



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 the Avon Local School District, Lorain County, Ohio (the District), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Avon Local School District, Lorain County, Ohio, as of June 30, 2013, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

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

The Schedule of Federal Award 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.

This 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 November 22, 2013, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

Dave Yost
Auditor of State
Columbus, Ohio

November 22, 2013

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AVON LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2013

Unaudited

The discussion and analysis of the Avon Local School District's (District) financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2013. The intent of this discussion and analysis is to look at the District's financial performance as a whole. Readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2013 are as follows:

- Total assets and deferred outflows of resources increased \$ 34.6 million in governmental activities with the most significant increases in cash and cash equivalents as a result of the bond issuance.
- Total revenues in governmental activities were \$ 40.1 million. General revenues accounted for \$ 36.5 million of revenue or 91.0 percent of all revenues for governmental activities. Program-specific revenues in the form of charges for services, operating grants, and contributions accounted for \$ 3.6 million or 9.0 percent of total revenues.
- Total program expenses were \$ 38.7 million in governmental activities. Instructional expenses made up \$ 23.6 million or 61.2 percent of this total while support services accounted for \$ 10.3 million or 26.6 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 District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term and what remains for future spending. The fund financial statements also look at the 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 District to provide programs and activities, the view of the District as an entity looks at all financial transactions and asks the question, "How did we do financially during the 2013 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
For the Year Ended June 30, 2013

Unaudited

These two statements report the District's net position and changes in that position. This change in net position is important because it tells the reader that, for the District as a whole, the financial position of the District has improved or diminished. 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 District is classified as Governmental Activities. The 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 District's major funds. The District uses many funds to account for its financial transactions. However, these fund financial statements concentrate on the District's most significant funds. The District's major governmental funds are the General Fund, Debt Service Fund and Building Fund.

Governmental Funds

All of the 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 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
For the Year Ended June 30, 2013

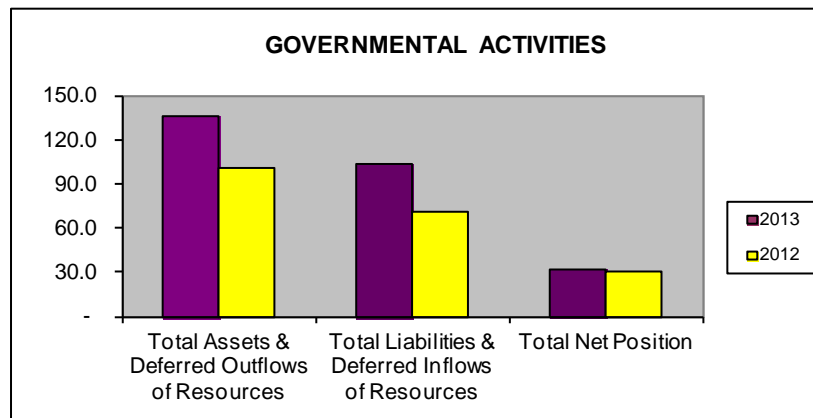
Unaudited

The School District as a Whole

You may recall the Statement of Net Position provides the perspective of the District as a whole. Table 1 provides a summary of the District's net position for 2013 compared to 2012:

Table 1
Statement of Net Position

	Governmental Activities	
	2013	2012 Restated
Assets		
Current assets	\$ 82,651,700	\$ 47,991,868
Capital assets, net	52,922,341	53,027,100
Total assets	<u>135,574,041</u>	<u>101,018,968</u>
 Deferred outflows of resources	 102,222	 -
Liabilities		
Other liabilities	7,976,852	10,108,431
Long-term liabilities	71,197,846	36,020,828
Total liabilities	<u>79,174,698</u>	<u>46,129,259</u>
 Deferred inflows of resources	 24,401,089	 24,216,489
Net position		
Net invested in capital assets	15,460,265	16,877,501
Restricted	40,475,546	5,891,277
Unrestricted	(23,835,335)	7,904,442
Total net position	<u>\$ 32,100,476</u>	<u>\$ 30,673,220</u>



AVON LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2013

Unaudited

Table 2, the Statement of Activities, shows the change in net assets for fiscal year 2013. A comparative analysis of government-wide data is presented.

