1,294,075
	<u>\$ 26,204</u>	<u>\$ (96,269)</u>	<u>\$ (70,065)</u>



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**Actuarial Assumptions - SERS**

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

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

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

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

Wage Inflation	3.25%
Future Salary Increases, including inflation	4% to 22%
COLA or Ad Hoc COLA	3%
Investment Rate of Return	7.75% net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

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

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

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

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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
	100.00 %	

**Discount Rate** The total pension liability was calculated using the discount rate of 7.75%. 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 earnings were calculated using the long-term assumed investment rate of return (7.75%). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

**Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact, the following table presents the net pension liability calculated using the discount rate of 7.75%, 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%), or one percentage point higher (8.75%) than the current rate.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$ 11,696,129	\$ 8,434,867	\$ 5,688,615

**Actuarial Assumptions - STRS**

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

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

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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	1.00	3.00
	<u>100.00 %</u>	

**Discount Rate** The discount rate used to measure the total pension liability was 7.75% 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% was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2015.

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$ 55,554,047	\$ 39,993,542	\$ 26,834,815

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**NOTE 15: POSTEMPLOYMENT BENEFITS**

**School Employees Retirement System**

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

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14% of covered payroll to the Health Care Fund. For fiscal year 2016, SERS did not allocate any employer contributions to the Health Care Fund. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2016, this amount was \$23,000. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge.

The School District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2016, 2015, and 2014 were \$79,557, \$32,684 and \$5,783, respectively. For fiscal year 2016, 93% has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2015 and 2014.

**State Teachers Retirement System**

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

**Avon Local School District**  
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Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2016, STRS did not allocate any employer contributions to post-employment health care. The School District’s contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$0, and \$146,365, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

**NOTE 16: JOINTLY GOVERNED ORGANIZATIONS**

**Connect**

Connect, formerly known as North Coast Council (NCC), is a jointly governed computer service bureau known as an Information Technology Center (ITC) that was formed for the purpose of providing data services to its members. Major areas of service provided by Connect include accounting, payroll, inventory, career guidance services, handicapped student tracking, pupil scheduling, attendance reporting and grade reporting. Effective April 1, 2016, NCC began operation as Connect, a Council of Governments (COG). The Education Service Center of Cuyahoga County continues to serve as the fiscal agent of Connect. Participating school districts pay for services provided by the ITC based upon a per pupil charge dependent upon the software packages and services used. In fiscal year 2016, the School District paid \$110,192 to Connect/NCC. Financial information can be obtained by contacting the Treasurer of the fiscal agent at 6393 Oak Tree Boulevard, Suite 377, Independence, Ohio 44131.

**Lorain County Joint Vocational School District**

The Lorain County Joint Vocational School District is a separate body politic and corporate, established by the Ohio Revised Code to provide for the vocational and special education needs of the students. Its Board of Education consists of representatives from the board of each participating school district. The Board is responsible for approving its own budgets, appointing personnel, and accounting and financing related activities. Avon Local School District students may attend the vocational school. Each school district’s control is limited to its representation on the board. Financial information can be obtained by contacting the Treasurer at the Lorain County Joint Vocational School District located at 15181 State Route 58, Oberlin, Ohio 44074.

**Ohio Schools Council**

The Ohio Schools Council (Council) is a jointly governed organization among eighty-three school districts. The Council was formed to offer supplies and services at the lowest possible cost to the member districts. Each district supports the Council by paying an annual participation fee for the services provided. The Council’s Board consists of seven superintendents of the participating districts whose term rotates every fiscal year. The degree of control exercised by any school district is limited to its representation on the Board. In fiscal year 2016, the School District paid \$61,688 for participation in the prepaid natural gas program.

The School District participates in the Council’s electric purchase program.

**Avon Local School District**  
**Lorain County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2016*

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The School District participates in the Council's prepaid natural gas program which was implemented during fiscal year 2011. This program allows school districts to purchase natural gas at reduced rates, if the school districts will commit to participating for a twelve year period. The participants make monthly payments based on estimated usage. Each June these estimated payments are compared to their actual usage and any necessary adjustments are made.

