



Dave Yost • Auditor of State



**AVON LOCAL SCHOOL DISTRICT  
LORAIN COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

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

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

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

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

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

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

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

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

**Opinion**

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

**Emphasis of Matter**

As discussed in Note 2 to the financial statements, during the year ended June 30, 2015, the School District adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and also GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. We did not modify our opinion regarding this matter.

**Other Matters**

*Required Supplementary Information*

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

*Supplementary and Other Information*

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

The Schedule of Federal Awards Receipts and Expenditures presents additional analysis as required by the 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 financial statements.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2016, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

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

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

March 25, 2016

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AVON LOCAL SCHOOL DISTRICT  
Management's Discussion and Analysis  
For the Year Ended June 30, 2015

Unaudited

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

### Financial Highlights

Key financial highlights for 2015 are as follows:

- Total assets and deferred outflows of resources increased \$ 323,895 in governmental activities with the most significant decreases in cash and cash equivalents offset by an increase in construction in process.
- Total revenues in governmental activities were \$ 42.6 million. General revenues accounted for \$ 38.6 million of revenue or 90.7 percent of all revenues for governmental activities. Program-specific revenues in the form of charges for services, operating grants, and contributions accounted for \$ 4.0 million or 9.3 percent of total revenues.
- Total program expenses were \$ 39.0 million in governmental activities. Instructional expenses made up \$ 24.0 million or 61.4 percent of this total while support services accounted for \$ 10.6 million or 27.3 percent.

### Using this Annual Financial Report

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

The *Statement of Net Position and Statement of Activities* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term and what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other non-major funds presented in total in one column. In the case of Avon Local School District, the General Fund is by far the most significant.

### Reporting the School District as a Whole

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

While this document contains all the funds used by the School District to provide programs and activities, the view of the School District as an entity looks at all financial transactions and asks the question, "How did we do financially during the 2015 fiscal year?" The *Statement of Net Position* and the *Statement of Activities* answers this question. These statements include *all assets, deferred outflows of resources, liabilities and deferred inflows of resources* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

AVON LOCAL SCHOOL DISTRICT  
Management's Discussion and Analysis  
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Unaudited

These two statements report the School District's net position and changes in that 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. Changes to our net position are a direct result of the property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, mandated educational programs, state funding, student enrollment, and general inflation.

In the Statement of Net Position and the Statement of Activities, the School District is classified as Governmental Activities. The School District's programs and services reported here include instruction, support services operation and maintenance of plant, pupil transportation, extracurricular activities and general administration.

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

#### *Fund Financial Statements*

Fund financial statements provide detailed information about the School District's major funds. The School District uses many funds to account for its financial transactions. However, these fund financial statements concentrate on the School District's most significant funds. The School District's major governmental funds are the General Fund, Debt Service Fund and Building Fund.

#### *Governmental Funds*

Most of the School District's activities are reported in governmental funds, which accounts for flow of money into and out of those funds and the year-end balances available for spending in future years. These funds are reported using 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 the reader determine the amount of 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.

AVON LOCAL SCHOOL DISTRICT  
Management's Discussion and Analysis  
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Unaudited

**The School District as a Whole**

You may recall the Statement of Net Position provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net position for 2015 compared to 2014:

Table 1  
Statement of Net Position

	Governmental Activities	
	2015	2014
<b>Assets</b>		
Current assets	\$ 52,555,796	\$ 75,818,843
Capital assets, net	82,026,160	59,021,942
Total assets	<u>134,581,956</u>	<u>134,840,785</u>
Deferred outflows of resources	<u>3,558,323</u>	<u>2,975,599</u>
<b>Liabilities</b>		
Other liabilities	7,406,512	6,453,169
Long-term liabilities	110,196,602	121,511,556
Total liabilities	<u>117,603,114</u>	<u>127,964,725</u>
Deferred inflows of resources	<u>31,998,540</u>	<u>24,874,103</u>
<b>Net position</b>		
Net investment in capital assets	27,196,290	18,751,187
Restricted	6,384,746	7,719,259
Unrestricted	(45,042,411)	(41,492,890)
Total net position	<u>\$ (11,461,375)</u>	<u>\$ (15,022,444)</u>

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

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

AVON LOCAL SCHOOL DISTRICT  
Management's Discussion and Analysis  
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Unaudited

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

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

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

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

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

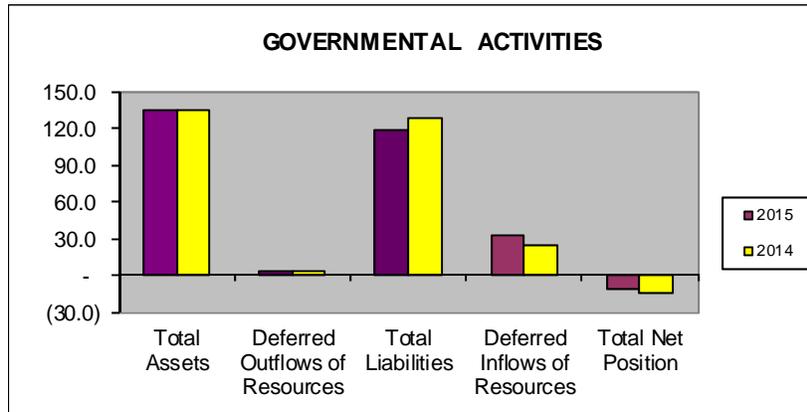
As a result of implementing GASB 68, the School District is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2014, from \$31,464,841 to (\$15,022,444.)

Total assets decreased by \$ 258,829. The most significant asset changes were a decrease in cash and cash equivalents and depreciable capital assets, net which were the result of cash used for the new middle school and depreciation taken on capital assets. These decreases were offset by significant increases in cash with taxes receivable and nondepreciable capital assets which is the construction in progress for the new middle school.

AVON LOCAL SCHOOL DISTRICT  
 Management's Discussion and Analysis  
 For the Year Ended June 30, 2015

Unaudited

Total liabilities and deferred inflows of resources decreased by \$ 3,237,174 in 2015 compared to 2014. The most significant changes were increases in accounts payable and retainage payable, which were payables related to the new middle school project, and deferred inflows of resources as they relate to property taxes and pension related. These increases were offset by significant decreases in long term liabilities which was the result of the pay down on debt and the advance refunding of long term debt.



AVON LOCAL SCHOOL DISTRICT  
Management's Discussion and Analysis  
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Unaudited

Table 2, the Statement of Activities, shows the change in net position for fiscal year 2015. A comparative analysis of government-wide data is presented.

Table 2  
Change in Net Position

	2015	% of Total	2014	% of Total
Revenues:				
General revenues				
Property taxes levied for:				
General purpose	\$ 23,562,030	55.32%	\$ 22,587,413	55.60%
Debt service	3,577,144	8.40%	3,411,613	8.40%
Capital improvements	721,949	1.70%	696,288	1.71%
Grants and entitlements not restricted to specific purposes	8,745,270	20.53%	8,085,727	19.90%
Investment earnings	335,157	0.79%	349,699	0.86%
Miscellaneous	1,689,331	3.97%	2,014,598	4.96%
Total general revenues	<u>38,630,881</u>	<u>90.71%</u>	<u>37,145,338</u>	<u>91.43%</u>
Total program revenues	<u>3,960,037</u>	<u>9.29%</u>	<u>3,476,752</u>	<u>8.57%</u>
Total revenue	<u>42,590,918</u>	<u>100.00%</u>	<u>40,622,090</u>	<u>100.00%</u>
Program expenses:				
Instruction				
Regular	15,776,258	40.42%	16,248,851	39.38%
Special	6,979,407	17.88%	6,892,376	16.71%
Vocational	167,232	0.43%	173,262	0.42%
Other instruction	1,026,667	2.63%	1,214,614	2.94%
Supporting services				
Pupil	1,195,907	3.06%	1,328,962	3.22%
Instructional staff	1,159,215	2.97%	842,357	2.04%
Board of education	72,818	0.20%	63,956	0.16%
Administration	2,234,646	5.73%	2,646,940	6.42%
Fiscal services	990,438	2.54%	871,697	2.11%
Business	6,345	0.02%	36,228	0.09%
Operation and maintenance	2,420,941	6.20%	3,264,187	7.91%
Pupil transportation	2,153,960	5.52%	1,807,286	4.38%
Central services	407,789	1.04%	77,328	0.19%
Operation of non-instructional services				
Food service operation	726,856	1.86%	665,965	1.61%
Latchkey operations	-	0.00%	151,454	0.37%
Community services	962,690	2.47%	394,736	0.96%
Extracurricular activities	889,563	2.28%	1,168,689	2.83%
Interest	1,859,117	4.76%	3,408,837	8.26%
Total program expenses	<u>39,029,849</u>	<u>100.00%</u>	<u>41,257,725</u>	<u>100.00%</u>
Changes in net position	3,561,069		(635,635)	
Net position, beginning of year	(15,022,444)		N/A	
Net position, end of year	<u>\$ (11,461,375)</u>		<u>\$ (15,022,444)</u>	

