

**AURORA CITY
SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

AUDIT REPORT

**FOR THE FISCAL YEAR
ENDED JUNE 30, 2015**

James G. Zupka, CPA, Inc.
Certified Public Accountants

**AURORA CITY SCHOOL DISTRICT
PORTAGE COUNTY, OHIO
AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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INDEPENDENT AUDITOR'S REPORT

Board of Education
Aurora City School District
Aurora, Ohio 44202

The Honorable Dave Yost
Auditor of State
State of Ohio

Report on the Financial Statement

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Emphasis of Matter

As described in Note 2 to the financial statements, the District adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, and restated its June 30, 2014 net position. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of the School District's Proportionate Share of the Net Pension Liability, Schedule of the School District Contributions, and Notes to Required Supplementary Information, as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2015, on our consideration of the Aurora City School District's, Portage County, Ohio's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Aurora City School District, Ohio's internal control over financial reporting and compliance.

James G. Zupka,
CPA, President

Digitally signed by James G. Zupka,
CPA, President
DN: cn=James G. Zupka, CPA,
President, o=James G. Zupka, CPA, Inc.,
ou=Accounting,
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James G. Zupka, CPA, Inc.
Certified Public Accountants

November 4, 2015

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**AURORA CITY SCHOOL DISTRICT
MANAGEMENTS DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
UNAUDITED**

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

Financial Highlights

Key financial highlights for 2015 are as follows:

- Net position of governmental activities increased \$2,077,253 from 2014.
- General revenues accounted for \$33,862,885 in revenue or 91.7% of all revenues. Program specific revenues in the form of charges for services and operating grants, contributions and interest, and capital grants and contributions accounted for \$3,078,823 or 8.3% of total revenues of \$36,941,708.
- The School District had \$34,864,455 in expenses related to governmental activities; only \$3,078,823 of these expenses was offset by program specific revenues. General revenues of \$33,862,885 were adequate to provide for these programs.
- At the end of the current fiscal year the governmental funds reported a combined ending fund balance of \$9,781,469, an increase of \$130,852 from the prior fiscal year.
- During the fiscal year the School District issued refunding certificates of participation in the amount of \$7,135,000 in order to refund certificates of participation of the 2005 debt issue.

Using this Annual Financial Report

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

The statement of net position and statement of activities provide information about the activities of the whole 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 present 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 fund with all other nonmajor funds presented in total in one column. In the case of Aurora City 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 these statements contain information about a 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 helps answer the question, "How did we do financially during 2015?" These statements include all non-fiduciary assets and liabilities 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.

**AURORA CITY SCHOOL DISTRICT
MANAGEMENTS DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
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These two statements report the School District's net position and changes in this 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 current property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the statement of net position and the statement of activities, the School Districts' activities are considered to be all governmental activities:

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

Reporting the School District's Most Significant Fund

Fund Financial Statements

The analysis of the School District's major fund begins on page 10. 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 only major governmental fund is the general 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 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.

The School District as a Whole

Recall that the statement of net position provides the perspective of the School District as a whole. Over time, net position can serve as a useful indicator of a government's financial position. During fiscal year 2015, the School District had an increase in net position of \$2,077,253.

Net investment in capital assets reported on the government-wide statements represents a portion of the School District's total net position. Capital assets include land and land improvements, buildings, furniture and equipment and vehicles 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, \$2,465,177, represents resources that are subject to external restrictions on how the funds may be used. Of the total restricted assets, \$934,471 or 37.9% is restricted for capital projects; \$1,180,193 or 47.9% is restricted for debt service payment; and another small amount, \$350,513 or 14.2%, is restricted for other purposes. The remaining portion of net position happens to be a deficit of \$(44,374,446) and is unrestricted. Table 1 provides a summary of the School District's net position for 2015 and 2014:

**AURORA CITY SCHOOL DISTRICT
MANAGEMENTS DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
UNAUDITED**

Table 1
Net Position

	Governmental Activities	
	2015	Restated 2014
Assets:		
Current and other assets	\$ 36,725,209	\$ 34,966,672
Capital assets, net of depreciation	32,246,176	33,178,955
Total assets	68,971,385	68,145,627
Deferred outflows of resources:		
Pension	3,344,914	2,683,911
Deferred charge on refunding	1,564,791	1,562,344
Total deferred outflows of resources	4,909,705	4,246,255
Liabilities:		
Other liabilities	3,507,660	3,702,783
Long-term liabilities:		
Due within one year	2,692,825	2,654,491
Due in more than one year:		
Net pension liability	45,022,401	53,499,055
Other amounts	27,571,746	29,518,026
Total liabilities	78,794,632	89,374,355
Deferred inflows of resources:		
Property taxes	22,666,318	20,819,683
Pension	8,145,043	-
Total deferred inflows of resources	30,811,361	20,819,683
Net Position:		
Net investment in capital assets	6,184,366	5,010,033
Restricted	2,465,177	2,704,327
Unrestricted	(44,374,446)	(45,516,516)
Total net position	\$ (35,724,903)	\$ (37,802,156)

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. 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. This implementation also had the effect of restating net position at June 30, 2014, from \$13,012,988 to \$(37,802,156). See Note 2 to the basic financial statements for further discussion on the implementation of GASB 68.

The School District's statement of activities prepared on an accrual basis of accounting includes an annual pension expense for their proportionate share of each plan's change in net pension liability not accounted for as deferred inflows/outflows.

**AURORA CITY SCHOOL DISTRICT
MANAGEMENTS DISCUSSION AND ANALYSIS
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The School District is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting in the statement of net position. Table 2 shows the changes in net position for fiscal year 2015 as compared to fiscal year 2014.

Table 2
Changes in Net Position

	Governmental Activities	
	2015	2014
Revenues		
Program revenues:		
Charges for services	\$ 1,603,562	\$ 1,593,764
Operating grants, contributions and interest	1,465,261	1,628,498
Capital grants and contributions	10,000	-
General revenues:		
Property taxes	24,898,768	29,504,246
Grants and entitlements	8,922,352	8,577,865
Investment earnings	15,483	11,118
Miscellaneous	21,282	27,305
Gain on sale of capital assets	5,000	14,100
Total revenues	36,941,708	41,356,896
Program Expenses		
Instruction:		
Regular	14,619,833	14,800,250
Special	3,708,087	3,598,790
Vocational	127,455	170,436
Other	1,047,573	1,338,486
Support services:		
Pupils	1,900,057	1,890,199
Instructional staff	1,354,098	1,528,699
Board of education	128,794	109,418
Administration	2,462,667	2,242,117
Fiscal	903,793	888,399
Business	207,815	205,002
Operation and maintenance of plant	3,146,432	3,046,381
Pupil transportation	1,762,710	1,777,953
Central	33,078	54,687
Operation non-instructional services:		
Food service operations	773,515	752,123
Community service	164,896	183,679
Extracurricular activities	1,239,697	1,170,664
Interest and fiscal charges	1,283,955	1,397,642
Total expenses	34,864,455	35,154,925
Increase in net position	\$ 2,077,253	\$ 6,201,971

**AURORA CITY SCHOOL DISTRICT
MANAGEMENTS DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
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Governmental Activities

Net position of the School District's governmental activities increased \$2,077,253. Total governmental expenses of \$34,864,455 were offset by program revenues of \$3,078,823 and general revenues of \$33,862,885. Program revenues supported 8.8% of the total governmental expenses.

Several revenue sources fund our governmental activities with property tax and State foundation revenues being the largest contributors. Property tax levies generated over \$24.8 million in 2015. General revenues from grants and entitlements, such as the school foundation program, generated over \$8.9 million. With the combination of taxes and intergovernmental funding comprising approximately 91.6% of all revenues, the School District monitors both of these revenue sources very closely for fluctuations.

A review of Table 2 shows that the total cost of instructional services was \$19,502,948, or 55.9% of all governmental program expenses. Instructional expenses include activities directly related to the teaching of pupils as well as the interaction between teacher and pupil.

Pupil service and instructional staff expenses include the activities involved in assisting staff and the content and process of teaching to pupils. Such expenses represent \$3,254,155, or 9.3% of total governmental program expenses.

The board of education, administration, fiscal and business classifications reflect expenses associated with establishing and administering school operation policies, financial operations and activities concerned with purchasing, receiving and maintaining goods and services for the School District. Combined, these costs totaled \$3,703,069, or 10.6% of all governmental expenses.

Costs associated with the operation and maintenance of plant represent those expenses necessary for the care and upkeep of the School District's buildings, grounds and equipment. Current year expenses of \$3,146,432 made up 9.0% of all governmental expenses.

Pupil transportation is related primarily to the activities at the School District's Transportation Center. This amount mainly includes salaries and wages, maintenance, fuel costs and depreciation of related vehicles, equipment and buildings. For 2015, this expense is \$1,762,710 or 5.1% of all governmental expenses.

General revenues, primarily taxes and grants and entitlements decreased 11.2% from the prior year and expenses also decreased 0.8% from the prior year. However the School District still had an increase in net position for the current fiscal year. The decrease in general revenues is primarily from a decrease in property taxes resulting from the amounts available as an advance at year-end which is recognized as revenue. The amount available as an advance for 2015 was \$1.4 million lower than 2014. The School District has worked hard to control costs through retirement incentives and other measures.

The dependence upon tax revenues for governmental activities is apparent with only 8.8% of governmental expense supported by program revenues.

The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implementation of GASB 68 is not available. Therefore, 2014 functional expenses still include pension expense of \$2,683,911 calculated under GASB 27. GASB 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2015 statements report pension expense of \$1,927,922. Consequently, in order to compare 2015 total program expenses to 2014, the following adjustments are needed:

**AURORA CITY SCHOOL DISTRICT
MANAGEMENTS DISCUSSION AND ANALYSIS
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Total 2015 program expenses under GASB 68	\$ 34,864,455
Pension expense under GASB 68	(1,927,922)
2015 contractually required contribution	<u>2,920,536</u>
Adjusted 2015 program expenses	35,857,069
Total 2014 program expenses under GASB 27	<u>35,154,925</u>
Increase in program expenses not related to pension	<u>\$ 702,144</u>

As a result of GASB 68, the School District is reporting a significant net pension liability and related deferred inflows of resources which have a negative effect on net position. In addition, the School District is reporting deferred outflows of resources and a reduction of expenses related to pension for this fiscal year, which have a positive impact on net position. This expense amount is the difference between the contractually required contributions and the pension expense resulting from the change in the net pension liability that is not reported as deferred inflows or outflows. These two amounts can be found in the reconciliation of the statement of revenues, expenditures and changes in fund balances of governmental funds to the statement of activities. To further explain the impact of this new accounting standard on the School District's net position, additional information is presented below.