Table 2
Change in Net Assets

	<u>2013</u>	<u>% of Total</u>	<u>2012 Restated</u>	<u>% of Total</u>
Revenues:				
General revenues				
Property taxes levied for:				
General purpose	\$ 22,956,080	57.27%	\$ 23,617,403	57.18%
Debt service	3,342,107	8.34%	3,822,102	9.25%
Capital improvements	691,871	1.73%	722,813	1.75%
Grants and entitlements not restricted to specific purposes	7,199,988	17.96%	7,498,529	18.16%
Investment earnings	301,493	0.75%	104,101	0.25%
Miscellaneous	1,982,662	4.95%	1,808,398	4.38%
Total general revenues	<u>36,474,201</u>	<u>91.00%</u>	<u>37,573,346</u>	<u>90.97%</u>
Total program revenues	<u>3,609,292</u>	<u>9.00%</u>	<u>3,727,849</u>	<u>9.03%</u>
Total revenue	<u>40,083,493</u>	<u>100.00%</u>	<u>41,301,195</u>	<u>100.00%</u>
Program expenses:				
Instruction				
Regular	16,778,026	43.40%	15,062,296	43.12%
Special	5,933,508	15.35%	4,095,474	11.72%
Vocational	174,913	0.45%	173,691	0.50%
Other instruction	752,579	1.95%	651,164	1.86%
Supporting services				
Pupil	1,191,378	3.08%	1,140,126	3.26%
Instructional staff	677,089	1.75%	1,793,623	5.13%
Board of education	143,000	0.38%	183,895	0.53%
Administration	2,657,914	6.88%	1,969,170	5.64%
Fiscal services	1,376,710	3.56%	863,110	2.47%
Business	(33,157)	-0.09%	129,296	0.37%
Operation and maintenance	2,200,219	5.69%	2,022,894	5.79%
Pupil transportation	1,942,994	5.03%	1,876,822	5.37%
Central services	103,729	0.27%	372,853	1.07%
Operation of non-instructional services				
Food service operation	786,243	2.03%	817,915	2.34%
Latchkey operations	155,754	0.40%	192,839	0.55%
Community services	601,645	1.56%	839,196	2.40%
Extracurricular activities	1,067,438	2.76%	976,811	2.80%
Interest	2,146,255	5.55%	1,771,612	5.07%
Total program expenses	<u>38,656,237</u>	<u>100.00%</u>	<u>34,932,787</u>	<u>100.00%</u>
Changes in net position	1,427,256		6,368,408	
Net position, beginning of year, restated	<u>30,673,220</u>		<u>24,304,812</u>	
Net position, end of year	<u>\$ 32,100,476</u>		<u>\$ 30,673,220</u>	

AVON LOCAL SCHOOL DISTRICT
 Management's Discussion and Analysis
 For the Year Ended June 30, 2013

Unaudited

The vast majority of revenue supporting all Governmental Activities is general revenue. General revenue totaled \$ 36.5 million or 91.0 percent of total revenue, a decrease of \$ 1.1 million compared to 2012. This decrease was mainly due to a decrease in property tax revenue which was the result of Lorain County reappraising property values during 2012. The remaining amount of revenue received was in the form of program revenues, which equated to \$ 3.6 million or 9.0 percent of total revenue.

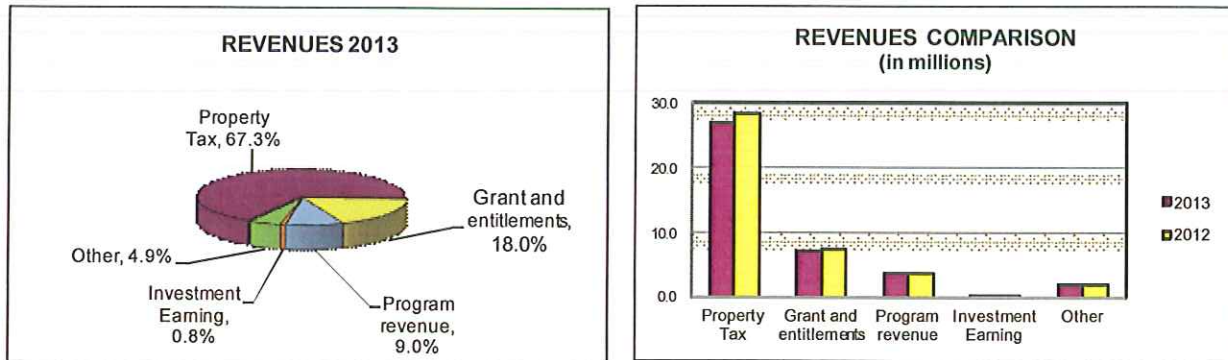


Table 3 shows the total cost of services for governmental activities and net cost of those services. That is, it identifies the cost of these services supported by tax revenue and unrestricted state entitlements.