AVON LOCAL SCHOOL DISTRICT

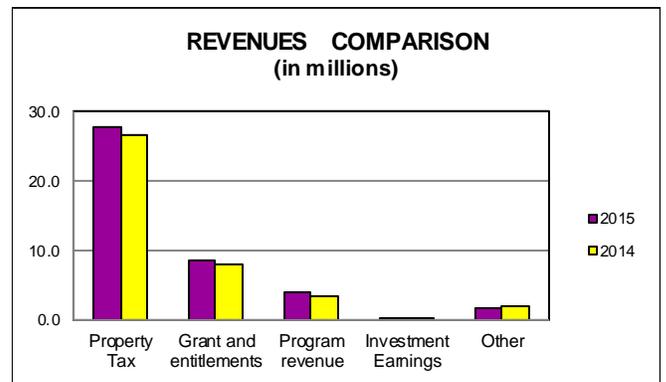
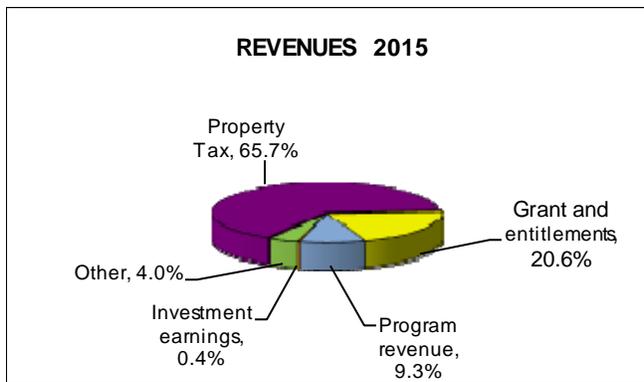
Management's Discussion and Analysis  
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The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implementation of GASB 68 is not available. Therefore, 2014 functional expenses still include pension expense of \$ 2,975,599 computed 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 \$ 640,899. Consequently, in order to compare 2015 total program expenses to 2014, the following adjustments are needed:

Total 2015 program expenses under GASB 68	\$ 39,029,849
Pension expense under GASB 68	(640,899)
2015 contractually required contributions	<u>3,036,142</u>
Adjusted 2015 program expenses	41,425,092
Total 2014 program expenses under GASB 27	<u>(41,257,725)</u>
Increase in program expenses not related to pension	<u>\$ 167,367</u>

The vast majority of revenue supporting all Governmental Activities is general revenue. General revenue totaled \$ 38.6 million or 90.7 percent of total revenue, an increase of \$ 1,485,543 compared to 2014. This increase was mainly due to an increase in property taxes and grants and entitlements not restricted to specific purposes. The remaining amount of revenue received was in the form of program revenues, which equated to \$ 4.0 million or 9.3 percent of total revenue.



As you can see the reliance upon local tax revenues for governmental activities is crucial. A significant percentage of our instructional and supporting services are covered by our property tax collections.

AVON LOCAL SCHOOL DISTRICT  
Management's Discussion and Analysis  
For the Year Ended June 30, 2015

Unaudited

Table 3 shows the total cost of services for governmental activities and net cost of those services. That is, it identifies the cost of these services supported by tax revenue and unrestricted state entitlements.

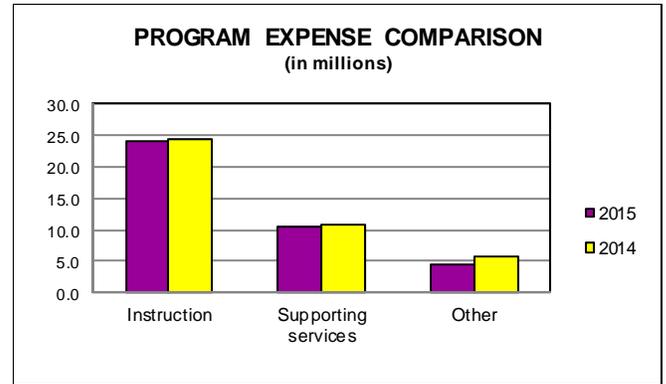
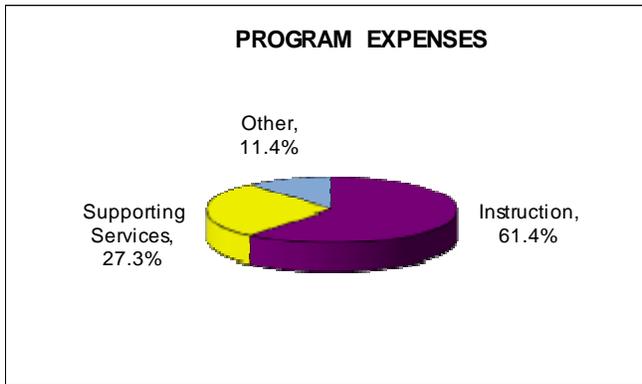
Table 3  
Net Cost of Services

	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
Governmental activities		
Instruction		
Regular	\$ 15,776,258	\$(14,855,249)
Special	6,979,407	(6,064,412)
Vocational	167,232	(137,832)
Other instruction	1,026,667	(1,026,667)
Supporting services		
Pupil	1,195,907	(976,726)
Instructional staff	1,159,215	(1,133,989)
Board of education	72,818	(72,818)
Administration	2,234,646	(2,234,646)
Fiscal services	990,438	(990,438)
Business	6,345	(6,345)
Operation and maintenance	2,420,941	(2,382,798)
Pupil transportation	2,153,960	(2,153,960)
Central services	407,789	(396,989)
Operation of non-instructional services		
Food service operation	726,856	61,324
Community services	962,690	(211,775)
Extracurricular activities	889,563	(627,375)
Interest	1,859,117	(1,859,117)
Totals	<u>\$ 39,029,849</u>	<u>\$(35,069,812)</u>

AVON LOCAL SCHOOL DISTRICT  
 Management's Discussion and Analysis  
 For the Year Ended June 30, 2015

Unaudited

The largest Governmental Activities program expense remains instruction, comprising \$ 23.9 million or 61.4 percent of expenses. When combined with supporting services of \$ 10.6 million, these categories make up 88.6 percent of expenses. For 2015, the instruction expenses decreased approximately \$ 579,539 and the supporting services also decreased by \$ 296,882 compared to 2014. The instruction decrease was a result of the School District reducing expenses and carefully watching as a result of the 2014 decrease in net position, which would eventually cause the School District to use its reserves to fund current expenditures. This is why our School District, which is very dependent upon property taxes, is hampered by a lack of revenue growth and must periodically ask the voters to increase property taxes to maintain a constant level of service.



The dependence upon tax revenues for governmental activities is apparent. Property taxes cover the largest percent of the cost of instruction, for all governmental activities. Our community has taken the responsibility for the primary support for Avon Local School District students.

**School District Funds**

Information regarding the School District's major funds can be found on page 19. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$ 51,880,852 and expenditures and other financing uses of \$ 77,787,959. The School District's most significant fund, the General Fund, had a net change in fund balance for the year of (\$ 1,070,947.)

**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. The General Fund's final budget revenue was \$ 33,562,995; this was less than the actual amount of \$ 33,863,229 by \$ 300,234. The main difference between the budget estimates and actual was due to a conservative estimate for intergovernmental revenue.

On the General Fund expenditure side of the equation, the School District increased its staffing needs due to the increased student population which had been anticipated in the original budgeting process. The final expenditure budget was \$ 35,017,775.

AVON LOCAL SCHOOL DISTRICT  
Management's Discussion and Analysis  
For the Year Ended June 30, 2015

Unaudited

**Capital Assets and Debt Administration**

**Capital Assets**

At the end of Fiscal Year 2015, the School District had \$ 82.0 million invested in land, construction in progress, land improvements, buildings and improvements, furniture and equipment, and vehicles. Table 4 shows fiscal 2015 balances compared to fiscal 2014:

Table 4  
Capital Assets  
Governmental Activities

	2015	2014
Land	\$ 3,603,900	\$ 3,603,900
Construction in progress	33,056,716	8,760,387
Land improvements	1,613,619	1,624,540
Buildings and improvements	42,904,895	44,175,148
Furniture and equipment	511,246	431,213
Vehicles	335,784	426,754
	\$ 82,026,160	\$ 59,021,942

All capital assets, except land and construction in progress, are reported net of depreciation. The increase in capital assets is due to the ongoing construction of the new middle school. For more information about the School District's capital assets, see Notes to the Basic Financial Statements.

**Debt**

At June 30, 2015, the Avon Local Schools had \$ 68.6 million in obligations outstanding, a decrease of \$ 3.5 million from fiscal year 2014, the result of the School District paying down the debt. The bonds were issued in 1996 (\$ 5.9 million), 2003 (\$5.9 million), 2004 (\$3.2 million), 2007 (\$12.4 million), 2013 (\$40.3 million) and 2015 (\$ 9.1 million) for improvements and construction of the High School, Heritage North Elementary, Heritage South Elementary, Heritage South Connector, Athletic Fields, Avon East Elementary, High School Addition and the Middle School.

Table 5  
Outstanding Obligations Year-End

	2015	2014
Bonds payable	\$ 58,948,955	\$ 63,210,984
Accretion on capital appreciation bonds	2,652,731	2,579,425
Premium on bonds	3,707,398	3,156,435
Compensated absences	3,262,750	3,092,604
Capital lease	-	9,224
Total outstanding obligations	\$ 68,571,834	\$ 72,048,672

For more information about the School District's obligations, see Notes to the Basic Financial Statements.

AVON LOCAL SCHOOL DISTRICT  
Management's Discussion and Analysis  
For the Year Ended June 30, 2015

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**Current Issues**

The Avon Local School District has committed itself to a fiscal discipline based on long-term plans. The School District is financially stable. The Board of Education and administration have implemented fiscal management disciplines that utilize a variety of formal plans. We are working within the five-year budget plan, the five-year renovations plan, the continuous improvement plan, and the enrollment projections.

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

Externally, several significant legislative and judicial actions have occurred that will have a major impact on our School District. The sudden downturn in the economy has put pressures on both the State budget as well as our School District budget. We are concerned that the tax base may be weakened as a result of the current economic conditions and therefore negatively impact tax revenues. The ongoing legislative efforts to support the existence of community (charter) schools come at the expense of our current State subsidy. This year funds will be deducted from our State subsidy and redirected to community (charter) schools. The School District's commitment to improve fiscal management has led to many budgeting, reporting and internal control enhancements.