Net position	\$ (35,724,903)
Deferred outflows - pension	(3,344,914)
Deferred inflows - pension	8,145,043
Net pension liability	<u>45,022,401</u>
Net position without new standard	<u>\$ 14,097,627</u>
Impact of GASB 68 on net position end of year	\$ (49,822,530)
Pension expense under GASB 68	1,927,922
Contractually required contribution	<u>(2,920,536)</u>
Impact of GASB 68 on net position beginning of year	<u>\$ (50,815,144)</u>

The School District's Funds

The School District's governmental funds are accounted for using the modified accrual basis of accounting. The total revenues for governmental funds were \$36,974,615 and total expenditures were \$37,180,554. The total net change in fund balance across all governmental funds was an increase of \$130,852; the School District continues to be financially stable with a total governmental fund balance of \$9,781,469 at year-end. Table 3 shows fiscal year 2015 fund balances compared to fiscal year 2014.

Table 3
Fund Balances

	Fund Balance June 30, 2015	Fund Balance June 30, 2014	Increase/ (Decrease)	Percent Change
General	\$ 7,309,169	\$ 6,933,440	\$ 375,729	5.42 %
Other governmental	<u>2,472,300</u>	<u>2,717,177</u>	<u>(244,877)</u>	<u>(9.01)</u>
Total	<u>\$ 9,781,469</u>	<u>\$ 9,650,617</u>	<u>\$ 130,852</u>	<u>1.36 %</u>

**AURORA CITY SCHOOL DISTRICT
MANAGEMENTS DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
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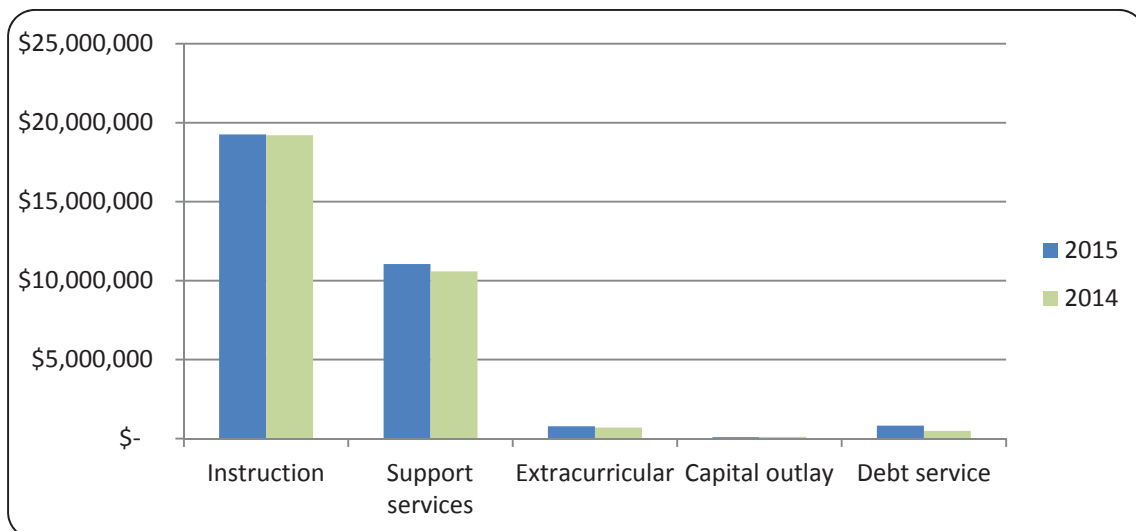
General Fund

The general fund is reporting a fund balance of \$7,309,169, an increase of \$375,729 from 2014.

Table 4
General Fund Changes in Revenues and Expenditures

	2015 Amount	2014 Amount	Increase (Decrease)	Percent Change
<u>Revenues:</u>				
Property taxes	\$ 22,350,424	\$ 26,329,594	\$ (3,979,170)	(15.11) %
Intergovernmental	8,830,319	8,479,220	351,099	4.14
Interest	14,476	10,206	4,270	41.84
Tuition and fees	664,177	633,965	30,212	4.77
Extracurricular activities	113,547	100,233	13,314	13.28
All other	39,476	91,212	(51,736)	(56.72)
Total revenues	<u>32,012,419</u>	<u>35,644,430</u>	<u>(3,632,011)</u>	
<u>Expenditures:</u>				
Current:				
Instruction	19,259,188	19,206,456	52,732	0.27
Support services	11,044,696	10,580,433	464,263	4.39
Extracurricular	774,572	695,677	78,895	11.34
Capital outlay	83,425	111,051	(27,626)	(24.88)
Debt service	811,600	479,787	331,813	69.16
Total expenditures	<u>31,973,481</u>	<u>31,073,404</u>	<u>900,077</u>	
<u>Other financing sources (uses):</u>				
Proceeds from sale of capital assets	5,000	16,000	(11,000)	(68.75)
Refunding certificates of participation issued	7,135,000	-	7,135,000	-
Premium on refunding certificates of participation	266,791	-	266,791	-
Current refunding - principal	(7,070,000)	-	(7,070,000)	-
Total other financing sources (uses)	<u>336,791</u>	<u>16,000</u>	<u>320,791</u>	
Net change in fund balance	<u>\$ 375,729</u>	<u>\$ 4,587,026</u>	<u>\$ (4,211,297)</u>	

Below is a graphical comparison of the general fund expenditures for 2015 compared to 2014.



**AURORA CITY SCHOOL DISTRICT
MANAGEMENTS DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
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General Fund Budgeting Highlights

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

During fiscal year 2015, the School District amended its general fund budget several times, however none were significant. Budget revisions are presented to the Board of Education for approval.

For the general fund, the original budgeted revenue and other financing sources estimate was \$32,655,431. This amount was changed during the year, resulting in final revenue and other financing sources budget of \$40,747,598. The significant increase is due to the refunding of certificates of participation that was decided on later in the fiscal year. Actual revenue and other financing sources reported were \$41,031,706, \$284,108 more than the final budgeted amount. Much of this difference was due to estimates for property taxes, grant awards and other intergovernmental sources, the exact amounts of which are unknown during the original budgeting process. Those estimates must be adjusted during the year as the awards are finalized.

The original expenditures and other financing uses estimate of \$32,313,789 was revised during the fiscal year. The final expenditures and other financing uses estimate of \$40,464,685 was \$8,150,896 higher than originally anticipated. This was also due to the refunding of certificates of participation. The actual expenditures and other financing uses however were \$39,837,860, \$626,825 or 1.57% lower than the final budgeted amount. This was the result of conservative spending by the School District.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2015, the School District had \$32,246,176 invested in land and land improvements, buildings, furniture and equipment and vehicles. Table 5 shows fiscal year 2015 balances compared to fiscal year 2014:

Table 5
Capital Assets, at Fiscal Year End
(Net of Depreciation)

	Governmental Activities	
	2015	2014
Land	\$ 1,681,927	\$ 1,681,927
Land improvements	3,139,033	3,303,972
Buildings	25,527,549	26,129,688
Furniture and equipment	904,983	1,026,446
Vehicles	992,684	1,036,922
Total capital assets	\$ 32,246,176	\$ 33,178,955

Total capital assets decreased \$932,779 during the year. This decrease was mainly caused by current year depreciation exceeding current year additions and disposals. See Note 8 to the basic financial statements for detail on the School District's capital assets.

**AURORA CITY SCHOOL DISTRICT
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Debt

At June 30, 2015, the School District has general obligation school improvement bonds, including unamortized premiums and accreted interest on capital appreciation bonds, outstanding of \$20,626,160 and refunding certificates of participation including unamortized premiums outstanding of \$7,356,437, with \$1,710,000 and \$650,000 due within one year, respectively. Also, the School District has capital lease obligations of \$39,916, with \$34,083 due within one year. The School District has budgeted to meet all of its debt requirements, all of which are to be repaid from the debt service fund. See Notes 12 and 13 to the basic financial statements for additional information regarding the School District's debt. As of June 30, 2015 the School District had a voted and unvoted debt margin of \$36,862,027 and \$1,790,881, respectively.

At June 30, 2015 the School District had \$28,022,513 in bonds, certificates of participation and capital leases outstanding with \$2,394,083 due within one year. Table 6 summarizes the bonds, certificates of participation and capital leases outstanding:

Table 6
Outstanding Debt, at Fiscal Year End

	Governmental Activities	
	2015	2014
School Improvement Refunding Bonds	\$ 16,529,983	\$ 17,714,983
Premium and accreted interest	2,064,390	2,063,352
Refunding Certificates of Participation	7,135,000	7,630,000
Premium	221,437	21,471
School Improvement Bonds	1,859,945	2,255,996
Premium and accreted interest	171,842	286,370
Capital leases	39,916	96,324
Total outstanding debt	\$ 28,022,513	\$ 30,068,496

Current Issues Affecting Financial Condition

The Board of Education and administration closely monitor its revenues and expenditures in accordance with its financial forecast. The financial future of the School District is not without its challenges though. These challenges stem from issues that are local and at the State level. The local challenges will continue to exist, as the School District must rely heavily on property taxes to fund its operations. State level challenges continue to evolve as the State of Ohio determines the outcome of the Ohio Supreme Court case dealing with the unconstitutionality of the State's educational funding system. Although the School District relies heavily on its property taxpayers to support its operations, the community support for the schools is quite strong.

Due to the unsettled issues in the school funding, management is required to plan carefully and prudently to provide the resources to meet student needs over the next several years.

In conclusion, the School District's system of budgeting and internal controls is well regarded. All of the School District's financial abilities will be needed to meet the challenges of the future.

**AURORA CITY SCHOOL DISTRICT
MANAGEMENTS DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
UNAUDITED**

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 questions or need additional financial information, contact Bill Volosin, Treasurer, at Aurora City School District, 102 East Garfield Road, Aurora Ohio, 44202.