Table 3
 Net Cost of Services

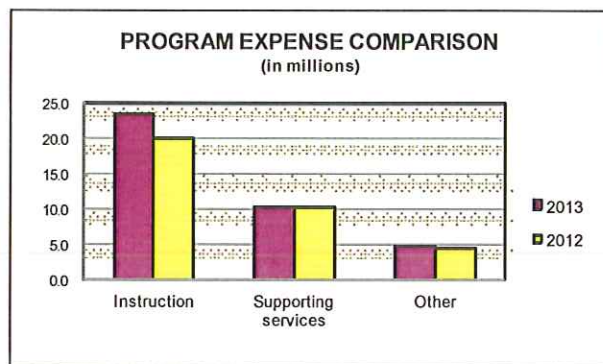
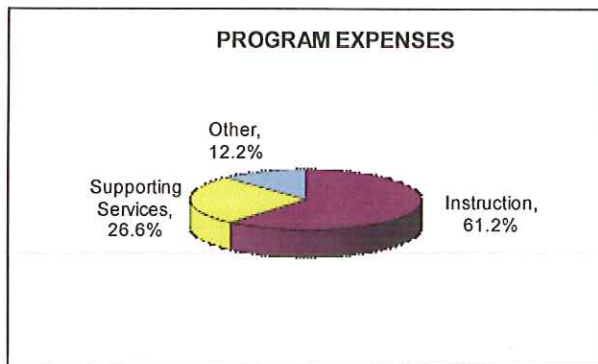
	Total Cost of Services	Net Cost of Services
Governmental activities		
Instruction		
Regular	\$ 16,778,026	\$(16,258,288)
Special	5,933,508	(5,316,508)
Vocational	174,913	(57,412)
Other instruction	752,579	(712,517)
Supporting services		
Pupil	1,191,378	(981,761)
Instructional staff	677,089	(596,518)
Board of education	143,000	(143,000)
Administration	2,657,914	(2,596,914)
Fiscal services	1,376,710	(1,376,710)
Business	(33,157)	33,157
Operation and maintenance	2,200,219	(2,200,219)
Pupil transportation	1,942,994	(1,933,994)
Central services	103,729	(92,929)
Operation of non-instructional services		
Food service operation	786,243	(1,064)
Latchkey operations	155,754	50,600
Community services	601,645	(59,600)
Extracurricular activities	1,067,438	(657,013)
Interest	2,146,255	(2,146,255)
Totals	\$ 38,656,237	\$(35,046,945)

AVON LOCAL SCHOOL DISTRICT
 Management's Discussion and Analysis
 For the Year Ended June 30, 2013

Unaudited

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.

The largest Governmental Activities program expense remains instruction, comprising \$ 23.6 million or 61.2 percent of expenses. When combined with supporting services of \$ 10.3 million, these categories make up 87.8 percent of expenses. For 2013, the instruction expenses increased approximately \$ 3,656,000 and the supporting services decreased by approximately \$ 92,000 compared to 2012. The instruction increase was a result of additional staff to cover our growing enrollment and increases in benefit premiums. The District is carefully watching these expenses as the decrease in the change in net position was significant from 2012 to 2013 which will eventually cause the District to use its reserves to fund current expenditures. This is why our 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

The General Fund assets increased by \$ 1.3 million due to increases in cash and cash equivalents offset by a decrease in due from other governments. Liabilities and deferred inflows of resources decreased by \$ 0.8 million notably from deferred inflows of resources and total fund balance increased by \$ 525,309.

General Fund Budgeting Highlights

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

The final and original budget revenue was \$ 34,392,569. State Foundation revenues were 5.5% less than Fiscal Year 2012 due to budgetary restraints at the State level, though enrollment increased by 2%. The overall valuation changes were less than 0.009%.

On the General Fund expenditure side of the equation, the 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 \$31,070,905.

AVON LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2013

Unaudited

Capital Assets and Debt Administration

Capital Assets

At the end of Fiscal Year 2013, the District had \$ 52.9 million invested in land, construction in progress, land improvements, buildings and improvements, furniture and equipment, and vehicles. Table 4 shows fiscal 2013 balances compared to fiscal 2012:

Table 4
Capital Assets at June 30, 2013
Governmental Activities

	<u>2013</u>	<u>2012</u>
Land	\$ 3,603,900	\$ 3,548,206
Construction in progress	1,191,995	205,500
Land improvements	1,636,630	1,648,720
Buildings and improvements	45,445,403	46,439,116
Furniture and equipment	496,222	498,742
Vehicles	548,191	686,816
	<u>\$ 52,922,341</u>	<u>\$ 53,027,100</u>

All capital assets, except land and construction in progress, are reported net of depreciation. The decrease in capital assets is due to depreciation expense being more than the capital asset additions for fiscal year 2013. For more information about the District's capital assets, see Notes to the Basic Financial Statements.