This scenario requires management to plan carefully and prudently to provide the resources to meet student needs over the next several years. If the trend of continued enrollment growth, staffing needs, state funding reductions, and negotiated contract issues are realized, the Avon Local School District will have to address the financial operating needs of the School District prior to fiscal year 2017. These assumptions also include the renewal of prior approved emergency levies. All of the School District's financial abilities will be needed to meet the challenges of the future.

**Contacting the School District Fiscal Management**

This financial report was designed to comply with the most current reporting requirements and is intended to provide our parents, citizens, taxpayers, investors and creditors an understanding of the School District's financial position. Katie Henes, Treasurer, can be contacted at the Avon Local School District, 35573 Detroit Road, Avon, Ohio 44011.

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AVON LOCAL SCHOOL DISTRICT

STATEMENT OF NET POSITION

JUNE 30, 2015

	Governmental Activities
<b>Assets</b>	
Cash and cash equivalents	\$ 20,885,702
Cash with fiscal agents	1,015,629
Due from other governments	236,736
Taxes receivable	30,417,729
Capital assets	
Nondepreciable capital assets	36,660,616
Depreciable capital assets, net	45,365,544
<b>Total assets</b>	<b>134,581,956</b>
<b>Deferred outflows of resources</b>	
Pension	3,558,323
<b>Total deferred outflows of resources</b>	<b>3,558,323</b>
<b>Liabilities</b>	
Accounts and contracts payable	2,136,060
Retainage payable	665,490
Accrued salaries and benefits	3,269,068
Claims payable	353,050
Interest payable	182,828
Due to other governments	800,016
Long term liabilities	
Due within one year	1,681,758
Due in more than one year	
Other amounts	66,890,076
Net pension liability	41,624,768
<b>Total liabilities</b>	<b>117,603,114</b>
<b>Deferred inflows of resources</b>	
Property taxes	25,881,654
Deferral on refunding	91,289
Pension	6,025,597
<b>Total deferred inflows of resources</b>	<b>31,998,540</b>
<b>Net position</b>	
Net investment in capital assets	27,196,290
Restricted for:	
Debt service	1,906,864
Capital projects	2,642,695
Latchkey	134,047
Athletics	186,596
Food service	680,033
Self insurance	657,728
State grants	157,044
Other purposes	19,739
Unrestricted	(45,042,411)
<b>Total net position</b>	<b>\$ (11,461,375)</b>

See the accompanying notes to the basic financial statements.

AVON LOCAL SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2015

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services and Sales	Operating Grants, Interest and Contributions	Capital Grants and Contributions	
Governmental activities					
Instruction					
Regular	\$ 15,776,258	\$ 868,863	\$ 52,146	\$ -	\$ (14,855,249)
Special	6,979,407	-	914,995	-	(6,064,412)
Vocational	167,232	-	29,400	-	(137,832)
Other instruction	1,026,667	-	-	-	(1,026,667)
Supporting services					
Pupil	1,195,907	104,181	115,000	-	(976,726)
Instructional staff	1,159,215	-	25,226	-	(1,133,989)
Board of education	72,818	-	-	-	(72,818)
Administration	2,234,646	-	-	-	(2,234,646)
Fiscal services	990,438	-	-	-	(990,438)
Business	6,345	-	-	-	(6,345)
Operation and maintenance	2,420,941	-	-	38,143	(2,382,798)
Pupil transportation	2,153,960	-	-	-	(2,153,960)
Central services	407,789	-	10,800	-	(396,989)
Operation of non-instructional services					
Food service operation	726,856	541,010	247,170	-	61,324
Community services	962,690	206,883	544,032	-	(211,775)
Extracurricular activities	889,563	262,188	-	-	(627,375)
Interest	1,859,117	-	-	-	(1,859,117)
Totals	<u>\$ 39,029,849</u>	<u>\$ 1,983,125</u>	<u>\$ 1,938,769</u>	<u>\$ 38,143</u>	<u>(35,069,812)</u>

General revenues

Property taxes levied for:	
General purpose	23,562,030
Debt service	3,577,144
Capital improvements	721,949
Grants and entitlements not restricted to specific purposes	8,745,270
Investment earnings	335,157
Miscellaneous	1,689,331
Total general revenues	<u>38,630,881</u>
Change in net position	3,561,069
Net position, beginning of year, restated	(15,022,444)
Net position, end of year	<u>\$ (11,461,375)</u>

See the accompanying notes to the basic financial statements.

AVON LOCAL SCHOOL DISTRICT

BALANCE SHEET -  
GOVERNMENTAL FUNDS

JUNE 30, 2015

	General Fund	Debt Service Fund	Building Fund	Other Governmental Funds	Total Governmental Funds
Assets and deferred outflow s of resources					
Assets					
Cash and cash equivalents	\$ 12,095,875	\$ 1,323,958	\$ 3,298,672	\$ 4,167,197	\$ 20,885,702
Receivables, net of allowance					
Taxes, current	24,668,311	3,609,068	-	733,726	29,011,105
Taxes, delinquent	1,196,052	174,984	-	35,588	1,406,624
Due from other governments	-	-	-	236,736	236,736
Interfund receivable	2,937	-	-	-	2,937
Total assets	<u>37,963,175</u>	<u>5,108,010</u>	<u>3,298,672</u>	<u>5,173,247</u>	<u>51,543,104</u>
Total assets and deferred outflow s of resources	<u>\$ 37,963,175</u>	<u>\$ 5,108,010</u>	<u>\$ 3,298,672</u>	<u>\$ 5,173,247</u>	<u>\$ 51,543,104</u>
Liabilities, deferred inflow s of resources and fund balance					
Liabilities					
Accounts and contracts payable	\$ 71,269	\$ -	\$ 1,533,604	\$ 529,273	\$ 2,134,146
Retainage payable	-	-	656,251	9,239	665,490
Accrued salaries and benefits	3,115,664	-	-	153,404	3,269,068
Due to other governments	559,128	-	-	240,888	800,016
Compensated absences payable	201,758	-	-	-	201,758
Total liabilities	<u>3,947,819</u>	<u>-</u>	<u>2,189,855</u>	<u>932,804</u>	<u>7,070,478</u>
Deferred inflow s of resources					
Property taxes	22,026,113	3,201,146	-	654,395	25,881,654
Unavailable revenue - delinquent taxes	1,196,052	174,984	-	35,588	1,406,624
Total deferred inflow s of resources	<u>23,222,165</u>	<u>3,376,130</u>	<u>-</u>	<u>689,983</u>	<u>27,288,278</u>
Fund balances					
Restricted	-	1,731,880	1,108,817	3,786,072	6,626,769
Assigned	634,111	-	-	-	634,111
Unassigned (deficit)	10,159,080	-	-	(235,612)	9,923,468
Total fund balances	<u>10,793,191</u>	<u>1,731,880</u>	<u>1,108,817</u>	<u>3,550,460</u>	<u>17,184,348</u>
Total liabilities, deferred inflow s of resources and fund balance	<u>\$ 37,963,175</u>	<u>\$ 5,108,010</u>	<u>\$ 3,298,672</u>	<u>\$ 5,173,247</u>	<u>\$ 51,543,104</u>

See the accompanying notes to the basic financial statements.

AVON LOCAL SCHOOL DISTRICT

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET POSITION OF GOVERNMENTAL ACTIVITIES

JUNE 30, 2015

Total governmental funds balances	\$ 17,184,348
Amount reported for governmental activities in the statement of net position are different because:	
Capital assets net of accumulated depreciation used in governmental activities are not financial resources and therefore not reported in the funds.	82,026,160
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.	
Delinquent property taxes	1,406,624
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred outflow s of resources or deferred inflow s of resources are not reported in the governmental funds:	
Deferred outflow s of resources	3,558,323
Net pension liability	(41,624,768)
Deferred inflow s of resources	(6,025,597)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Compensated absences	(3,060,992)
Bonds payable	(61,601,686)
Unamortized bond premium	(3,707,398)
Deferral on refunding	(91,289)
Accrued interest payable	(182,828)
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.	<u>657,728</u>
Net position of governmental activities	<u>\$ (11,461,375)</u>

See the accompanying notes to the basic financial statements.