**AURORA CITY SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2015**

	Governmental Activities
<u>Assets:</u>	
Equity in pooled cash and cash equivalents	\$ 9,209,928
Cash and cash equivalents:	
In segregated accounts	13
Receivables:	
Taxes	27,027,537
Accounts	88,199
Intergovernmental	386,789
Accrued interest	1,035
Inventory held for resale	11,708
Capital assets:	
Nondepreciable capital assets	1,681,927
Depreciable capital assets	57,012,848
Accumulated depreciation	(26,448,599)
Total capital assets	32,246,176
Total assets	68,971,385
<u>Deferred outflows of resources:</u>	
Pension	3,344,914
Deferred charge on refunding	1,564,791
Total deferred outflows of resources	4,909,705
<u>Liabilities:</u>	
Accounts payable	207,076
Accrued wages	2,597,990
Intergovernmental payable	634,534
Accrued interest payable	68,060
Long-term liabilities:	
Due within one year	2,692,825
Due in more than one year:	
Net pension liability	45,022,401
Other amounts due in more than one year	27,571,746
Total liabilities	78,794,632
<u>Deferred inflows of resources:</u>	
Property taxes	22,666,318
Pension	8,145,043
Total deferred inflows of resources	30,811,361
<u>Net position:</u>	
Net investment in capital assets	6,184,366
Restricted for:	
Capital projects	934,471
Debt service	1,180,193
Other purposes	350,513
Unrestricted	(44,374,446)
Total net position	\$ (35,724,903)

See accompanying notes to the basic financial statements.

**AURORA CITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants, Contributions and Interest	Capital Grants and Contributions	Revenue and Changes in Net Position
					Governmental Activities
<u>Governmental Activities:</u>					
Instruction:					
Regular	\$ 14,619,833	\$ 613,307	\$ 48,022	\$ -	\$ (13,958,504)
Special	3,708,087	61,679	768,504	-	(2,877,904)
Vocational	127,455	-	-	-	(127,455)
Other	1,047,573	-	-	-	(1,047,573)
Support services:					
Pupils	1,900,057	-	133,230	-	(1,766,827)
Instructional staff	1,354,098	-	69,234	-	(1,284,864)
Board of education	128,794	-	-	-	(128,794)
Administration	2,462,667	2,118	66,729	-	(2,393,820)
Fiscal	903,793	-	-	-	(903,793)
Business	207,815	-	-	-	(207,815)
Operation and maintenance of plant	3,146,432	4,077	-	-	(3,142,355)
Pupil transportation	1,762,710	462	-	-	(1,762,248)
Central	33,078	-	-	-	(33,078)
Operation of non-instructional services:					
Food service operations	773,515	571,967	142,986	-	(58,562)
Community service	164,896	-	186,656	-	21,760
Extracurricular activities	1,239,697	349,952	49,900	10,000	(829,845)
Interest and fiscal charges	1,283,955	-	-	-	(1,283,955)
Totals	<u>34,864,455</u>	<u>1,603,562</u>	<u>1,465,261</u>	<u>10,000</u>	<u>(31,785,632)</u>

General Revenues:

Property taxes levied for:

General purposes	22,347,284
Debt service	1,952,531
Capital outlay	598,953
Grants and entitlements not restricted to specific programs	8,922,352
Investment earnings	15,483
Gain on sale of capital assets	5,000
Miscellaneous	<u>21,282</u>

Total general revenues 33,862,885

Change in net position 2,077,253

Net position beginning of year, restated (37,802,156)

Net position end of year \$ (35,724,903)

See accompanying notes to the basic financial statements.

**AURORA CITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2015**

	General	Other Governmental Funds	Total Governmental Funds
<u>Assets:</u>			
Equity in pooled cash and cash equivalents	\$ 6,977,948	\$ 2,231,980	\$ 9,209,928
Cash and cash equivalents:			
In segregated accounts	-	13	13
Receivables:			
Taxes	24,262,755	2,764,782	27,027,537
Accounts	88,199	-	88,199
Intergovernmental	266,800	119,989	386,789
Interfund	161,100	-	161,100
Accrued interest	1,035	-	1,035
Inventory held for resale	-	11,708	11,708
Total assets	\$ 31,757,837	\$ 5,128,472	\$ 36,886,309
<u>Liabilities:</u>			
Accounts payable	\$ 183,839	\$ 23,237	\$ 207,076
Accrued wages	2,531,673	66,317	2,597,990
Interfund payable	-	161,100	161,100
Intergovernmental payable	597,274	37,260	634,534
Total liabilities	3,312,786	287,914	3,600,700
<u>Deferred inflows of resources:</u>			
Property taxes	20,353,061	2,313,257	22,666,318
Unavailable revenue	314,521	1,116	315,637
Unavailable revenue - delinquent property taxes	468,300	53,885	522,185
Total deferred inflows of resources	21,135,882	2,368,258	23,504,140
<u>Fund balances:</u>			
Restricted	-	2,472,300	2,472,300
Committed	11,000	-	11,000
Assigned	3,835,517	-	3,835,517
Unassigned	3,462,652	-	3,462,652
Total fund balances	7,309,169	2,472,300	9,781,469
Total liabilities, deferred inflows of resources and fund balances	\$ 31,757,837	\$ 5,128,472	\$ 36,886,309

See accompanying notes to the basic financial statements.

**AURORA CITY SCHOOL DISTRICT
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2015**

Total governmental funds balances		\$ 9,781,469
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		32,246,176
Other long-term assets that are not available to pay for current-period expenditures and therefore are unavailable revenue in the funds:		
Property taxes	\$ 522,185	
Intergovernmental	267,916	
Tuition and fees	46,133	
Rent	1,588	
Total	837,822	837,822
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		(68,060)
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 the funds:		
Deferred outflows - pension	3,344,914	
Deferred inflows - pension	(8,145,043)	
Net pension liability	(45,022,401)	
Total	(49,822,530)	(49,822,530)
Long-term liabilities that are not due and payable in the current period and therefore are not reported in the funds:		
Compensated absences	\$ (2,242,058)	
Refunding general obligation bonds	(18,594,373)	
Unamortized cost of refunding	1,564,791	
General obligation bonds	(2,031,787)	
Refunding certificates of participation	(7,356,437)	
Capital leases	(39,916)	
Total	(28,699,780)	(28,699,780)
Net position of governmental activities		\$ (35,724,903)

See accompanying notes to the basic financial statements.

AURORA CITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	General	All Other Governmental Funds	Total Governmental Funds
<u>Revenues:</u>			
Taxes	\$ 22,350,424	\$ 2,552,270	\$ 24,902,694
Intergovernmental	8,830,319	1,456,718	10,287,037
Interest	14,476	1,091	15,567
Tuition and fees	664,177	-	664,177
Extracurricular activities	113,547	283,121	396,668
Gifts and donations	15,705	95,900	111,605
Charges for services	-	571,967	571,967
Rent	2,489	-	2,489
Miscellaneous	21,282	1,129	22,411
Total revenues	<u>32,012,419</u>	<u>4,962,196</u>	<u>36,974,615</u>
<u>Expenditures:</u>			
Current:			
Instruction:			
Regular	14,748,814	33,496	14,782,310
Special	3,341,606	463,005	3,804,611
Vocational	99,899	-	99,899
Other	1,068,869	-	1,068,869
Support services:			
Pupils	1,819,186	134,601	1,953,787
Instructional staff	1,313,935	22,046	1,335,981
Board of education	128,038	-	128,038
Administration	2,373,325	120,175	2,493,500
Fiscal	859,735	48,267	908,002
Business	192,850	-	192,850
Operation and maintenance of plant	2,760,414	166,419	2,926,833
Pupil transportation	1,582,385	-	1,582,385
Central	14,828	-	14,828
Operation of non-instructional services:			
Food service operations	-	728,460	728,460
Community service	-	168,912	168,912
Extracurricular activities	774,572	349,554	1,124,126
Capital outlay	83,425	105,482	188,907
Debt service:			
Principal retirement	166,720	2,199,688	2,366,408
Interest and fiscal charges	461,833	666,968	1,128,801
Issuance costs	183,047	-	183,047
Total expenditures	<u>31,973,481</u>	<u>5,207,073</u>	<u>37,180,554</u>
Excess of revenues over (under) expenditures	<u>38,938</u>	<u>(244,877)</u>	<u>(205,939)</u>
<u>Other financing sources (uses):</u>			
Proceeds from sale of capital assets	5,000	-	5,000
Refunding certificates of participation issued	7,135,000	-	7,135,000
Premium on refunding certificates of participation	266,791	-	266,791
Current refunding - principal	(7,070,000)	-	(7,070,000)
Total other financing sources (uses)	<u>336,791</u>	<u>-</u>	<u>336,791</u>
Net change in fund balances	375,729	(244,877)	130,852
Fund balances beginning of year	6,933,440	2,717,177	9,650,617
Fund balances end of year	<u>\$ 7,309,169</u>	<u>\$ 2,472,300</u>	<u>\$ 9,781,469</u>

See accompanying notes to the basic financial statements.

**AURORA CITY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Net change in fund balances - total governmental funds		\$ 130,852
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense.		
In the current period, these amounts are:		
Capital asset additions	\$ 188,907	
Depreciation expense	(1,114,814)	
Excess of depreciation over capital asset additions		(925,907)
The disposal of capital assets results in the removal of capital assets at cost and the difference in their carrying value to cost, if immaterial, is charged to the program as an expense in the statement of activities.		
		(6,872)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. These activities consist of:		
Property taxes	\$ (3,926)	
Intergovernmental	(1,113)	
Tuition and fees	(34,456)	
Rent	1,588	
Net change in deferred inflows of resources during the year		(37,907)
Contractually required pension contributions are reported as expenditures in the governmental funds; however, the statement of activities reports these amounts as deferred outflows.		
		2,920,536
Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.		
		(1,927,922)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		
		2,366,408
Refunding certificates of participation issued and related premium provide current financial resources and are reported as a financing source in the governmental funds but are not reported as such in the statement of activities.		
		(7,401,791)
Payment of principal in a current refunding to refunded bond escrow agent is reported as a use of current financial resources in the governmental funds but the payment reduces long-term liabilities in the statement of net position.		
		7,070,000
Some items 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.		
These activities consist of:		
Increase in compensated absences	\$ (138,037)	
Increase in deferred cost of refunding	130,621	
Decrease in accrued interest	14,080	
Amortization of:		
Premium	262,839	
Deferred cost of refunding	(128,174)	
Bond accretion	(251,473)	
Total additional expenditures		(110,144)
Change in net position of governmental activities		<u>\$ 2,077,253</u>

See accompanying notes to the basic financial statements.