The School District of Hamilton, a municipal corporation and political subdivision duly organized and existing under the laws of the State of Ohio, issued \$89,450,000 in debt to purchase twelve years of natural gas from CMS Energy Corporation for the participants. The participating school districts are not obligated in any manner for this debt. If a participating school district terminates its agreement, the district is entitled to recover that amount, if any, of its contributions to the operating fund which are not encumbered for its share of program administrative costs. Financial information can be obtained by contacting the Executive Secretary at the Ohio Schools Council at 6133 Rockside Road, Independence, Ohio 44131.

**Great Lakes Council of Governments**

The Great Lakes Council of Governments, (the Council) 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 as defined by Chapter 167 of the Ohio Revised Code. The Council is a claims-servicing pool as defined by Government Accounting Standards Board Statement No.10 as amended by GASB statement 30. It was formed to carry out a cooperative program for the provisions and administration of health care benefits for member employees in accordance with the Council-by-laws. The Council is directed by a Governing Board, consisting of the Superintendents or designee of the participating school districts. As of June 30, 2016 there were three participating members of the Council.

The Council is committed to providing its member districts with the advantages of a large buying cooperative, while maintaining control by the local district leadership. Underwriting considerations are of utmost importance in reviewing new membership applications, as the Council is committed to protecting the long -term financial interests of its core members, and will not admit a new member that will adversely impact premiums and claims payments.

Members pay monthly premiums (program costs) that are placed in a common fund from which eligible claims are paid for member employees and their covered dependents. Claims are paid for all participants regardless of claims flow. The Board of Directors annually estimate and set the amount of funds necessary in order to have funds available to pay all claims which could be made under the Health Benefits Plan by covered persons which would not be paid aggregate and specific stop-loss insurance coverage, and said amounts will be placed in a reserve fund.

The Council issues its own financial statements. Fiscal information can be obtained by contacting the Treasurer of the Fairview Park School District (fiscal agent) Ms. Amy Hendricks, Fiscal Officer, Great Lakes Council of Government, 21620 Mastick Road, A, Fairview Park, Ohio 44126.

**Avon Local School District**  
**Lorain County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2016*

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**NOTE 17: CONTINGENCIES**

**Grants**

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

**Litigation**

The School District is not party to any claims or lawsuits that would, in the School District's opinion, have a material effect of the basic financial statements.

**School District Funding**

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

**NOTE 18: SET-ASIDES**

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

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

	Capital Improvement Reserve
Set-Aside Restricted Balance, June 30, 2015	\$ 0
Current Year Set-Aside Requirement	723,088
Current Year Offset	(912,335)
Total	\$ (189,247)
 Balance Carried Forward to Fiscal Year 2017	 \$ 0
 Set-Aside Restricted Balance June 30, 2016	 \$ 0

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*For the Fiscal Year Ended June 30, 2016*

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

**NOTE 19: COMMITMENTS**

**Contractual Commitments**

The following construction commitments at June 30, 2016 will be financed with capital project fund revenues:

	Contract Amount	Expenditures as of June 30, 2016	Amount Remaining on Contract
Stem Lab	\$ 188,500	\$ 0	\$ 188,500

**Other Commitments**

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

Fund	Amount
General	\$ 372,371
Nonmajor Governmental	711,371
	\$ 1,083,742

**NOTE 20: RESTATEMENT OF NET POSITION**

Net position has been restated for an error in the calculation of the accruals associated with the unfunded pension liability.