AVON LOCAL SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES - GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2015

	General Fund	Debt Service Fund	Building Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Taxes	\$ 23,044,826	\$ 3,504,991	\$ -	\$ 707,325	\$ 27,257,142
Tuition and fees	870,918	-	-	-	870,918
Interest	22,598	-	20,638	86	43,322
Intergovernmental	8,171,634	464,166	-	2,336,770	10,972,570
Charges for services	-	-	-	541,010	541,010
Extracurricular	52,720	-	-	256,028	308,748
Miscellaneous	1,411,348	197,418	700	280,505	1,889,971
<b>Total revenues</b>	<b>33,574,044</b>	<b>4,166,575</b>	<b>21,338</b>	<b>4,121,724</b>	<b>41,883,681</b>
<b>Expenditures</b>					
<b>Current</b>					
<b>Instruction</b>					
Regular	15,842,374	-	-	91,927	15,934,301
Special	6,416,802	-	-	947,486	7,364,288
Vocational	182,485	-	-	-	182,485
Other instruction	1,026,667	-	-	-	1,026,667
<b>Supporting services</b>					
Pupil	1,201,687	-	-	120,150	1,321,837
Instructional staff	908,668	-	109,917	159,961	1,178,546
Board of education	72,818	-	-	-	72,818
Administration	2,409,810	-	-	26,926	2,436,736
Fiscal services	813,036	189,599	-	11,191	1,013,826
Business	6,345	-	-	-	6,345
Operation and maintenance	2,970,470	-	-	13,155	2,983,625
Pupil transportation	2,122,869	-	-	6,000	2,128,869
Central services	91,891	-	305,098	10,800	407,789
<b>Operation of non-instructional services</b>					
Food service operation	-	-	-	711,388	711,388
Community services	2,200	-	-	973,482	975,682
Extracurricular activities	544,010	-	-	287,256	831,266
Capital outlay	23,595	-	22,919,582	1,054,322	23,997,499
<b>Debt service</b>					
Principal	9,224	2,916,011	-	-	2,925,235
Interest	40	2,426,509	-	-	2,426,549
<b>Total expenditures</b>	<b>34,644,991</b>	<b>5,532,119</b>	<b>23,334,597</b>	<b>4,414,044</b>	<b>67,925,751</b>
Excess (deficiency) of revenues over expenditures	(1,070,947)	(1,365,544)	(23,313,259)	(292,320)	(26,042,070)
<b>Other financing sources (uses)</b>					
Payment to refunded bond escrow agent	-	(9,862,208)	-	-	(9,862,208)
Premium on bond issuance	-	862,186	-	-	862,186
Bond proceeds	-	9,134,985	-	-	9,134,985
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>134,963</b>	<b>-</b>	<b>-</b>	<b>134,963</b>
Net change in fund balances	(1,070,947)	(1,230,581)	(23,313,259)	(292,320)	(25,907,107)
Fund balances, beginning of year	11,864,138	2,962,461	24,422,076	3,842,780	43,091,455
<b>Fund balances, end of year</b>	<b>\$ 10,793,191</b>	<b>\$ 1,731,880</b>	<b>\$ 1,108,817</b>	<b>\$ 3,550,460</b>	<b>\$ 17,184,348</b>

See the accompanying notes to the basic financial statements.

AVON LOCAL SCHOOL DISTRICT

RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2015

Net change in fund balances - total governmental funds		\$ (25,907,107)
Amounts reported for governmental activities in the statement of activities are different because:		
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.</p>		
	Capital asset additions	24,461,576
	Depreciation expense	<u>(1,457,358)</u>
		23,004,218
<p>Revenue in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
	Property taxes	603,981
	Intergovernmental	(250,388)
	Interest	<u>(27,687)</u>
		325,906
<p>Contractually required contributions are reported as expenditures in governmental funds; however, the statement of activities reports these amounts as deferred outflows of resources.</p>		
		3,036,142
<p>Except for amounts reported as deferred outflows of resources or deferred inflows of resources, changes in the net pension liability are reported as pension expense in the statement of activities</p>		
		(640,899)
<p>Repayment of bonds, notes and capital lease is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.</p>		
		12,787,443
<p>Accrued interest expense in the statement of activities does not require the use of current financial resources and, therefore, is not reported as an expenditure in the governmental funds. In the statement of activities bond accretion and deferral of refunding is amortized over the term of the bonds, whereas in governmental funds, the expenditure is reported when the bonds are issued.</p>		
		24,768
<p>The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.</p>		
		(9,134,985)
<p>Some expenses (ie. Compensated absences) 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.</p>		
		(161,402)
<p>The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the government-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.</p>		
		<u>226,985</u>
Change in net position of governmental activities		<u><u>\$ 3,561,069</u></u>

See the accompanying notes to the basic financial statements.

AVON LOCAL SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
BUDGET BASIS (NON-GAAP) AND ACTUAL – GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2015

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
Revenues and other financing sources	\$ 34,450,063	\$ 33,562,995	\$ 33,863,229	\$ 300,234
Expenditures and other financing uses	33,059,219	35,017,775	35,027,814	(10,039)
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	1,390,844	(1,454,780)	(1,164,585)	290,195
Fund balances, beginning of year	11,870,937	11,870,937	11,870,937	-
Prior year encumbrances	559,219	559,219	559,219	-
Fund balances, end of year	<u>\$ 13,821,000</u>	<u>\$ 10,975,376</u>	<u>\$ 11,265,571</u>	<u>\$ 290,195</u>

See the accompanying notes to the basic financial statements.

AVON LOCAL SCHOOL DISTRICT  
STATEMENT OF FUND NET POSITION  
INTERNAL SERVICE FUND  
FOR THE YEAR ENDED JUNE 30, 2015

	<u>Self Insurance</u>
Assets	
Current assets	
Cash with fiscal agent	\$ 1,015,629
Total assets	1,015,629
Liabilities	
Current liabilities	
Claims payable	353,050
Accounts payable	1,914
Due to other funds	2,937
Total liabilities	357,901
Net position	
Unrestricted	657,728
Total net position	\$ 657,728

See the accompanying notes to the basic financial statements.

AVON LOCAL SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
INTERNAL SERVICE FUND  
FOR THE YEAR ENDED JUNE 30, 2015

	Self Insurance
Operating revenues	
Charges for services	\$ 4,325,226
Miscellaneous income	64,746
Total operating revenues	4,389,972
Operating expenses	
Purchased services	330,079
Contractual services	276,999
Other expenses	3,732
Claims	3,552,177
Total operating expenses	4,162,987
Operating income	226,985
Net position, beginning of year	430,743
Net position, end of year	\$ 657,728

See the accompanying notes to the basic financial statements.

AVON LOCAL SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
INTERNAL SERVICE FUND  
FOR THE YEAR ENDED JUNE 30, 2015

	Self Insurance
Cash flows from operating activities	
Cash received from interfund services	\$ 4,325,226
Cash received from other income	64,746
Cash payments for goods and services	(608,896)
Cash payments for claims	(3,503,327)
Net cash provided by operating activities	277,749
 Cash flows from noncapital financing activities	
Advance from other funds	2,937
 Net increase in cash and cash equivalents	280,686
 Cash with fiscal agent, beginning of year	734,943
 Cash with fiscal agent, end of year	\$ 1,015,629
 Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 226,985
Adjustments	
Increase in claims payable	48,850
Increase in accounts payable	1,914
Total adjustments	50,764
 Net cash provided by operating activities	\$ 277,749

See the accompanying notes to the basic financial statements.

AVON LOCAL SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
AGENCY FUNDS

JUNE 30, 2015

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	\$ 76,547
Total assets	<u>\$ 76,547</u>
Liabilities	
Accounts payable	\$ 418
Due to others	9,627
Due to students	66,502
Total liabilities	<u>\$ 76,547</u>

See the accompanying notes to the basic financial statements.

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AVON LOCAL SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

The Avon Local School District (the School District) was established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The School District is a local school district as defined by Section 3311.03 of the Ohio Revised Code. The School District operates under an elected Board of Education consisting of five members and is responsible for providing public education to residents of the School District. Average daily membership for fiscal year 2015 was 4,246. The School District employs 280 certificated and 189 non-certificated employees.

REPORTING ENTITY

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

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

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the 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 provided financial support to the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. The School District has no component units.

The School District is associated with the North Coast Council, the Lorain County Joint Vocational School District, Great Lakes Council of Governments, and the Ohio Schools Council which are considered to be jointly governed organizations. The School District also participates in a public risk pool managed by the Ohio School Boards Association Workers' Compensation Group Rating Program. These organizations and their relationships with the School District are described in more detail in Notes 11 and 17 to these financial statements.

B. BASIS OF PRESENTATION

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

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

AVON LOCAL SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. BASIS OF PRESENTATION (continued)

Government-wide Financial Statements

The statement of net position presents the financial condition of the governmental activities of the School District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient for 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 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.

C. FUND ACCOUNTING

The School District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid 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. The various funds of the School District are grouped into the categories governmental, proprietary, and fiduciary.

Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. 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 and deferred inflows of resources is reported as fund balance. The following are the School District's major governmental funds:

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

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

Building Fund - the Building Fund is used to account for capital improvement projects of the School District.

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

Proprietary Fund Type

Proprietary funds focus on the determination of operating income, changes in net position, financial position and cash flows and are classified as either enterprise or internal service. The School District only has an internal service fund.

AVON LOCAL SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. FUND ACCOUNTING (continued)

Internal Service Fund – The Internal Service Fund accounts for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost-reimbursement basis. The School District utilizes an internal service fund to account for the operation of the School District's self insurance fund's reserve balance for employee insurance.

Fiduciary Funds

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

D. MEASUREMENT FOCUS

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

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

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

E. BASIS OF ACCOUNTING

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

AVON LOCAL SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. BASIS OF ACCOUNTING (continued)

Revenues - Exchange and Non-exchange Transactions

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

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 7). Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the 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, grants, investment earnings, tuition, and student fees.

Deferred Outflows/Inflows of Resources

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School District, deferred outflows of resources are reported on the government-wide statement of net position for pension. The deferred outflows of resources related to pension are explained in Note 12.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the School District, deferred inflows of resources include property taxes, pension, debt refunding and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2015, but which were levied to finance fiscal year 2016 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the School District, unavailable revenue includes delinquent property taxes. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. A deferred inflow on debt 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. Deferred inflows of resources related to pension are reported on the government-wide statement of net position. (See Note 12)

AVON LOCAL SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. BASIS OF ACCOUNTING (continued)

Expenditures/Expenses

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

F. BUDGETARY PROCESS

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

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

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

G. CASH AND INVESTMENTS

Cash received by the School District is deposited in one central bank account with individual fund balance integrity maintained through School District records. Monies for all funds are maintained in this account or temporarily transferred to the State Treasurer's investment pool (STAR Ohio) or other short term investments. Following Ohio statutes, the Board of Education has specified the allocation of interest earnings to funds based on average monthly cash balances. Interest income credited to the General Fund during fiscal year 2015 amounted to \$ 22,598, which includes \$ 7,012 assigned from other School District Funds.