AURORA CITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
BUDGET (NON-GAAP BASIS) AND ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Taxes	\$ 23,239,569	\$ 23,405,181	\$ 23,606,145	\$ 200,964
Intergovernmental	8,579,388	9,017,592	9,095,020	77,428
Interest	9,955	12,057	12,161	104
Tuition and fees	574,933	564,518	569,365	4,847
Extracurricular activities	70,259	67,243	67,820	577
Rent	4,700	7,713	7,779	66
Miscellaneous	23,293	14,138	14,260	122
Total revenues	<u>32,502,097</u>	<u>33,088,442</u>	<u>33,372,550</u>	<u>284,108</u>
Expenditures:				
Current:				
Instruction:				
Regular	14,889,562	14,966,428	14,816,863	149,565
Special	3,401,560	3,470,540	3,418,754	51,786
Vocational	196,535	162,501	161,829	672
Other	1,145,076	1,413,203	1,355,583	57,620
Support services:				
Pupils	1,799,705	1,840,681	1,815,689	24,992
Instructional staff	1,472,214	1,495,786	1,375,815	119,971
Board of education	127,763	129,008	125,883	3,125
Administration	2,241,409	2,405,406	2,373,907	31,499
Fiscal	862,991	883,822	869,455	14,367
Business	210,626	201,996	189,422	12,574
Operation and maintenance of plant	2,939,231	2,921,817	2,849,470	72,347
Pupil transportation	1,759,130	1,748,983	1,695,099	53,884
Central	79,388	14,828	14,828	-
Extracurricular activities	739,598	771,319	736,896	34,423
Debt service:				
Principal retirement	110,312	110,312	110,312	-
Interest and fiscal charges	308,689	457,433	457,433	-
Issuance costs	-	183,047	183,047	-
Total expenditures	<u>32,283,789</u>	<u>33,177,110</u>	<u>32,550,285</u>	<u>626,825</u>
Excess of revenues over (under) expenditures	<u>218,308</u>	<u>(88,668)</u>	<u>822,265</u>	<u>910,933</u>
Other financing sources (uses):				
Proceeds from the sale of capital assets	7,500	5,102	5,102	-
Refund of prior year expenditures	5,000	79,379	79,379	-
Refunding certificates of participation issued	-	7,135,000	7,135,000	-
Premium on refunding certificates or participation	-	266,791	266,791	-
Current refunding - principal	-	(7,070,000)	(7,070,000)	-
Advances in	140,834	172,884	172,884	-
Advances out	(30,000)	(217,575)	(217,575)	-
Total other financing sources (uses)	<u>123,334</u>	<u>371,581</u>	<u>371,581</u>	<u>-</u>
Net change in fund balance	341,642	282,913	1,193,846	910,933
Fund balances at beginning of year	4,833,832	4,833,832	4,833,832	-
Prior year encumbrances appropriated	374,374	374,374	374,374	-
Fund balances at end of year	<u>\$ 5,549,848</u>	<u>\$ 5,491,119</u>	<u>\$ 6,402,052</u>	<u>\$ 910,933</u>

See accompanying notes to the basic financial statements.

**AURORA CITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2015**

	Private Purpose Trusts	Agency
<u>Assets:</u>		
Equity in pooled cash and cash equivalents	\$ 12,948	\$ 214,001
Total assets	\$ 12,948	\$ 214,001
 <u>Liabilities:</u>		
Accounts payable	\$ -	\$ 2,785
Undistributed monies	-	2,611
Due to students	-	208,605
Total liabilities	-	\$ 214,001
 <u>Net position:</u>		
Held in trust for scholarships	12,948	
Total net position	\$ 12,948	

See accompanying notes to the basic financial statements.

**AURORA CITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
PRIVATE PURPOSE TRUST FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

	Private Purpose Trusts
<u>Additions:</u>	
Gifts and contributions	\$ 357
Interest	18
Total additions	375
 <u>Deductions:</u>	
Payments in accordance with trust agreements	2,250
Change in net position	(1,875)
Net position, beginning of year	14,823
Net position, end of year	\$ 12,948

See accompanying notes to the basic financial statements.

**AURORA CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The Aurora City School District (the School District) operates under the direction of a locally elected five-member Board of Education as Ohio state law prescribes. The School District provides educational services as authorized by its charter or further mandated by state and/or federal agencies. The board controls the School District's four instructional/support facilities, which are staffed by 110 non-certificated employees and 212 certificated full-time teaching employees which includes 9 administrative employees. These personnel provide services to approximately 2,821 students and other community members.

The predecessor to the Aurora City School District was established in 1898 when a system of neighborhood one-room schoolhouses in the then-agrarian community was consolidated into a unified school district, which approximately encompasses the boundaries of what now is the city of Aurora. Historical records indicate that a system of public education in Aurora dates back as far as 1804. Members of the Board of Education are elected at large and serve staggered four-year terms and are required to be registered voters of the district under Ohio law.

The Aurora City School District serves a geographic area of approximately twenty-five square miles. It encompasses all of the City of Aurora in northwestern Portage County and a small portion of Summit County within the Village of Reminderville. The School District operates three elementary schools, one middle school and one comprehensive high school. The School District also provides a variety of vocational educational programs for high-school students through a regional vocational education consortium.

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 Aurora City School District, this includes general operations, food service, preschool and student related activities 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 organizations' 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 organizations' 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 their budget, the issuance of their debt or the levying of their taxes.

**AURORA CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

Aurora City School District Leasing Corporation During fiscal year 2000, Aurora City School District Leasing Corporation was formed to issue Certificates of Participation for the purpose of constructing a new elementary school in accordance with Ohio Revised Code 3313.375. The School District will make lease payments to the Corporation for the life of the issuance, after which time it will take ownership of the building. The Leasing Corporation is governed by a three member board appointed by the School District. Although the Leasing Corporation is a separate legal entity, the School District's financial statements include activity pertaining to the Certificates of Participation as a blended component unit of the School District since the debt was issued on behalf of the School District. The Leasing Corporation has assigned its duties to a Trustee to handle the finances.

Within the boundaries of the Aurora City School District, Valley Christian Academy is operated as a private school. State legislation provides funding to this private school. The School District receives the money and then disburses the money as directed by the private school. The accounting for the monies is reflected in a special revenue fund of the School District.

The School District is associated with the Stark Portage Area Computer Consortium, the Portage Area School Consortium and the Ohio Schools Council which are defined as jointly governed organizations. Jointly governed organizations are governed by representatives from each of the governments that create the organizations, but there is no ongoing financial interest or responsibility by the participating governments. Information regarding these organizations is presented in Note 15.

B. Basis of Presentation

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

Government-wide Financial Statements

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

The statement of net position presents the financial condition of the governmental activities of the School District at year-end. The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function program 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 and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

Fund Financial Statements

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

**AURORA CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

C. Fund Accounting

The School District uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain School District functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulation, restrictions or limitations.

For financial statement presentation purposes, the various funds of the School District are grouped into the following generic fund types under the broad fund categories governmental and fiduciary.

Governmental Fund Types:

Governmental funds focus on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The general fund is the School District's only major fund:

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.

Fiduciary Fund Types:

Fiduciary funds reporting focuses on net position and changes in net position. The fiduciary fund category is split into four categories: 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's only trust fund is a private purpose trust fund, which accounts for several scholarship programs for students. The School District's three agency funds are used to report resources held for student managed activities, resources held for student cafeteria purchases and to account for money temporarily held for Ohio High School Athletic Association (OHSAA) tournaments.

D. Measurement Focus and Basis of Accounting

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

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Fund Financial Statements All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and 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 the governmental funds.

The private purpose trust fund is reported using the economic resources measurement focus.

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. The private purpose trust fund and the agency fund also use the accrual basis of accounting. Differences in the accrual and modified accrual bases of accounting arise in the recognition of revenue, the recording of deferred inflows of resources and in the presentation of expenses versus expenditures.

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 year-end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. 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 nonexchange transactions must also be available before it can be recognized.

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

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 on the operating statement as an expenditure and a like amount as intergovernmental revenue. In addition these amounts are reported on the statement of activities as an expense with a like amount reported within the "Operating Grants and Contributions" program revenue account. Unused donated commodities are reported in the account "Inventory held for resale" within the basic financial statements.

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In addition to assets, the statement of net 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 include a deferred charge on refunding and for pension reported in the government-wide statement of net position. 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. This amount is related to debt refundings in the current and prior fiscal years. The deferred outflows of resources related to pension are explained in Note 10.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the School District, deferred inflows of resources include property taxes, pension, and unavailable revenues. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2015, but which were levied to finance year 2016 operations. These amounts have been recorded as deferred inflows on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the School District, unavailable revenue includes delinquent property taxes, intergovernmental grants, tuition and fees, and rent. These amounts are deferred and recognized as inflows 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 10)

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. Budgetary Data

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the Tax Budget, the Certificate of Estimated Resources, and the Appropriation Resolution, all of which are prepared on the budgetary basis of accounting. All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

The Certificate of Estimated Resources and the Appropriations Resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. The amounts reported as the original budget revenue in the budgetary statements reflect the amounts in the certificate when original appropriations were adopted. The amounts reported as the final budgeted revenue budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2015. The amounts reported as the original budgeted expenditures reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted expenditures represent the final appropriation amounts passed by the Board of Education during the year.

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

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F. Cash and Investments

To improve cash management, all cash received by the School District is pooled in a central bank account. Monies for all funds are maintained in this account or temporarily used to purchase short-term investments. Individual fund integrity is maintained through School District records. Each fund's interest in the pool is presented as "Equity in pooled cash and cash equivalents". During the fiscal year, investments were limited to instruments of government sponsored mortgage-backed securities, negotiable certificates of deposit and an interest in STAR Ohio, the State Treasurer's Investment Pool. These investments are stated at cost, which approximates market value (fair value).

For presentation on the basic financial statements, investments of the cash management pool and investments with a maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

Cash not required to meet the immediate financial obligations of the district is invested in an investment pool operated under the auspices of the Treasurer of the State of Ohio as provided for by Ohio law so that the district can maximize its investment earnings. Under existing Ohio statutes, all investment earnings accrue to the general fund except those specifically related to certain trust funds or federal grants, unless the Board specifically allows the interest to be recorded in other funds.

G. Inventory

On the government-wide financial statements, inventories are presented at cost on a first-in, first-out basis and are expensed when used. Inventory of the food service special revenue fund is stated at cost, which is determined on first in, first out basis. Inventories in the food service fund consist of donated food, purchased food, and supplies held for resale. Inventories reported on the fund financial statements are expensed when used.