	Governmental Activities
Net position, June 30, 2015	\$ (11,461,375)
Adjustments:	
Deferred Outflows of Resources - Pension	(129,749)
Deferred Inflows of Resources - Pension	(1,506,399)
Beginning net position, July 1, 2015	\$ (13,097,523)



**Avon Local School District**  
**Lorain County, Ohio**  
*Required Supplementary Information*  
*Schedule of the School District's Proportionate Share of the Net Pension Liability*  
*Last Three Fiscal Years (1)*

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b><i>State Teachers Retirement System (STRS)</i></b>			
School District's Proportion of the Net Pension Liability	0.14470975%	0.14056987%	0.14056987%
School District's Proportionate Share of the Net Pension Liability	\$ 39,993,542	\$ 34,191,457	\$ 40,728,640
School District's Covered-Employee Payroll	\$ 15,912,014	\$ 14,636,462	\$ 13,911,054
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	251.34%	233.60%	292.78%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.10%	74.70%	69.30%
<b><i>School Employees Retirement System (SERS)</i></b>			
School District's Proportion of the Net Pension Liability	0.14782200%	0.14687600%	0.14687600%
School District's Proportionate Share of the Net Pension Liability	\$ 8,434,867	\$ 7,433,311	\$ 8,734,244
School District's Covered-Employee Payroll	\$ 6,133,991	\$ 4,130,512	\$ 3,946,040
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	137.51%	179.96%	221.34%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.16%	71.70%	65.52%

(1) Information prior to 2014 is not available.

Note: The amounts presented for each fiscal year were determined as of the measurement date, which is the prior fiscal year.

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**Lorain County, Ohio**  
*Required Supplementary Information*  
*Schedule of School District Contributions*  
*Last Ten Fiscal Years*

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b><i>State Teachers Retirement System (STRS)</i></b>			
Contractually Required Contribution	\$ 2,113,429	\$ 2,227,682	\$ 1,902,740
Contributions in Relation to the Contractually Required Contribution	<u>(2,113,429)</u>	<u>(2,227,682)</u>	<u>(1,902,740)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
School District's Covered-Employee Payroll	\$ 15,095,921	\$ 15,912,014	\$ 14,636,462
Contributions as a Percentage of Covered-Employee Payroll	14.00%	14.00%	13.00%
 <b><i>School Employees Retirement System (SERS)</i></b>			
Contractually Required Contribution	\$ 740,696	\$ 808,460	\$ 572,489
Contributions in Relation to the Contractually Required Contribution	<u>(740,696)</u>	<u>(808,460)</u>	<u>(572,489)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
School District's Covered-Employee Payroll	\$ 5,290,686	\$ 6,133,991	\$ 4,130,512
Contributions as a Percentage of Covered-Employee Payroll	14.00%	13.18%	13.86%

<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 1,808,437	\$ 1,617,680	\$ 1,721,042	\$ 1,689,680	\$ 1,580,750	\$ 1,478,102	\$ 1,485,000
<u>(1,808,437)</u>	<u>(1,617,680)</u>	<u>(1,721,042)</u>	<u>(1,689,680)</u>	<u>(1,580,750)</u>	<u>(1,478,102)</u>	<u>(1,485,000)</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$ 13,911,054	\$ 12,443,692	\$ 13,238,785	\$ 12,997,538	\$ 12,159,615	\$ 11,370,015	\$ 11,423,077
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%
\$ 546,132	\$ 483,865	\$ 455,180	\$ 491,485	\$ 346,855	\$ 323,185	\$ 324,957
<u>(546,132)</u>	<u>(483,865)</u>	<u>(455,180)</u>	<u>(491,485)</u>	<u>(346,855)</u>	<u>(323,185)</u>	<u>(324,957)</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$ 3,946,040	\$ 3,597,509	\$ 3,621,161	\$ 3,629,874	\$ 3,524,949	\$ 3,291,090	\$ 3,042,669
13.84%	13.45%	12.57%	13.54%	9.84%	9.82%	10.68%

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**AVON LOCAL SCHOOL DISTRICT  
LORAIN COUNTY**