During fiscal year 2015, investments were limited to Federal Home Loan Bank bonds, Federal Farm Credit Bank bonds, Federal Home Loan Mortgage Corporation bonds, Federal National Mortgage Association bonds, US government money markets, and investments in STAR Ohio.

Except for investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase, investments are reported at fair value, which is based on quoted market prices. Investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase are reported at cost or amortized cost.

AVON LOCAL SCHOOL DISTRICT  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. CASH AND INVESTMENTS (continued)

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

Investments with an original maturity of three months or less at the time of purchase are considered to be cash equivalents.

H. INVENTORY

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. On fund financial statements, inventories of governmental funds are stated at cost. Cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when used.

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 government or imposed by enabling legislation. Restricted assets include the amount required by State statute to be set aside for certain expenditures.

J. CAPITAL ASSETS

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

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

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

K. INTERFUND BALANCES

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

AVON LOCAL SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

L. 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 vesting method. The liability is based on an estimate of the amount of accumulated sick leave that will be paid as a termination benefit. The liability includes employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy.

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 noncurrent portion of the liability is not reported.

M. ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

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

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

N. NET POSITION

Net position represents the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, 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 government-wide statement of net position reports \$ 6,384,746 of net position restricted, of which none is restricted by enabling legislation. Net position restricted for other purposes include other grants and rotary funds.

AVON LOCAL SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

O. FUND BALANCE

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

Nonspendable

The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. 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. The School District has no nonspendable fund balances.

Restricted

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

Committed

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

Assigned

Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by the School District Board of Education.

Unassigned

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

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

P. INTERFUND TRANSACTIONS

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

AVON LOCAL SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Q. ESTIMATES

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

R. OPERATING REVENUE AND EXPENSES

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, these revenue are charges for services for health insurance in the Internal Service Fund. Operating expense are necessary costs incurred to provide the good or service that are the primary activity of the fund. Revenues and expenses not meeting these definitions are reported as nonoperating.

R. PENSIONS

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

NOTE 2 – CHANGE IN ACCOUNTING PRINCIPLES

A. ACCOUNTING PRINCIPLES

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:

	Governmental Activities
Net Position, June 30, 2014	\$ 31,464,841
Adjustments:	
Net pension liability	(49,462,884)
Deferred outflow - payment subsequent to measurement date	2,975,599
Restated Net Position, June 30, 2014	\$ (15,022,444)

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.

AVON LOCAL SCHOOL DISTRICT  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2015

NOTE 3 – DEFICIT FUND BALANCE

At June 30, 2015, the School District had deficit fund balances in the IDEA-Part B Fund of \$ 171,240 and the Title I Fund of \$ 64,372. The General Fund is liable for deficits in the funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities.

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance – Budget Basis (Non-GAAP) 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 statements are the following:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than restricted, committed or assigned fund balance (GAAP basis).
4. Some funds are included in the general fund (GAAP basis), but have a separate legally adopted budget (budget basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund.

Net Change in Fund Balance General Fund	
	General
Budget basis	\$ (1,164,585)
Adjustments, increase (decrease):	
Revenue accruals	(733,738)
Expenditure accruals	162,271
Encumbrances	575,390
Funds budgeted separately	89,715
GAAP basis, as reported	\$ (1,070,947)

AVON LOCAL SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015

NOTE 5 – 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 Balance	General Fund	Debt Service Fund	Building Fund	Other Governmental Funds	Total
Restricted for					
Debt Service	\$ -	\$ 1,731,880	\$ -	\$ -	\$ 1,731,880
Capital Projects	-	-	1,108,817	2,607,107	3,715,924
Food Service	-	-	-	680,033	680,033
Other Grants	-	-	-	19,435	19,435
Latchkey	-	-	-	134,047	134,047
Athletics	-	-	-	186,596	186,596
Auxiliary Service	-	-	-	158,550	158,550
Title V R	-	-	-	304	304
Total restricted for	<u>-</u>	<u>1,731,880</u>	<u>1,108,817</u>	<u>3,786,072</u>	<u>6,626,769</u>
Assigned for					
Encumbrances	489,462				489,462
Other Purposes	144,649	-	-	-	144,649
Total assigned for	<u>634,111</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>634,111</u>
Unassigned (Deficit)	<u>10,159,080</u>	<u>-</u>	<u>-</u>	<u>(235,612)</u>	<u>9,923,468</u>
Total Fund Balances	<u>\$ 10,793,191</u>	<u>\$ 1,731,880</u>	<u>\$ 1,108,817</u>	<u>\$ 3,550,460</u>	<u>\$ 17,184,348</u>

AVON LOCAL SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015

NOTE 6 - DEPOSITS AND INVESTMENTS

A. LEGAL REQUIREMENTS

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

Interim 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.

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

Interim monies may be invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio, its political subdivisions, or other units or agencies of this state or its political subdivisions;
5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);
8. Securities lending agreements in which the School District lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2), or cash, or both securities and cash, equal value for equal value;

AVON LOCAL SCHOOL DISTRICT  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2015

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

A. LEGAL REQUIREMENTS (continued)

9. High grade commercial paper in an amount not to exceed five percent of the School District's total average portfolio;
10. Bankers acceptances for a period not to exceed 270 days in an amount not to exceed ten percent of the School District's total average portfolio.

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

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

At fiscal year end, the School District had \$ 100 in cash on hand which is included on the balance sheet of the School District as part of "Cash and Cash Equivalents".

The School District had \$ 1,015,629 in cash with fiscal agent related to the Internal Service Fund.

B. DEPOSITS

Custodial credit risk is the risk that, in the event of a bank failure, the School District's deposits may not be returned. The School District does not have a deposit policy for custodial credit risk. At fiscal year end, the carrying amount of the School District's deposits was (\$ 93,921) and the bank balance was \$ 251,940. Of the bank balance, \$ 250,000 was covered by federal depository insurance and \$ 1,940 was collateralized with securities held by the pledging institution's trust department not in the School District's name.

C. INVESTMENTS

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee. As of June 30, 2015, the School District had the following investments:

	Weighted Average Maturities Years	Fair Value
Federal Home Loan Bank	0.098	\$ 500,705
Mutual fund	n/a	20,525,331
Investment in State Treasurer's Investment Pool	0.145	30,134
		\$ 21,056,170

D. INTEREST RATE RISK

The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date.

AVON LOCAL SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

E. CREDIT RISK

The School District follows the Ohio Revised Code that limits its investment choices. As of June 30, 2015, the School District's investments in Star Ohio and FHLB were rated AAAM and AAA by Standard & Poor's, respectively. Credit ratings are not available for the mutual funds.

F. CONCENTRATION OF CREDIT RISK

The School District places no limit on the amount that may be invested in any one issuer. 0.14% of the School District's investments were in Star Ohio, 97.48% in mutual funds and 2.38% in FHLB.

NOTE 7 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, and public utility property located in the School District. Real and public utility property tax revenues received in calendar year 2015 represent the collection of calendar year 2014 taxes. Real property taxes for 2015 were levied after April 1, 2014, on the assessed values as of January 1, 2014, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility real and tangible personal property taxes received in 2015 were levied after April 1, 2014, on the assessed values as of December 31, 2013, the lien date. Public utility real property is assessed at 35 percent of true value; tangible personal property is currently assessed at varying percentages of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

The School District receives property taxes from Lorain County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 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 late settlement of tangible personal property taxes and 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 or resources.

AVON LOCAL SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015

NOTE 7 - PROPERTY TAXES (continued)

The amount available as an advance at June 30, 2015 was \$ 2,642,198 in the General Fund, \$ 407,922 in the Debt Service Fund and \$ 79,331 in the Capital Projects Fund. The amount available as an advance at June 30, 2014, was \$ 2,692,979 in the General Fund, \$ 412,009 in the Debt Service Fund and \$ 82,312 in the Capital Projects Fund.

The assessed values upon which the fiscal year 2015 taxes were collected are:

	2014 Second Half Collections		2015 First Half Collections	
	Amount	%	Amount	%
Agricultural/Residential	\$ 559,668,300	75.35	\$ 573,754,960	75.97
Commercial / Industrial	170,425,410	22.95	168,064,920	22.25
Public Utilities	12,652,910	1.70	13,371,550	1.78
Total Assessed Value	<u>\$ 742,746,620</u>	<u>100.00</u>	<u>\$ 755,191,430</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	<u>\$ 57.03</u>		<u>\$ 56.83</u>	

NOTE 8 - RECEIVABLES

Receivables at June 30, 2015, consisted of property taxes and amounts due from other governments. All receivables are considered substantially collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables are expected to be collected within one year.

A summary of the principal items due from other governments follows:

	Amount
Governmental activities	
Non-major fund	
Federal grants	\$ 236,736
	<u>\$ 236,736</u>

NOTE 9 - INTERFUND ASSETS/LIABILITIES

On the fund financial statements at June 30, 2015, interfund balances consisted of the following:

Fund	Receivable	Payable
General fund	\$ 2,937	\$ -
Internal service fund	-	2,937
Total	<u>\$ 2,937</u>	<u>\$ 2,937</u>

The interfund balances were made to support expenses in the internal service funds.