H. Capital Assets and Depreciation

General capital assets are those assets resulting from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported on the fund financial statements.

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

All reported capital assets, other than land and construction in progress, are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

<u>Asset description</u>	<u>Estimated lives</u>
Land improvements	20 years
Buildings and improvements	10 - 75 years
Furniture and equipment	5 - 30 years
Vehicles	10 - 15 years

**AURORA CITY SCHOOL DISTRICT
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I. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets can include the amount required to be set-aside for the acquisition and construction of capital improvements as well as certain capital maintenance costs. See Note 17 for the calculation of the year-end restricted asset balance and the corresponding fund balance restriction.

J. Premiums

In governmental fund types, premiums are recognized in the current period. On the statement of net position, premiums are amortized over the term of the debt using the bonds outstanding method, which approximates the effective interest method. Premiums are presented as an addition to the face amount of the debt.

K. Deferred Charge on Refunding

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

L. Short-term Interfund Assets/Liabilities

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 columns of the statement of net position.

M. Net Pension Liability and Pension Expense

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

The current accounting standard requires School District's to report their proportionate share of the net pension liability using the earning approach to pension accounting instead of the funding approach as previously used. The funding approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's net pension liability. Under the new standards, the net pension liability equals the School District's proportionate share of each plan's collective present value of estimated future pension benefits attributable to active and inactive employees' past service minus plan assets available to pay these benefits.

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

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

N. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the 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 termination method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments.

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

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated leave are paid.

The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

O. Accrued Liabilities and Long-term Obligations

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

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

P. Fund Balance

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

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

Restricted fund balance category includes amounts that can be spent only for the specific purpose stipulated by constitution, external resource providers, or through enabling legislation. 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 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 fund balance classifications 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. The purpose constraint that represents the intended use is established by the Board of Education or by their designated official. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the School District or by State statute. The Treasurer is authorized to assign fund balance using encumbrances for planned purchases, provided such amounts have been lawfully appropriated. The Board of Education may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget.

Unassigned 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.

Q. Interfund Transactions

Interfund transfers are reported as other financing sources/uses for governmental funds in the fund financial statements. All transfers between governmental funds have been eliminated within the governmental activities column of the statements of net position.

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R. 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. 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.

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

S. Estimates

The preparation of financial statements in conformity with GAAP 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.

NOTE 2 – CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF NET POSITION

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

Net position June 30, 2014	\$13,012,988
Adjustments:	
Net pension liability	(53,499,055)
Deferred outflow - payments subsequent to measurement date	<u>2,683,911</u>
Restated net position June 30, 2014	<u><u>(\$37,802,156)</u></u>

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

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NOTE 3 – FUND BALANCES

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

Fund Balances	<u>General</u>	Other Governmental Funds	Total Governmental Funds
<u>Restricted for</u>			
Food service	\$ -	\$ 10,822	\$ 10,822
Athletics and music	-	36,939	36,939
Auxiliary services	-	37,486	37,486
Instructional programs	-	145,379	145,379
Special education	-	67,748	67,748
Professional development	-	57,250	57,250
Technology	-	4,595	4,595
Capital improvements	-	921,886	921,886
Debt service payments	-	<u>1,190,195</u>	<u>1,190,195</u>
Total restricted	<u>-</u>	<u>2,472,300</u>	<u>2,472,300</u>
<u>Committed</u>			
Underground storage tanks	<u>11,000</u>	<u>-</u>	<u>11,000</u>
<u>Assigned</u>			
Public school support	56,671	-	56,671
Encumbrances	471,734	-	471,734
Next fiscal year budget	<u>3,307,112</u>	<u>-</u>	<u>3,307,112</u>
Total assigned	<u>3,835,517</u>	<u>-</u>	<u>3,835,517</u>
Unassigned	<u>3,462,652</u>	<u>-</u>	<u>3,462,652</u>
Total fund balances	<u>\$ 7,309,169</u>	<u>\$ 2,472,300</u>	<u>\$ 9,781,469</u>

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).

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

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

Net Change in Fund Balance

	<u>General</u>
GAAP basis	\$ 375,729
Net adjustment for revenue accruals	1,562,932
Advances in	172,884
Net adjustment for expenditure accruals	(187,226)
Advances out	(217,575)
Encumbrances (Budget basis) outstanding at year-end	(498,429)
Perspective differences from funds budgeted as special revenue funds:	
Revenues	(123,320)
Advances in	(20,000)
Advances out	22,000
Expenditures	<u>106,851</u>
Budget basis	<u>\$ 1,193,846</u>

NOTE 5 - 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 five-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing within five years from the date of deposit or by savings or deposit accounts including pass book accounts. Interim deposits may be invested in the following obligations provided they mature or are redeemable within five years from the date of settlement:

1. United States Treasury bills, notes, bonds, or any other obligations or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements for a period not to exceed thirty days in securities listed above that mature within five years from the date of settlement;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in item (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio); and
7. Certain bankers' acceptances and commercial paper notes in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.

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

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.

Deposits:

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 federal deposit insurance corporation (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% of the total value of 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.

As of June 30, the carrying amount of the School District's deposits was \$6,365,851. The School District's bank balance of \$6,500,815 was not exposed to custodial credit risk.

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Investments:

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

<u>Investment type</u>	<u>Fair Value</u>	<u>Percentage of Investments</u>	<u>Maturity</u>	<u>Rating</u>
Federal Home Loan Mortgage Corp.	\$ 751,342	24.46%	6/29/2017	AA+ ⁽¹⁾
Federal Home Loan Mortgage Corp.	499,955	16.28%	6/15/2017	AA+ ⁽¹⁾
Federal Home Loan Mortgage Corp.	<u>499,870</u>	16.28%	6/18/2018	AA+ ⁽¹⁾
	<u>1,751,167</u>			
STAR Ohio	<u>79,872</u>	2.60%	53.4 ⁽²⁾	AAAm ⁽¹⁾
	<u>\$ 1,831,039</u>			

⁽¹⁾ Standard and Poor's rating

⁽²⁾ Days (Average)

<u>Investment Type</u>	<u>Fair Value</u>	<u>Percentage of Investments</u>	<u>Maturity</u>	
			<u>< 1 year</u>	<u>< 2 years</u>
Negotiable certificates of deposit	\$ 1,240,000	40.38%	\$ 992,000	\$ 248,000

All of the School District's negotiable CD's were covered in full by FDIC insurance.

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

Custodial credit risk for an investment is the risk that in the event of 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 investments in Federal Home Loan Mortgage Corporation (FHLMC) are held by the counterparty's trust department or agent and not in the School District's name. 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. See note above concerning negotiable certificates of deposit.

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.

Credit risk is the possibility that an issuer or other counterparty to an investment will not fulfill its obligation. Standard and Poor's has assigned the FHLMC notes an AA+ rating. Standard and Poor's has assigned STAR Ohio an AAAm rating. The School District's investment policy requires certain credit ratings for some investments as allowed by state law.

Concentration of credit risk is the possibility of loss attributed to the magnitude of the School District's investment in a single issuer. More than 5% of the School District's investments are in individual negotiable CDs and FHLMC notes. FHLMC are 57.02% of investments and each CD, from different financial institutions, are just over 8.07% of total investments. The investment in Star Ohio is a pooled investment and not of a single issuer. The School District's policy places no limit on the amount that may be invested in any one issuer.

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Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2015 amounted to \$14,476, which includes \$2,176 assigned from other School District funds.

NOTE 6 - 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, public utility and tangible personal property (used in public utility) located in the School District. Real property tax revenue received in calendar 2015 represents collections of calendar year 2014 taxes. Real property taxes received in calendar year 2015 were levied after April 1, 2014, on the assessed value listed as of January 1, 2014, the lien date. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2015 represents collections of calendar year 2014 taxes. Public utility real and tangible personal property taxes received in calendar year 2015 became a lien December 31, 2013, were levied after April 1, 2014 and are collected in 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 Portage and Summit Counties. The County Auditor and Fiscal Officer periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2015, are available to finance fiscal year 2015 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

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

The amount available as an advance at June 30 was \$3,441,394 in the general fund, \$93,472 in the permanent improvement capital projects fund, and \$304,168 in the bond retirement debt service fund and is recognized as revenue.

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

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

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<u>Property Category</u>	2015 <u>Assessed Value</u>	2014 <u>Assessed Value</u>
<u>Real Property</u>		
Residential and Agricultural	\$ 487,372,950	\$ 489,996,030
Commercial and Industrial and Minerals	102,345,600	103,634,860
Public Utilities	120,910	114,370
<u>Tangible Personal Property</u>		
Public Utilities	<u>10,846,760</u>	<u>10,936,810</u>
Total	<u>\$ 600,686,220</u>	<u>\$ 604,682,070</u>

NOTE 7 - RECEIVABLES

Receivables at year-end consisted of taxes, accounts (tuition), interfund, intergovernmental grants, entitlements and accrued interest. 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. The intergovernmental receivable at June 30, 2015 consisted of:

<u>Governmental Activities</u>	<u>Amount</u>
General fund	\$ 266,800
Special revenue funds:	
Food service	13,938
IDEA-B	75,851
Title I	19,179
Preschool grant for the handicapped	2,275
Title III	666
Title II-A	<u>8,080</u>
	<u>\$ 386,789</u>

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NOTE 8 - CAPITAL ASSETS

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

<u>Governmental activities</u>	Balance <u>6/30/14</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>6/30/15</u>
Capital assets, not being depreciated:				
Land	\$ 1,681,927	\$ -	\$ -	\$ 1,681,927
Capital assets, being depreciated:				
Land improvements	4,415,738	-	-	4,415,738
Buildings	48,182,415	-	-	48,182,415
Furniture and equipment	1,836,683	22,057	(10,850)	1,847,890
Vehicles	2,399,955	166,850	-	2,566,805
Total capital assets, being depreciated	<u>56,834,791</u>	<u>188,907</u>	<u>(10,850)</u>	<u>57,012,848</u>
Less: Accumulated depreciation				
Land improvements	(1,111,766)	(164,939)	-	(1,276,705)
Buildings	(22,052,727)	(602,139)	-	(22,654,866)
Furniture and equipment	(810,237)	(136,648)	3,978	(942,907)
Vehicles	(1,363,033)	(211,088)	-	(1,574,121)
Total accumulated depreciation	<u>(25,337,763)</u>	<u>(1,114,814)</u>	<u>3,978</u>	<u>(26,448,599)</u>
Total capital assets being depreciated, net	<u>31,497,028</u>	<u>(925,907)</u>	<u>(6,872)</u>	<u>30,564,249</u>
Capital assets, net	<u>\$ 33,178,955</u>	<u>\$ (925,907)</u>	<u>\$ (6,872)</u>	<u>\$ 32,246,176</u>

Depreciation expense charged to governmental functions for the year ending June 30, 2015 is as follows:

Instruction:	
Regular	\$ 314,175
Special	16,340
Vocational	2,215
Support services:	
Pupils	2,419
Instructional staff	62,388
Board of education	1,050
Administration	42,045
Fiscal	485
Business	8,159
Operation and maintenance of plant	250,118
Pupil transportation	206,205
Central	18,250
Food service operations	52,356
Extracurricular activities	<u>138,609</u>
	<u>\$ 1,114,814</u>

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NOTE 9 - RISK MANAGEMENT

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. These risks are covered by commercial insurance purchased from independent third parties. General liability is insured up to \$1,000,000 per occurrence to \$3,000,000 in the aggregate, with deductibles up to \$5,000. Property is insured from \$1,000,000 to \$98,896,817 with deductibles up to \$5,000. Public officials bonds are \$50,000 for the Treasurer and \$20,000 for board members. There have been no settlements paid in excess of insurance nor has insurance coverage been significantly reduced in the past three years.