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

<b>Federal Grantor</b> <i>Pass Through Grantor</i>					
Program Title	Year	Federal CFDA Number	Passed Through to Subrecipients	Expenditures	Non-Cash Expenditures
<b>U.S. Department of Agriculture</b>					
<i>Passed Through the Ohio Department of Education:</i>					
Child Nutrition Cluster:					
National School Lunch Program	2016	10.555		\$ 178,074	\$ 55,291
National School Breakfast Program	2016	10.553		21,531	
Total Child Nutrition Cluster				<u>199,605</u>	<u>55,291</u>
<b>Total U.S. Department of Agriculture</b>				<b><u>199,605</u></b>	<b><u>55,291</u></b>
<b>U.S. Department of Education</b>					
<i>Passed Through the Ohio Department of Education:</i>					
Special Education-Grants to States	2015	84.027		51,389	
Special Education-Grants to States	2016	84.027		596,844	
NAPSA Lorain County 2016	2016	84.027	\$ 23,251	23,251	
Total Special Education - Grants to States				<u>23,251</u>	<u>671,484</u>
Title I Grants to Local Educational Agencies	2014	84.010			
	2015	84.010		53,984	
	2016	84.010		232,012	
Total Title I Grants to Local Educational Agencies				<u>285,996</u>	
Improving Teacher Quality State Grants	2015	84.367			
	2016	84.367		38,226	
Improving Teacher Quality State Grants				<u>38,226</u>	
LEP/Immigrant, Title III	2016	84.365		15,941	
<b>Total U.S. Department of Education</b>				<b><u>23,251</u></b>	<b><u>1,011,647</u></b>
<b>Total Federal Assistance</b>				<b><u>\$ 23,251</u></b>	<b><u>\$ 1,211,252</u></b>
					<b><u>\$ 55,291</u></b>

The notes to the Schedule of Expenditures of Federal Awards are an integral part of this statement.

**AVON LOCAL SCHOOL DISTRICT  
LORAIN COUNTY**

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

**NOTE A – BASIS OF PRESENTATION**

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

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

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

**NOTE C - SUBRECIPIENTS**

The District passes certain federal awards received from the Ohio Department of Education to other governments or not-for-profit agencies (subrecipients). As Note B describes, the District reports expenditures of Federal awards to subrecipients when paid in cash.

As a subrecipient, the District has certain compliance responsibilities, such as monitoring its subrecipients to help assure they use these subawards as authorized by laws, regulations, and the provisions of contracts or grant agreements, and that subrecipients achieve the award's performance goals.

**NOTE D - CHILD NUTRITION CLUSTER**

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

**NOTE E – FOOD DONATION PROGRAM**

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

**NOTE F - MATCHING REQUIREMENTS**

Certain Federal programs require the District to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The District has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds

**AVON LOCAL SCHOOL DISTRICT  
LORAIN COUNTY**

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

**NOTE G - TRANSFERS BETWEEN PROGRAM YEARS**

Federal regulations require schools to obligate certain federal awards by June 30. However, with the Ohio Department of Education's consent, schools can transfer unobligated amounts to the subsequent fiscal year's program. The District transferred the following amounts from 2016 to 2017 programs:

<b><u>Program Title</u></b>	<b><u>CFDA Number</u></b>	<b><u>Amount Transferred</u></b>
Title I Grants to Local Educational Agencies	84.010	\$12,828
Improving Teacher Quality State Grants	84.367	\$ 1,253
Special Education – Grants to States	84.027	\$41,647

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# Dave Yost • Auditor of State

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

Avon Local School District  
Lorain County  
35573 Detroit Road  
Avon, Ohio 44011

To the Board of Education:

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

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

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

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

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

***Compliance and Other Matters***

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

***Purpose of this Report***

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

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

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

March 17, 2017



# Dave Yost • Auditor of State

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

Avon Local School District  
Lorain County  
35573 Detroit Road  
Avon, Ohio 44011

To the Board of Education:

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

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

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

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

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

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

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

### ***Opinion on the Major Federal Program***

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

**Report on Internal Control Over Compliance**

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

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

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

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



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

March 17, 2017

**AVON LOCAL SCHOOL DISTRICT  
LORAIN COUNTY**

**SCHEDULE OF FINDINGS  
2 CFR § 200.515  
DECEMBER 31, 2015**

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

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

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

None.

**3. FINDINGS FOR FEDERAL AWARDS**

None.

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# Dave Yost • Auditor of State

AVON LOCAL SCHOOL DISTRICT

LORAIN COUNTY

## CLERK'S CERTIFICATION

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

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
MARCH 30, 2017