AVON LOCAL SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015

NOTE 10 - CAPITAL ASSETS

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

	Balance June 30, 2014	Additions	Disposals	Balance June 30, 2015
Governmental activities				
Nondepreciable capital assets				
Land	\$ 3,603,900	\$ -	\$ -	\$ 3,603,900
Construction in progress	8,760,387	24,296,329	-	33,056,716
Total nondepreciable capital assets	<u>12,364,287</u>	<u>24,296,329</u>	<u>-</u>	<u>36,660,616</u>
Depreciable capital assets				
Land improvements	2,038,872	-	-	2,038,872
Buildings and improvements	59,780,168	-	-	59,780,168
Furniture and equipment	1,267,375	137,647	-	1,405,022
Vehicles	3,144,150	27,600	-	3,171,750
Total capital assets being depreciated	<u>66,230,565</u>	<u>165,247</u>	<u>-</u>	<u>66,395,812</u>
Less accumulated depreciation				
Land improvements	(414,332)	(10,921)	-	(425,253)
Buildings and improvements	(15,605,020)	(1,270,253)	-	(16,875,273)
Furniture and equipment	(836,162)	(57,614)	-	(893,776)
Vehicles	(2,717,396)	(118,570)	-	(2,835,966)
Total accumulated depreciation	<u>(19,572,910)</u>	<u>(1,457,358)</u>	<u>-</u>	<u>(21,030,268)</u>
Depreciable capital assets, net of accumulated depreciation	<u>46,657,655</u>	<u>(1,292,111)</u>	<u>-</u>	<u>45,365,544</u>
Governmental activities capital assets, net	<u>\$ 59,021,942</u>	<u>\$23,004,218</u>	<u>\$ -</u>	<u>\$ 82,026,160</u>

Depreciation expense was charged to governmental functions as follows:

Instruction	
Regular	\$ 1,168,772
Supporting services	
Instructional staff	3,864
Operation and maintenance	15,864
Pupil transportation	138,440
Operation of non-instructional services	
Food service operation	15,469
Community services	7,479
Extracurricular activities	107,470
Total depreciation expense	<u>\$ 1,457,358</u>

AVON LOCAL SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
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NOTE 11 - RISK MANAGEMENT

A. PROPERTY AND LIABILITY

The School District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions, injuries to employees and natural disasters. During fiscal year 2015, the School District contracted with Indiana Insurance Company for property insurance. Professional liability is covered by the Schools of Ohio Risk Sharing Authority (SORSA) with a \$ 12,000,000 aggregate limit. Vehicles are covered by SORSA. Automobile liability has a \$ 1,000,000 combined single limit of liability. Settled claims have not exceeded this commercial coverage in any of the past three years.

Performance bonds of \$ 20,000 are maintained for the Superintendent by Cincinnati Insurance Company and \$ 50,000 for the treasurer by Cincinnati Insurance Company.

B. WORKERS' COMPENSATION

The School District participates in the Ohio School Boards Association Worker's Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-elect, and the Immediate Past President of the Ohio School Boards Association. Each year, the participating school district pays an enrollment fee to the GRP to cover the cost of administering the program.

The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in GRP. Each participant pays its workers; compensation premium to the State based on the rate for GRP rather than its individual rate. Total savings are than calculated and each participant's individual performance is compared to the overall savings percentage of GRP.

A participant will then either receive money from or be required to contribute to the "equity pooling fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selected criteria. CompManagement provides administrative, cost control and actuarial services to the GRP.

C. EMPLOYEE MEDICAL BENEFITS

The School District participates in the Great Lakes Council of Governments (the Council), to process and pay health benefit claims incurred by its members. The Council contracted with a third party administrator, Medical Mutual Services, LLC for the year ended June 30, 2015. Payments are made by members to the Council for monthly health insurance premiums, monthly stop-loss premiums, and administrative charges. The Fiscal Officer approves monthly payments to the third party administrators for actual insurance claims processed, stop-loss premiums and administrative charges incurred on behalf of the Council members. If the members aggregate contributions less expenses cause it to have a negative cash balance, the Council shall direct the Fiscal Agent to promptly notify in writing each member of any additional funds necessary to correct the deficiency. Whereupon each Member shall appropriate (pursuant to Chapter 5705 of the Revised Code) the amount stated in that notice and remit the same to the Fiscal Agent within the time periods determined by the Council. The Council employs reinsurance agreements (stop-loss coverage) to reduce its risk that large losses may be incurred on medical claims. This allows the Council to recover a portion of losses on claims from re-insurers, although it does not discharge their primary liability.

As of June 30, 2015, claims outstanding were \$ 353,050. The liability is the School District's best estimate based on available information. In the future, a two year comparison will be presented. Changes in the balances of claims liabilities for the year ended June 30, 2015 are as follows:

	Year Ended June 30, 2015	Year Ended June 30, 2014
Unpaid claims, beginning of fiscal year	\$ 304,200	\$ -
Incurred claims	3,552,177	3,369,248
Claim payments	(3,503,327)	(3,065,048)
Unpaid claims, end of fiscal year	<u>\$ 353,050</u>	<u>\$ 304,200</u>

AVON LOCAL SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015

NOTE 12 - DEFINED BENEFIT PENSION PLANS

A. NET PENSION LIABILITY

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

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

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

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

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

B. PLAN DESCRIPTION - SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS)

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

AVON LOCAL SCHOOL DISTRICT  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2015

NOTE 12 - DEFINED BENEFIT PENSION PLANS (continued)

B. PLAN DESCRIPTION - SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) (continued)

Age and service requirements for retirement are as follows:

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

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

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the 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 \$ 558,013 for fiscal year 2015.

C. PLAN DESCRIPTION - STATE TEACHERS RETIREMENT SYSTEM (STRS)

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

AVON LOCAL SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015

NOTE 12 - DEFINED BENEFIT PENSION PLANS (continued)

C. PLAN DESCRIPTION - STATE TEACHERS RETIREMENT SYSTEM (STRS) (continued)

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

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

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

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

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 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 \$ 1,713,278 for fiscal year 2015.

AVON LOCAL SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015

NOTE 12 - DEFINED BENEFIT PENSION PLANS (continued)

D. 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	\$ 7,433,311	\$ 34,191,457	\$ 41,624,768
Proportion of the net pension liability	0.146876%	0.140570%	
Pension expense	\$ 246,267	\$ 394,632	\$ 640,899

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	\$ 50,612	\$ 263,334	\$ 313,946
School District contributions subsequent to the measurement date	808,460	2,227,682	3,036,142
Difference between employer contribution and proportionate share of contribution	151,054	57,181	208,235
Total deferred outflows of resources	<u>\$ 1,010,126</u>	<u>\$ 2,548,197</u>	<u>\$ 3,558,323</u>
Deferred inflows of resources			
Net difference between projected and actual earnings on pension plan investments	<u>\$ 965,158</u>	<u>\$ 5,060,439</u>	<u>\$ 6,025,597</u>

\$ 3,036,142 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 Year Ending June 30:	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
2016	\$ (190,873)	\$ (1,184,982)	\$ (1,375,855)
2017	(190,873)	(1,184,982)	(1,375,855)
2018	(190,873)	(1,184,982)	(1,375,855)
2019	(190,873)	(1,184,978)	(1,375,851)
	<u>\$ (763,492)</u>	<u>\$ (4,739,924)</u>	<u>\$ (5,503,416)</u>

AVON LOCAL SCHOOL DISTRICT  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
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NOTE 12 - DEFINED BENEFIT PENSION PLANS (continued)

E. ACTUARIAL ASSUMPTIONS - SERS

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

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

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

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

Wage inflation	3.25 percent
Future salary increases, including inflation	4.00 percent to 22 percent
COLA or Ad Hoc COLA	3 percent
Investment rate of return	7.75 percent of net of investments expense, including inflation
Actuarial cost method	Early 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.

AVON LOCAL SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
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NOTE 12 - DEFINED BENEFIT PENSION PLANS (continued)

E. ACTUARIAL ASSUMPTIONS – SERS (continued)

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%
U.S. stocks	22.50%	5.00%
Non-U.S. stocks	22.50%	5.50%
Fixed income	19.00%	1.50%
Private equity	10.00%	10.00%
Real assets	10.00%	5.00%
Multi-asset strategies	15.00%	7.50%
	<u>100.00%</u>	

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

Sensitivity of the 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.

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
School District's proportionate share of the net pension liability	<u>\$ 10,605,125</u>	<u>\$ 7,433,311</u>	<u>\$ 4,765,540</u>

AVON LOCAL SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
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NOTE 12 - DEFINED BENEFIT PENSION PLANS (continued)

F. 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	1.00%	3.00%
	<u>100.00%</u>	

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.

AVON LOCAL SCHOOL DISTRICT  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2015

NOTE 12 - DEFINED BENEFIT PENSION PLANS (continued)

F. ACTUARIAL ASSUMPTIONS - STRS

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 (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$ 48,948,799	\$ 34,191,457	\$ 21,711,712

NOTE 13 - POSTEMPLOYMENT BENEFITS

A. SCHOOL EMPLOYEES RETIREMENT SYSTEM

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

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 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 provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2015, the School District's surcharge obligation was \$ 78,358

AVON LOCAL SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015

NOTE 13 - POSTEMPLOYMENT BENEFITS (continued)

A. SCHOOL EMPLOYEES RETIREMENT SYSTEM (continued)

The School District's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were \$ 32,684, \$ 5,783, and \$ 6,314, respectively. The full amount has been contributed for fiscal years 2015, 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](http://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, \$ 146,365, and \$ 139,111 respectively. The full amount has been contributed for fiscal years 2014 and 2013.