The School District has joined the Portage Area School Consortium for property and general liability insurance and for health insurance of the School District's employees. The Portage Area School Consortium was established in 1981 so that thirteen educational-service providers in Portage County could manage risk exposures and purchase necessary insurance coverages as a group. The consortium has organized into two distinct entities to facilitate its risk management operations; the two entities are the Property and Casualty Insurance Pool and the Health and Welfare Pool. The Property and Casualty Insurance Pool functions to manage the member districts' physical property and liability risks and the Health and Welfare Pool is to facilitate the management of risks associated with providing employee benefits, coverages such as health and accident insurance, disability insurance and life insurance. The School District participates in both insurance pools. The consortium, to facilitate the operation of the Health and Welfare Pool, retains a third-party administrator. The School District pays all insurance premiums directly to the consortium. Although the School District does not participate in the day-to-day management of the consortium, one administrator serves as a trustee of the consortium's governing board as provided in the consortium's enabling authority. The School District recognizes that it retains a contingent liability to provide insurance coverage should the assets of the consortium become depleted, it is the opinion of management that the assets of the consortium are sufficient to meet its claims.

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

NOTE 10 - 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.

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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.

A. School Employees Retirement System

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 under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

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

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

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

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

**AURORA CITY SCHOOL DISTRICT
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Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2015, the allocation to pension, death benefits, and Medicare B was 13.18 percent. The remaining 0.82 percent of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The School District's contractually required contribution to SERS was \$628,323 for fiscal year 2015. Of this amount \$40,820 is reported as an intergovernmental payable.

B. State Teachers Retirement System

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

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

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

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

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

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2015, plan members were required to contribute 12 percent of their annual covered salary. The School District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2015 contribution rates were equal to the statutory maximum rates.

The School District's contractually required contribution to STRS was \$2,292,213 for fiscal year 2015. Of this amount \$313,756 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, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School District's proportion of the net pension liability was based on the School District's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate share of the net pension liability	\$8,117,348	\$36,905,053	\$45,022,401
Proportion of the net pension liability	0.160392%	0.1517262%	
Pension expense	\$469,726	\$1,458,196	\$1,927,922

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred outflows of resources			
Differences between expected and actual experience	\$ 69,087	\$ 355,291	\$ 424,378
School District contributions subsequent to the measurement date	<u>628,323</u>	<u>2,292,213</u>	<u>2,920,536</u>
Total deferred outflows of resources	<u>\$ 697,410</u>	<u>\$2,647,504</u>	<u>\$3,344,914</u>
Deferred inflows of resources			
Net difference between projected and actual earnings on pension plan investments	<u>\$1,317,468</u>	<u>\$6,827,575</u>	<u>\$8,145,043</u>

\$2,920,536 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 year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Fiscal <u>Year</u>	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
2016	\$ (312,095)	\$ (1,618,071)	\$ (1,930,166)
2017	(312,095)	(1,618,071)	(1,930,166)
2018	(312,095)	(1,618,071)	(1,930,166)
2019	<u>(312,096)</u>	<u>(1,618,071)</u>	<u>(1,930,167)</u>
Total	<u>\$(1,248,381)</u>	<u>\$(6,472,284)</u>	<u>\$(7,720,665)</u>

Actuarial Assumptions - SERS

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2014, are presented below:

Wage inflation	3.25 percent
Future salary increases, including inflation	4 percent to 22 percent
COLA or Ad Hoc COLA	3 percent
Investment rate of return	7.75 percent net of investments expense, including inflation
Actuarial cost method	Entry age normal

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

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

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

<u>Asset class</u>	<u>Target allocation</u>	<u>Long term expected real rate of return</u>
Cash	1.00 %	0.00 %
US stocks	22.50	5.00
Non-US stocks	22.50	5.50
Fixed income	19.00	1.50
Private equity	10.00	10.00
Real assets	10.00	5.00
Multi-asset strategies	<u>15.00</u>	7.50
Total	<u>100.00 %</u>	

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

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Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

	1% Decrease <u>(6.75%)</u>	Current discount rate <u>(7.75%)</u>	1% Increase <u>(8.75%)</u>
School District's proportionate share of the net pension liability	\$ 11,581,043	\$8,117,348	\$5,204,080

Actuarial Assumptions - STRS

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

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

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, 2014, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

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

<u>Asset class</u>	<u>Target allocation</u>	<u>Long term expected real rate of return</u>
Domestic equity	31.00 %	8.00 %
International equity	26.00	7.85
Alternatives	14.00	8.00
Fixed income	18.00	3.75
Real estate	10.00	6.75
Liquidity reserves	<u>1.00</u>	3.00
Total	<u>100.00 %</u>	

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Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2014. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2014. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2014.

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

	1% Decrease <u>(6.75%)</u>	Current discount rate <u>(7.75%)</u>	1% Increase <u>(8.75%)</u>
School District's proportionate share of the net pension liability	\$ 52,833,607	\$ 36,905,053	\$ 23,434,856

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2015, several members of the Board of Education have elected Social Security. The Board's liability is 6.2 % of wages paid. The remaining Board members contribute to SERS.

NOTE 11 – POST-EMPLOYMENT BENEFITS

A. School Employee Retirement System

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 under Employers/Audit Resources.

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2015, 0.82 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2015, this amount was \$20,450. Statutes provides that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS covered payroll for the health care surcharge. For fiscal year 2015, the School District's surcharge obligation was \$79,598.

The School District's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were \$121,509, \$83,116, and \$77,440, respectively. For fiscal year 2015, 30.08 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2014 and 2013.

B. 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 or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2015, STRS did not allocate any employer contributions to post-employment health care. The School District's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were \$0, \$152,159, and \$156,571 respectively. The full amount has been contributed for fiscal years 2015, 2014 and 2013.

NOTE 12 - LONG-TERM OBLIGATIONS

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

**AURORA CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

<u>Governmental activities</u>	Restated Balance			Balance	Due in
	<u>July 1, 2014</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2015</u>	<u>one year</u>
<u>General Obligation Bonds</u>					
2014 Refunding School Improvement					
Serial Bonds	\$ 7,445,000	\$ -	\$ (180,000)	\$ 7,265,000	\$ 100,000
Premium	980,123	-	(79,586)	900,537	-
Capital Appreciation Bonds	339,991	-	-	339,991	-
Accretion on Bonds	13,418	116,609	-	130,027	-
2013 Refunding School Improvement					
Serial Bonds	7,010,000	-	(120,000)	6,890,000	110,000
Premium	981,234	-	(81,246)	899,988	-
Capital Appreciation Bonds	149,992	-	-	149,992	-
Accretion on Bonds	25,702	76,224	-	101,926	-
2009 School Improvement					
Serial Bonds	1,160,000	-	-	1,160,000	-
Premium	12,102	-	(4,219)	7,883	-
Capital Appreciation Bonds	205,996	-	(111,051)	94,945	94,945
Accretion on Bonds	274,268	58,640	(168,949)	163,959	185,055
2008 School Improvement					
Serial Bonds	890,000	-	(285,000)	605,000	295,000
2004 School Improvement					
Refunding Serial Bonds	2,770,000	-	(885,000)	1,885,000	925,000
Premium	62,875	-	(30,963)	31,912	-
Total bonds	<u>22,320,701</u>	<u>251,473</u>	<u>(1,946,014)</u>	<u>20,626,160</u>	<u>1,710,000</u>
<u>Certificates of Participation</u>					
2005 Refunding Certificates	7,630,000	-	(7,630,000)	-	-
Premium	21,471	-	(21,471)	-	-
2015 Refunding Certificates	-	7,135,000	-	7,135,000	650,000
Premium	-	266,791	(45,354)	221,437	-
Total certificates	<u>7,651,471</u>	<u>7,401,791</u>	<u>(7,696,825)</u>	<u>7,356,437</u>	<u>650,000</u>
<u>Other long-term obligations</u>					
Capital lease	96,324	-	(56,408)	39,916	34,083
Compensated absences	2,104,021	316,808	(178,771)	2,242,058	298,742
Total other long-term obligations	<u>2,200,345</u>	<u>316,808</u>	<u>(235,179)</u>	<u>2,281,974</u>	<u>332,825</u>
<u>Net pension liability</u>					
STRS	43,961,058	-	(7,056,005)	36,905,053	-
SERS	9,537,997	-	(1,420,649)	8,117,348	-
Total net pension liability	<u>53,499,055</u>	<u>-</u>	<u>(8,476,654)</u>	<u>45,022,401</u>	<u>-</u>
Total long-term obligations	<u>\$ 85,671,572</u>	<u>\$ 7,970,072</u>	<u>\$ (18,354,672)</u>	<u>\$ 75,286,972</u>	<u>\$ 2,692,825</u>

**AURORA CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

General obligation bonds are direct obligations of the School District for which its full faith and credit are pledged for repayment. General obligation bonds are to be repaid from voted and unvoted general property taxes. Property tax monies will be received in and the debt will be repaid from the bond retirement debt service fund. The liability for the certificates is payable from resources from the general and debt service funds. The certificates of participation are not a general obligation of the School District but are payable only from appropriations by the School District as annual lease payments. Compensated absences will be paid from the fund the person is paid from and the capital lease is an obligation of the general fund.

The School Districts long-term obligations are as follows:

	<u>Original Amount</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
<u>General Obligation Bonds</u>			
2014 Refunding School Improvement	7,445,000	1.4 - 4.0%	12/1/2033
Capital appreciation	339,991	20.03 - 35.47%	12/1/2019
2013 Refunding School Improvement	7,010,000	1.0 - 4.0%	12/1/2033
Capital appreciation	149,992	8.20 - 24.18%	12/1/2020
2009 School Improvement	9,345,000	3.0 - 5.5%	12/1/2018
Capital appreciation	205,996	32.59%	12/1/2016
2008 School Improvement	9,700,000	3.0 - 5.5%	12/1/2016
2004 School Improvement Refunding	7,935,000	2.0 - 4.0%	12/1/2016
<u>Certificates of Participation</u>			
2005 Refunding Certificates	8,895,000	3.0 - 4.25%	12/1/2024
2015 Refunding Certificates	7,135,000	2.0 - 3.0%	12/1/2024

School Improvement Bonds - During the year ended June 30, 1995, the School District issued bonds for the principal amount of \$12,268,180 to pay the costs of renovating, remodeling, furnishing and improving the Aurora High School.

In January 2009, the School District issued \$9,345,000 in general obligation bonds which include serial and capital appreciation bonds. A capital appreciation bond matured in fiscal year 2015 and the other will mature in fiscal year 2016 with par values of \$280,000 each. The amount shown above as due within one year for the accretion on bonds includes the next semi-annual accreted amount to be taken on December 2015 when the bond comes due. The premium on the bonds was significant and is amortized over the life of the bonds using the bonds outstanding method of amortization.

In August 2008, the School District issued \$9,700,000 in general obligation bonds which include serial bonds to pay the costs of renovating, remodeling, furnishing and improving the School District schools.

**AURORA CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

School Improvement Refunding Bonds - In May 2004, the School District issued \$8,309,992 in general obligation bonds which included serial and capital appreciation bonds. The capital appreciation bonds have since been repaid. The premium on the bonds was significant and is amortized over the life of the bonds using the bonds outstanding method of amortization. The bonds were used to refund a portion of the 1995 School Improvement Bonds by placing the proceeds in an irrevocable trust with an escrow agent to provide for future debt service payments of the portion of bonds refunded. As a result, the bonds are considered to be defeased and the liability is not reported by the School District. At June 30, 2010, the remainder of the defeased bonds had been called and is no longer outstanding.

In April 2014, the School District issued \$7,784,991 in refunding general obligation bonds which included serial, term and capital appreciation bonds. The capital appreciation bonds mature in fiscal years 2018, 2019, and 2020 with par values of \$415,000 for the first two bonds and \$410,000 for the final bond. The 2014 Refunding School Improvement Bonds proceeds consisted of bond principal and \$980,123 of premium. The net proceeds of \$8,604,968 (after payment of underwriting fees, insurance, and other issuance costs) was deposited in an irrevocable trust with an escrow agent to provide for future debt service payments of the portion of the 2008 School Improvement Bonds refunded. As a result, the bonds are considered to be defeased and the liability is not reported by the School District. The difference between the reacquisition price and the net carrying amount of the old debt was \$819,968 and is reported as a deferred outflow of resources on the Statements of Net Position. The premium on the new debt was significant and is amortized over the life of the new bonds using the bonds outstanding method of amortization. The School District advance refunded the old bonds to reduce their total debt service payments over the next twenty years and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$326,168.

In December 2013, the School District issued \$7,159,992 in refunding general obligation bonds which included serial, term and capital appreciation bonds. The capital appreciation bonds mature in fiscal years 2018, 2019, 2020 and 2021 with par values of \$110,000 for the first two bonds and \$525,000 for the final two bonds. The 2013 Refunding School Improvement Bonds proceeds consisted of bond principal and \$981,234 of premium. The net proceeds of \$7,975,214 (after payment of underwriting fees, insurance, and other issuance costs) was deposited in an irrevocable trust with an escrow agent to provide for future debt service payments of the portion of the 2009 School Improvement Bonds refunded. As a result, the bonds are considered to be defeased and the liability is not reported by the School District. The difference between the reacquisition price and the net carrying amount of the old debt was \$742,376 and is reported as a deferred outflow of resources on the Statements of Net Position. The premium on the new debt was significant and is amortized over the life of the new bonds using the bonds outstanding method of amortization. The School District advance refunded the old bonds to reduce their total debt service payments over the next twenty years and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$323,164.

Certificates of Participation – During fiscal year 2000, the School District entered into a lease agreement for \$12,000,000 with the Aurora City School District Leasing Corporation for a new elementary school. The lease is an annual lease subject to renewal for twenty-five years through December 1, 2025.

Refunding Certificates of Participation - In April 2005, the School District issued \$8,895,000 of refunding certificates of participation. The premium on the certificates was significant and is amortized over the life of the certificates using the bonds outstanding method of amortization. The certificates were used to refund a portion of the 1999 Certificates of Participation by placing the proceeds in an irrevocable trust with an escrow agent to provide for future debt service payments of the portion of certificates refunded. As a result, the certificates are considered to be defeased and the liability is not reported by the School District.

**AURORA CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

In March 2015, the School District issued \$7,135,000 of refunding certificates of participation with interest rates varying between 2.0-3.0 percent. The certificates were used to current refund \$7,070,000 of outstanding certificates of participation with an average interest rate of 3.0-4.25 percent. The proceeds consisted of principal and \$266,791 of premium. The net proceeds of \$7,218,744 (after payment of underwriting fees, insurance and other issuance costs of \$183,047) were deposited in an irrevocable trust with an escrow agent to provide for debt service payments of the certificates refunded with a call date of June 1, 2015. As a result, the certificates are considered to be redeemed and the liability is not reported by the School District. The premium on the certificates was significant and is amortized over the life of the certificates using the bonds outstanding method of amortization. The School District refunded the old certificates to reduce their total debt service payments over the next ten years and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$488,054.

The Leasing Corporation entered an agreement with a trustee through which it assigned and transferred rights and interest under the lease to Huntington National Bank as Trustee. The Trustee issued Certificates of Participation in the lease agreement enabling holders of the Certificates to receive a portion of the semiannual lease payments. Proceeds from the issuance are mainly being used to construct a new elementary school. In addition, terms of the trust indenture require a portion of the proceeds to be set aside for current and future certificate payments. The current certificate payment account is used to account for resources accumulated for payment over the next twelve months. The reserve account is used solely to make rent payments if a deficiency exists in the current certificate payment account and, if all payments are current, to make payment of the last certificate payments.

The obligation of the School District under the lease and any subsequent lease renewal is subject to annual appropriation of the rental payments. Legal title to the facilities remains with the Leasing Corporation until all payments required under the lease have been made. At that time, title will transfer to the School District.

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

Principal, compounded interest on capital appreciation bonds and interest requirements to retire the general obligation bonds outstanding at June 30, 2015, are as follows:

<u>Fiscal Year</u>	<u>School Improvement Bonds</u>			<u>Certificates of Participation</u>	
	<u>Compounded</u>			<u>Principal</u>	<u>Interest</u>
	<u>Principal</u>	<u>Interest</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 1,524,945	\$ 185,055	\$ 590,044	\$ 650,000	\$ 194,600
2017	1,845,000	-	530,450	645,000	181,650
2018	558,822	351,178	488,497	655,000	165,375
2019	529,190	395,810	472,056	680,000	145,350
2020	143,900	791,100	463,556	700,000	124,650
2021-2025	4,358,071	481,929	2,069,663	3,805,000	291,975
2026-2030	5,505,000	-	1,280,899	-	-
2031-2034	3,925,000	-	301,300	-	-
Total	<u>\$ 18,389,928</u>	<u>\$ 2,205,072</u>	<u>\$ 6,196,465</u>	<u>\$ 7,135,000</u>	<u>\$ 1,103,600</u>

**AURORA CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 13 – CAPITALIZED LEASES – LESSEE DISCLOSURE

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

Capital assets acquired by the lease have been capitalized as equipment in the amount of \$174,268. These amounts are equal to the present value of the future minimum lease payments at the time of acquisition. Principal payments in the current fiscal year totaled \$56,408.

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

Fiscal Year	Lease Payments
2016	\$ 35,196
2017	<u>5,866</u>
Total minimum lease payments	41,062
Less: amount representing interest	<u>(1,146)</u>
Total	<u>\$ 39,916</u>

NOTE 14 - INTERFUND RECEIVABLES AND PAYABLES

Interfund balances at year end consist of the following individual fund receivables and payables:

Due to general fund from:	
Nonmajor governmental funds	\$ 161,100

All balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, or (3) payments between funds are made. As of June 30, 2015, all interfund loans outstanding are anticipated to be repaid in fiscal year 2016.

NOTE 15 - JOINTLY GOVERNED ORGANIZATIONS

Stark Portage Area Computer Consortium (SPARCC) is the computer service organization or Data Acquisition Site (DAS) used by the School District. SPARCC is an association of public school districts in a geographic area determined by the Ohio Department of Education. The Stark County Educational Service Center acts as the fiscal agent for the consortium. The purpose of the consortium is to develop and employ a computer system efficiently and effectively for the needs of the member Boards of Education. All School Districts in the consortium are required to pay fees, charges, and assessments as charged. A board made up of superintendents from all of the participating districts governs SPARCC. An elected Executive Board consisting of five members of the governing board is the managerial body of the consortium and meets on a monthly basis. The School District does not maintain an ongoing financial interest or an ongoing financial responsibility. Payments to SPARCC are made from the general fund and the management information system special revenue fund. During the fiscal year, the School District contributed \$127,767 to SPARCC.

**AURORA CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

Portage Area School Consortium is an insurance group-purchasing consortium made up of 21 participating members. All members pay an insurance premium directly to the consortium. The School District paid \$3,515,962 in the form of health care and life insurance premiums to the consortium for the current fiscal year.

The Ohio Schools Council (Council) is a jointly governed organization among 200 school districts, educational service centers, joint vocational school districts, and developmental disabilities boards in thirty-five northern Ohio counties. The jointly governed organization was formed to purchase quality products and services at the lowest possible cost to its members. Each member supports the Council by paying an annual participation fee. The Council's Board consists of nine superintendents of the participating districts whose term rotates every year. The degree of control exercised by any school district is limited to its representation on the Board. During fiscal year 2015 the School District paid the Council \$103,065 for natural gas purchases, \$717 for membership fees, \$400 in co-operative purchasing and \$3,214 for other services. Financial information can be obtained by contacting William Zelei, the Executive Director of the Ohio Schools Council at 6393 Oak Tree Blvd., Suite 377, Independence, Ohio 44131.