AVON LOCAL SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015

NOTE 14 – LONG-TERM OBLIGATIONS

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

	Original Issue	Interest Rate	Original Issue Amount	Date of Maturity
General obligation bonds				
School Improvement serial	1996	4.80%	\$ 3,310,000	12/1/2020
School Improvement				
Capital appreciation	2003	10.49 - 10.80%	\$ 395,000	12/1/2018
School Improvement Refunding				
Capital appreciation	2004	17.62% - 17.93%	\$ 190,000	12/1/2017
School Improvement Refunding				
Serial and term	2007	4.00% - 4.50%	\$ 12,329,999	12/1/2029
Capital appreciation	2007	17.43%	\$ 119,991	12/1/2020
School Improvement Refunding				
Taxable serial	2013B	0.40% - 4.00%	\$ 3,260,000	12/1/2020
School Improvement				
Serial and term	2013A	2.00% - 3.00%	\$ 33,945,000	12/1/2040
Capital appreciation	2013A	2.53% - 17.22%	\$ 3,073,980	12/1/2030
School Improvement Refunding				
Serial and term	2014	1.00% - 4.00%	\$ 9,134,985	12/1/2029

The original amount of bonds issued in 2003 was \$14,950,000. The general obligation bonds included serial and capital appreciation bonds. The present value of the capital appreciation bonds reported in the Statement of Net Position at June 30, 2015 was \$ 1,233,661. The accreted interest of \$ 838,661 has been included in the Statement of Net Position at June 30, 2015. This year the change to these bonds was \$ 35,546 which represents the increase in the accretion of interest. The final amount of these bonds will be \$ 1,660,000 payable through December 2018.

The original amount of bonds issued in 2004 was \$ 6,540,000. The general obligation bonds included serial and capital appreciation bonds. The present value of the capital appreciation bonds reported in the Statement of Net Position at June 30, 2015 was \$ 1,263,377. The accreted interest of \$ 1,073,377 has been included in the Statement of Net Position at June 30, 2015. This year the addition to these bonds was \$ 197,924 which represents the increase in the accretion of interest. The final amount of these bonds will be \$ 1,745,000 payable through December 2017.

The original amount of bonds issued in 2006 was \$14,779,974. The general obligation bonds included serial and capital appreciation bonds. The present value of the capital appreciation bonds reported in the Statement of Net Position at June 30, 2015 was \$ 343,637. The accreted interest of \$ 227,634 has been included in the Statement of Net Position at June 30, 2015. This year the change to these bonds was (\$ 173,854) which represents the decrease in the accretion of interest. The final amount of these bonds will be \$ 1,080,000 payable through December 2015.

The original amount of bonds issued in 2007 was \$ 12,449,990. The general obligation bonds included serial and capital appreciation bonds. The present value of the capital appreciation bonds reported in the Statement of Net Position at June 30, 2015 was \$ 487,003. The accreted interest of \$ 367,013 has been included in the Statement of Net Position at June 30, 2015. This year the addition to these bonds was \$ 74,961 which represents the increase in the accretion of interest. The final amount of these bonds will be \$ 1,070,000 payable through December 2020.

AVON LOCAL SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015

NOTE 14 – LONG-TERM OBLIGATIONS (continued)

The original amount of bonds issued in 2013 was \$ 37,018,980. The general obligation bonds included serial and capital appreciation bonds. The present value of the capital appreciation bonds reported in the Statement of Net Position at June 30, 2015 was \$ 3,447,660. The accreted interest of \$ 166,363 has been included in the Statement of Net Position at June 30, 2015. This year the addition of these bonds was \$ 166,363 which represents the increase in the accretion of interest. The final amount of these bonds will be \$ 9,030,000.

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

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

The School District defeased 1996 general obligation bonds in 2004, in 2007 defeased 2000 and 2003 general obligation bonds, by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds and in 2013 defeased 2004 refunding general obligation bonds by placing the proceeds of the new bonds in an escrow fund. Accordingly, the trust/escrow fund account assets and liability for the defeased bonds are not included in the School District's financial statements. At June 30, 2015, \$ 23,069,985 of bonds outstanding are considered to be defeased.

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

	Outstanding June 30, 2014	Additions	Retired/ Refunded	Outstanding June 30, 2015	Amounts Due In One Year
General obligation bonds					
School Improvement, (1996)	\$ 1,220,000	\$ -	\$ 580,000	\$ 640,000	\$ 640,000
School Improvement CABs (2003)	395,000	-	-	395,000	75,000
School Improvement Refund CABs (2004)	190,000	-	-	190,000	-
School Improvement, (2006)	10,365,000	-	10,365,000	-	-
School Improvement CABs (2006)	247,014	-	247,014	-	-
School Improvement Refund (2007)	10,430,000	-	2,085,000	8,345,000	355,000
School Improvement Refund CABs (2007)	119,990	-	-	119,990	-
School Improvement and Refund (2013B)	3,225,000	-	110,000	3,115,000	110,000
School Improvement (2013A)	33,945,000	-	10,000	33,935,000	10,000
School Improvement CABs (2013A)	3,073,980	-	-	3,073,980	-
School Improvement Refund (2014)	-	9,134,985	-	9,134,985	60,000
	<u>63,210,984</u>	<u>9,134,985</u>	<u>13,397,014</u>	<u>58,948,955</u>	<u>1,250,000</u>
Accretion on capital appreciation bonds	2,579,425	569,794	496,488	2,652,731	230,000
Premium on bonds	3,156,435	862,186	311,223	3,707,398	-
Net pension liability					
STRS	40,728,640	-	6,537,183	34,191,457	-
SERS	8,734,244	-	1,300,933	7,433,311	-
	<u>49,462,884</u>	<u>-</u>	<u>7,838,116</u>	<u>41,624,768</u>	<u>-</u>
Compensated absences	3,092,604	345,692	175,546	3,262,750	201,758
Capital lease	9,224	-	9,224	-	-
Total governmental activities	<u>\$121,511,556</u>	<u>\$10,912,657</u>	<u>\$22,227,611</u>	<u>\$110,196,602</u>	<u>\$ 1,681,758</u>

AVON LOCAL SCHOOL DISTRICT  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2015

NOTE 14 – LONG-TERM OBLIGATIONS (continued)

The bonds payable and the capital lease will be repaid from the Debt Service Fund and General Fund, respectively. The compensated absences will be repaid from the funds from which employees' salaries are paid.

Debt service requirements, including principal and interest, to retire bonds payable at June 30, 2015, consisted of:

Year ending June 30,	Principal	Interest	Total
2016	\$ 1,250,000	\$ 2,211,893	\$ 3,461,893
2017	715,000	3,013,853	3,728,853
2018	780,000	3,118,892	3,898,892
2019	1,655,000	2,372,960	4,027,960
2020	1,656,598	2,529,399	4,185,997
2021-2025	8,416,031	10,052,718	18,468,749
2026-2030	9,262,610	11,775,022	21,037,632
2031-2035	13,768,716	7,636,209	21,404,925
2036-2040	15,030,000	2,482,001	17,512,001
2041-2042	6,415,000	220,062	6,635,062
	<u>\$ 58,948,955</u>	<u>\$ 45,413,009</u>	<u>\$ 104,361,964</u>

NOTE 15 – CONTRACTUAL COMMITMENTS

At June 30, 2015 the School District had contractual commitments for building construction and renovation projects as follows:

	Contracted Amount	Expended	Remaining Liability
Middle School	<u>\$ 32,431,899</u>	<u>\$ 29,441,067</u>	<u>\$ 2,990,832</u>

AVON LOCAL SCHOOL DISTRICT  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2015

NOTE 16 - SET-ASIDES

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

The following cash basis information identifies the changes in the fiscal year-end set-aside amount for capital improvements during fiscal year 2015.

	Capital Improvements
Balance, July 1, 2014	\$ -
Required set aside	711,823
Current year offset	(886,803)
Qualifying expenditures	(24,061,877)
Total	\$ (24,236,857)
Balance carried forward	\$ -

Expenditures and offset credits for capital improvements during the year were \$ 24,948,680. These expenditures exceeded the statutory requirement for fiscal year 2015 however, the excess amount cannot be used to offset future years' set-aside requirements.

NOTE 17 - JOINTLY GOVERNED ORGANIZATIONS

A. NORTH COAST COUNCIL OHIO

The North Coast Council Ohio ("NCCO") is a jointly governed organization comprised of 31 school districts. NCCO was formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to administrative and instructional functions for member districts. Each of the governments of these districts supports NCCO based upon a per pupil charge, dependent upon the software package utilized. The NCCO assembly consists of a superintendent or designated representative from each participating district, and a representative from the fiscal agent. NCCO is governed by a board of directors chosen from the general membership of the NCCO assembly. The board of directors consists of a representative from the fiscal agent, the chairman of each operating committee, and at least one assembly member from each county from which participating districts are located. Fiscal information for NCCO is available from the Treasurer of the Educational Service Center of Cuyahoga County (fiscal agent), located at 6393 Oak Tree Boulevard, Independence, Ohio 44131. During the year ended June 30, 2015, the School District paid \$ 120,606 to NCCO for basic service charges.

B. LORAIN COUNTY JOINT VOCATIONAL SCHOOL DISTRICT

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

AVON LOCAL SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015

NOTE 17 - JOINTLY GOVERNED ORGANIZATIONS (continued)

C. OHIO SCHOOLS COUNCIL

The Ohio Schools Council (Council) is a jointly governed organization among eighty-three school districts. The Council was formed to offer supplies and services at the lowest possible cost to the member districts. Each district supports the Council by paying an annual participation fee for the services provided. The Council's Board consists of seven superintendents of the participating districts whose term rotates every fiscal year. The degree of control exercised by any school district is limited to its representation on the Board. In fiscal year 2015, the School District paid \$ 167,274 for participation in the prepaid natural gas program.

The School District participates in the Council's electric purchase program which was implemented during fiscal year 2011. The program allows school districts to purchase electricity at reduced rates for a period of 22 months through Duke Energy Retail Sales, LLC (Duke). Duke has agreed to provide a fixed electricity generation price of 5.30 cents per kWh for all of the School District's facilities.

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

The City of Hamilton, a municipal corporation and political subdivision duly organized and existing under the laws of the State of Ohio, issued \$ 89,450,000 in debt to purchase twelve years of natural gas from CMS Energy Corporation for the participants. The participating school districts are not obligated in any manner for this debt. If a participating school district terminates its agreement, the district is entitled to recover that amount, if any, of its contributions to the operating fund which are not encumbered for its share of program administrative costs.

The School District also participates in the Council's group life insurance and school bus acquisition programs. Financial information can be obtained by contacting the Executive Secretary at the Ohio Schools Council at 6133 Rockside Road, Independence, Ohio 44131.

D. GREAT LAKES COUNCIL OF GOVERNMENTS

The Great Lakes Council of Governments, (the Council) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio as defined by Chapter 167 of the Ohio Revised Code. The Council is a claims –servicing pool as defined by Government Accounting Standards Board Statement No.10 as amended by GASB statement 30. It was formed to carry out a cooperative program for the provisions and administration of health care benefits for member employees in accordance with the Council-by-laws. The Council is directed by a Governing Board, consisting of the Superintendents or designee of the participating school districts. As of June 30, 2015 there were three participating members of the Council.

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

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

AVON LOCAL SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015

NOTE 17 - JOINTLY GOVERNED ORGANIZATIONS (continued)

D. GREAT LAKES COUNCIL OF GOVERNMENTS (continued)

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

NOTE 18 - CONTINGENCIES

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

Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2015.

NOTE 19 – SUBSEQUENT EVENTS

Subsequent to year-end, the School District entered into a lease for five school buses at \$ 90,109 per year for five years.

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**REQUIRED SUPPLEMENTARY INFORMATION**

AVON LOCAL SCHOOL DISTRICT  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF THE SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION  
 LIABILITY – SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO  
 LAST TWO FISCAL YEARS (1)

	<u>2014</u>	<u>2013</u>
School District's proportion of the net pension liability	0.146876%	0.146876%
School District's proportionate share of the net pension liability	\$ 7,433,311	\$ 8,734,244
School District's covered-employee payroll	\$ 4,130,515	\$ 3,946,039
School District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	179.96%	221.34%
Plan fiduciary net position as a percentage of the total pension liability	71.70%	65.52%

(1) Information prior to 2013 is not available

AVON LOCAL SCHOOL DISTRICT  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF THE SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION  
 LIABILITY – STATE TEACHERS RETIREMENT SYSTEM OF OHIO  
 LAST TWO FISCAL YEARS (1)

	<u>2014</u>	<u>2013</u>
School District's proportion of the net pension liability	0.140570%	0.140570%
School District's proportionate share of the net pension liability	\$ 34,191,457	\$ 40,728,640
School District's covered-employee payroll	\$ 14,636,462	\$ 13,911,055
School District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	233.60%	292.78%
Plan fiduciary net position as a percentage of the total pension liability	74.70%	69.30%

(1) Information prior to 2013 is not available

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AVON LOCAL SCHOOL DISTRICT  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF SCHOOL DISTRICT'S CONTRIBUTIONS – SCHOOL EMPLOYEES RETIREMENT  
 SYSTEM OF OHIO  
 LAST TEN FISCAL YEARS

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually required contribution	\$ 525,329	\$ 572,489	\$ 546,132	\$ 483,865
Contributions in relation to the contractually required contribution	<u>(525,329)</u>	<u>(572,489)</u>	<u>(546,132)</u>	<u>(483,865)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School District covered-employee payroll	\$ 3,985,804	\$ 4,130,515	\$ 3,946,039	\$ 3,597,508
Contributions as a percentage of covered-employee payroll	13.18%	13.86%	13.84%	13.45%

<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
\$ 455,180	\$ 491,485	\$ 346,855	\$ 323,185	\$ 324,957	\$ 298,499
<u>(455,180)</u>	<u>(491,485)</u>	<u>(346,855)</u>	<u>(323,185)</u>	<u>(324,957)</u>	<u>(298,499)</u>
<u>\$ -</u>					
\$ 3,570,042	\$ 3,629,872	\$ 3,524,953	\$ 3,291,090	\$ 3,042,664	\$ 2,821,351
12.75%	13.54%	9.84%	9.82%	10.68%	10.58%

AVON LOCAL SCHOOL DISTRICT  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF SCHOOL DISTRICT'S CONTRIBUTIONS – STATE TEACHERS RETIREMENT  
 SYSTEM OF OHIO  
 LAST TEN FISCAL YEARS

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually required contribution	\$ 1,845,069	\$ 1,902,740	\$ 1,808,437	\$ 1,617,680
Contributions in relation to the contractually required contribution	<u>(1,845,069)</u>	<u>(1,902,740)</u>	<u>(1,808,437)</u>	<u>(1,617,680)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School District covered-employee payroll	\$ 13,179,061	\$ 14,636,462	\$ 13,911,055	\$ 12,443,694
Contributions as a percentage of covered-employee payroll	14.00%	13.00%	13.00%	13.00%

<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
\$ 1,721,042	\$ 1,689,680	\$ 1,580,750	\$ 1,478,102	\$ 1,485,000	\$ 1,348,100
<u>(1,721,042)</u>	<u>(1,689,680)</u>	<u>(1,580,750)</u>	<u>(1,478,102)</u>	<u>(1,485,000)</u>	<u>(1,348,100)</u>
<u>\$ -</u>					
\$ 13,238,782	\$ 12,997,542	\$ 12,159,619	\$ 11,370,019	\$ 11,423,077	\$ 10,370,000
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

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**AVON LOCAL SCHOOL DISTRICT  
LORAIN COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2015**

<b>Federal Grantor</b> <i>Pass Through Grantor</i> Program Title	<b>Year</b>	<b>Federal CFDA Number</b>	<b>Receipts</b>	<b>Non-Cash Receipts</b>	<b>Expenditures</b>	<b>Non-Cash Expenditures</b>
<b>U.S. Department of Agriculture</b>						
<i>Passed Through the Ohio Department of Education:</i>						
Child Nutrition Cluster:						
National School Lunch Program	2015	10.555	\$ 207,205	\$ 43,795	\$ 207,205	\$ 43,795
National School Breakfast Program	2015	10.553	20,101		20,101	
Total Child Nutrition Cluster			<u>227,306</u>	<u>43,795</u>	<u>227,306</u>	<u>43,795</u>
<b>Total U.S. Department of Agriculture</b>			<b><u>227,306</u></b>	<b><u>43,795</u></b>	<b><u>227,306</u></b>	<b><u>43,795</u></b>
<b>U.S. Department of Education</b>						
<i>Passed Through the Ohio Department of Education:</i>						
Special Education-Grants to States	2014	84.027	128,808		16,622	
	2015	84.027	597,988		631,933	
Total Special Education - Grants to States			<u>726,796</u>		<u>648,555</u>	
Title I Grants to Local Educational Agencies	2014	84.010	171,261		42,177	
	2015	84.010	205,122		237,529	
Total Title I Grants to Local Educational Agencies			<u>376,383</u>		<u>279,706</u>	
Improving Teacher Quality State Grants	2014	84.367	17,903		(927)	
	2015	84.367	10,156		41,272	
Improving Teacher Quality State Grants			<u>28,059</u>		<u>40,345</u>	
LEP/Immigrant, Title III	2014	84.365	13,501		(732)	
	2015	84.365	15,979		15,979	
Total LEP/Immigrant, Title III			<u>29,480</u>		<u>15,247</u>	
Resident Educator	2014	84.395	3,150		3,150	
<b>Total U.S. Department of Education</b>			<b><u>1,163,868</u></b>		<b><u>987,003</u></b>	
<b>Total Federal Assistance</b>			<b><u>\$ 1,391,174</u></b>	<b><u>\$ 43,795</u></b>	<b><u>\$ 1,214,309</u></b>	<b><u>\$ 43,795</u></b>

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

**AVON LOCAL SCHOOL DISTRICT**

**LORAIN COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FISCAL YEAR ENDED JUNE 30, 2015**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) reports the Avon Local School District's (the School 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 School District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the School District assumes it expends federal monies first.

**NOTE C – FOOD DONATION PROGRAM**

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



# Dave Yost • Auditor of State

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

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

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Avon Local School District, Lorain County, Ohio (the School District) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements and have issued our report thereon dated March 25, 2016. We noted the School District adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

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

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

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

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

***Compliance and Other Matters***

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

***Purpose of this Report***

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

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

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

March 25, 2016



# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

To the Board of Education:

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

We have audited the Avon Local School District's (the School District) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect the Avon Local School District's major federal program for the year ended June 30, 2015. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the School District's major federal program.

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

The School District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal program.

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

Our responsibility is to opine on the School District's compliance for the School District's major federal program based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

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

In our opinion, the Avon Local School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2015.

***Report on Internal Control Over Compliance***

The School District's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the School District's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the School District's internal control over compliance.

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

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

This report only describes the scope of our internal control over compliance tests and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.



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

March 25, 2016

**AVON LOCAL SCHOOL DISTRICT  
LORAIN COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2015**

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

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unmodified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unmodified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Special Education, Grants to States – CFDA #84.027
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Low

**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

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# Dave Yost • Auditor of State

AVON LOCAL SCHOOL DISTRICT

LORAIN COUNTY

## CLERK'S CERTIFICATION

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

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
APRIL 7, 2016