NOTE 16 - CONTINGENCIES

A. 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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at year end.

B. Litigation

The School District is not involved in any litigation at this time.

C. Enrollment Adjustments

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 minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the District, which can extend past the fiscal year end. As of the date of this report, ODE has not yet finalized the impact of enrollment adjustments to the June 30, 2015 Foundation funding for the School District; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or liability of the School District.

NOTE 17 - STATUTORY RESERVES

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

**AURORA CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

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

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

	Capital Maintenance <u>Reserve</u>
Set-aside cash balance as of June 30, 2014	\$ -
Current year set-aside requirement	481,835
Current year offset	<u>(745,685)</u>
Total	\$ <u>(263,850)</u>
Balance carried forward to future years	<u>\$ -</u>

Required Supplementary Information

**AURORA CITY SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
LAST TWO FISCAL YEARS (1)**

	<u>2014</u>	<u>2013</u>
School Employees Retirement System (SERS) of Ohio		
School District's proportion of the net pension liability	0.160392%	0.160392%
School District's proportionate share of the net pension liability	\$ 8,117,348	\$ 9,537,997
School District's covered employee payroll	\$ 4,631,991	\$ 4,683,244
School District's proportionate share of the net pension liability as a percentage of its covered employee payroll	175.25%	203.66%
Plan fiduciary net position as a percentage of total pension liability	71.70%	65.52%
	<u>2014</u>	<u>2013</u>
State Teachers Retirement System (STRS) of Ohio		
School District's proportion of the net pension liability	0.1517262%	0.1517262%
School District's proportionate share of the net pension liability	\$ 36,905,053	\$ 43,961,058
School District's covered employee payroll	\$ 15,707,054	\$ 14,955,754
School District's proportionate share of the net pension liability as a percentage of its covered employee payroll	234.96%	293.94%
Plan fiduciary net position as a percentage of total pension liability	74.70%	69.30%

(1) Information prior to 2013 is not available and the amounts presented are as of the School District's measurement date which is the prior fiscal year end.

**AURORA CITY SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF SCHOOL DISTRICT CONTRIBUTIONS
LAST THREE FISCAL YEARS (1)**

	<u>2015</u>	<u>2014</u>	<u>2013</u>
School Employees Retirement System (SERS) of Ohio			
Contractually required contribution	\$ 628,323	\$ 641,994	\$ 648,161
Contributions in relation to contractually required contribution	<u>(628,323)</u>	<u>(641,994)</u>	<u>(648,161)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School District covered employee payroll	\$ 4,767,246	\$ 4,631,991	\$ 4,683,244
Contributions as a percentage of covered employee payroll	13.18%	13.86%	13.84%

	<u>2015</u>	<u>2014</u>	<u>2013</u>
State Teachers Retirement System (STRS) of Ohio			
Contractually required contribution	\$ 2,292,213	\$ 2,041,917	\$ 1,944,248
Contributions in relation to contractually required contribution	<u>(2,292,213)</u>	<u>(2,041,917)</u>	<u>(1,944,248)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School District covered employee payroll	\$ 16,372,950	\$ 15,707,054	\$ 14,955,754
Contributions as a percentage of covered employee payroll	14.00%	13.00%	13.00%

(1) Information prior to 2013 is not available.

**AURORA CITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

School Employees Retirement System (SERS) of Ohio

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014 and 2015.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014 and 2015. See the notes to the basic financials for the methods and assumptions in this calculation.

State Teachers Retirement System (STRS) of Ohio

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014 and 2015.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014 and 2015. See the notes to the basic financials for the methods and assumptions in this calculation.

AURORA CITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

Federal Grantor/ Pass Through Grantor/ Program or Cluster Title	Grant Year	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
U.S. Department of Agriculture						
<i>Passed through the Ohio Department of Education</i>						
National School Lunch Program:						
Non-Cash Assistance (Food Distribution):						
National School Lunch Program	2015	10.555	\$ 0	\$ 35,159	\$ 0	\$ 35,159
Cash Assistance:						
National School Lunch Program	2014	10.555	14,993	0	14,993	0
National School Lunch Program	2015	10.555	99,664	0	99,664	0
Total Cash Assistance			<u>114,657</u>	<u>0</u>	<u>114,657</u>	<u>0</u>
Total National School Lunch Program			<u>114,657</u>	<u>35,159</u>	<u>114,657</u>	<u>35,159</u>
Total U.S. Department of Agriculture			<u>114,657</u>	<u>35,159</u>	<u>114,657</u>	<u>35,159</u>
U.S. Department of Education						
<i>Passed Through Ohio Department of Education</i>						
Special Education Cluster (IDEA):						
Special Education - Grants to States (IDEA, Part B)	2014	84.027	72,972	0	117,030	0
Special Education - Grants to States (IDEA, Part B)	2015	84.027	430,806	0	362,235	0
Total Special Education - Grants to States (IDEA, Part B)			<u>503,778</u>	<u>0</u>	<u>479,265</u>	<u>0</u>
Special Education - Preschool Grants (IDEA Preschool)	2014	84.173	624	0	3,264	0
Special Education - Preschool Grants (IDEA Preschool)	2015	84.173	6,275	0	5,074	0
Total Special Education Cluster (IDEA)			<u>510,677</u>	<u>0</u>	<u>487,603</u>	<u>0</u>
Title I, Part A Cluster:						
Title I Grants to Local Educational Agencies (Title I, Part A of ESEA)	2014	84.010	16,365	0	19,051	0
Title I Grants to Local Educational Agencies (Title I, Part A of ESEA)	2015	84.010	171,301	0	159,754	0
Total Title I, Part A Cluster			<u>187,666</u>	<u>0</u>	<u>178,805</u>	<u>0</u>
Improving Teacher Quality State Grants	2014	84.367	0	0	1,829	0
Improving Teacher Quality State Grants	2015	84.367	39,625	0	33,225	0
Total Improving Teacher Quality State Grants			<u>39,625</u>	<u>0</u>	<u>35,054</u>	<u>0</u>
Title III, English Language Acquisition Grant	2014	84.365	0	0	3,864	0
Title III, English Language Acquisition Grant	2015	84.365	9,507	0	9,507	0
Title III, Immigrant	2015	84.365	700	0	666	0
Total Title III, English Language Acquisition Grant			<u>10,207</u>	<u>0</u>	<u>14,037</u>	<u>0</u>
ARRA - Race to the Top		84.395	17,994	0	18,294	0
Total Race to the Top			<u>17,994</u>	<u>0</u>	<u>18,294</u>	<u>0</u>
Total U. S. Department of Education			<u>766,169</u>	<u>0</u>	<u>733,793</u>	<u>0</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 880,826</u>	<u>\$ 35,159</u>	<u>\$ 848,450</u>	<u>\$ 35,159</u>

The accompanying notes are an integral part of this schedule.

**AURORA CITY SCHOOL DISTRICT
PORTAGE COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2015**

NOTE A: SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B: CHILD NUTRITION CLUSTER

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

NOTE C: FOOD DONATION PROGRAM

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

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

Board of Education
Aurora City School District
Aurora, Ohio 44202

The Honorable Dave Yost
Auditor of State
State of Ohio

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Aurora City School District, Portage County, Ohio, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Aurora City School District, Ohio's basic financial statements and have issued our report thereon dated November 4, 2015, wherein we noted that the District adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68*, and restated its June 30, 2014 net position.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of This Report

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

James G. Zupka,
CPA, President

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President
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o=James G. Zupka, CPA, Inc., ou=Accounting,
email=jgzcpa@sbcglobal.net, c=US
Date: 2015.12.08 08:24:59 -05'00'

James G. Zupka, CPA, Inc.
Certified Public Accountants

November 4, 2015

JAMES G. ZUPKA, C.P.A., INC.

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**REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133**

Board of Education
Aurora City School District
Aurora, Ohio 44202

The Honorable Dave Yost
Auditor of State
State of Ohio

Report on Compliance for Each Major Federal Program

We have audited the Aurora City School District, Portage County, Ohio's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Aurora City School District, Ohio's major federal program for the year ended June 30, 2015. The Aurora City School District, Ohio's major federal program is identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Aurora City School District, Ohio's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Aurora City School District, Ohio's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for its major federal program. However, our audit does not provide a legal determination of the Aurora City School District, Ohio's compliance.

Opinion on Each Major Federal Program

In our opinion, the Aurora City School District, Ohio complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2015.


Report on Internal Control Over Compliance

Management of the Aurora City School District, Ohio, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Aurora City School District, Ohio's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Aurora City School District, Ohio's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

James G. Zupka,  Digitally signed by James G. Zupka, CPA, President
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Zupka, CPA, Inc., ou=Accounting,
email=jgzcpa@diglobal.net, c=US
Date: 2015.12.08 08:24:31 -05'00'

James G. Zupka, CPA, Inc.
Certified Public Accountants

November 4, 2015

**AURORA CITY SCHOOL DISTRICT
 PORTAGE COUNTY, OHIO
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 OMB CIRCULAR A-133 & .505
 JUNE 30, 2015**

1. SUMMARY OF AUDITOR'S RESULTS

2015(i)	Type of Financial Statement Opinion	Unmodified
2015(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
2015(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
2015(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
2015(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
2015(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
2015(v)	Type of Major Program's Compliance Opinion	Unmodified
2015(vi)	Are there any reportable findings under .510(a)?	No
2015(vii)	Major Programs (list): Special Education Cluster (IDEA): Special Education-Grants to States (IDEA, Part B) - CFDA #84.027 Special Education-Preschool Grants (IDEA Preschool) - CFDA #84.173	
2015(viii)	Dollar Threshold: Type A\B Program	Type A: \$300,000 or more Type B: All others less than \$300,000
2015(ix)	Low Risk Auditee?	Yes

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

**AURORA CITY SCHOOL DISTRICT
PORTAGE COUNTY, OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS AND RECOMMENDATIONS
JUNE 30, 2015**

The prior audit report, as of June 30, 2014, included no citations or instances of noncompliance. Management letter recommendations were corrected, repeated, or procedures instituted to prevent occurrences in this audit period.