AVON LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2013

Unaudited

Debt

At June 30, 2013, the Avon Local Schools had \$ 68.2 million in bonds outstanding, an increase of \$ 34.9 million from fiscal year 2012. The bonds were issued in 1996 (\$ 5.9 million), 2000 (\$ 1.9 million), 2003 (\$14.9 million), 2004 (\$6.4 million), 2006 (\$14.8 million), 2007 (\$12.4 million) and 2013 (\$40.3 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.

	2013	2012
Notes		
Energy Conservation (1999)		
5.2% through 2013	\$ -	\$ 55,000
Total notes	-	55,000
Bonds		
School improvement, (1996)	1,740,000	1,740,000
School improvement (2003)	1,345,000	2,505,000
School improvement, capital appreciation bonds and accretion of interest (2003)	1,080,390	824,213
School improvement refunding bonds (2004)	105,000	3,915,000
School improvement refunding, capital appreciation bonds and accretion of interest (2004)	898,547	757,780
School improvement (2006)	10,365,000	10,715,000
School improvement, capital appreciation bonds and accretion of interest (2006)	918,881	814,550
School improvement refunding bonds(2007)	11,060,000	11,620,000
School improvement refunding capital appreciation bonds and accretion of interest (2007)	348,619	294,955
School improvement refunding bonds (2013B)	3,260,000	-
School improvement bonds (2013A)	33,945,000	-
School improvement refunding capital appreciation bonds and accretion of interest (2013A)	3,128,902	-
Total bonds	68,195,339	33,186,498
Total debt	\$ 68,195,339	\$ 33,241,498

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

AVON LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2013

Unaudited

Current Issues

The Avon Local School District has committed itself to a fiscal discipline based on long-term plans. The 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 District is not without its challenges. These challenges are internal and external in nature. The internal challenges will continue to exist, as the 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 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 District. The sudden downturn in the economy has put pressures on both the State budget as well as our 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 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 District prior to fiscal year 2017. These assumptions also include the renewal of prior approved emergency levies. All of the 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 District's financial position. Kent R. Zeman, 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, 2013

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 53,641,879
Accrued interest receivable	64,099
Due from other governments	188,972
Taxes receivable	28,746,291
Restricted cash	10,459
Capital assets	
Nondepreciable capital assets	4,795,895
Depreciable capital assets, net	<u>48,126,446</u>
Total assets	<u>135,574,041</u>
Deferred outflow s of resources	
Deferral on refunding	<u>102,222</u>
Total deferred outflow s of resources	<u>102,222</u>
Liabilities	
Accounts and contracts payable	266,353
Retainage payable	10,459
Accrued salaries and benefits	2,951,662
Interest payable	280,897
Due to other governments	1,047,888
Unamortized bond premium	3,419,593
Long term liabilities	
Due w ithin one year	3,233,033
Due in more than one year	<u>67,964,813</u>
Total liabilities	<u>79,174,698</u>
Deferred inflow s of resources	
Property taxes	24,293,202
Deferral on refunding	<u>107,887</u>
Total deferred inflow s of resources	<u>24,401,089</u>
Net position	
Net invested in capital assets	15,460,265
Restricted for:	
Debt service	4,833,924
Capital projects	2,961,392
Other purposes	557,418
Unrestricted	<u>8,287,477</u>
Total net position	<u>\$ 32,100,476</u>

See the accompanying notes to the basic financial statements.

AVON LOCAL SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

	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	\$ 16,778,026	\$ 457,563	\$ 47,175	\$ 15,000	\$ (16,258,288)
Special	5,933,508	-	617,000	-	(5,316,508)
Vocational	174,913	-	117,501	-	(57,412)
Other instruction	752,579	-	40,062	-	(712,517)
Supporting services					
Pupil	1,191,378	69,617	140,000	-	(981,761)
Instructional staff	677,089	-	80,571	-	(596,518)
Board of education	143,000	-	-	-	(143,000)
Administration	2,657,914	-	61,000	-	(2,596,914)
Fiscal services	1,376,710	-	-	-	(1,376,710)
Business	(33,157)	-	-	-	33,157
Operation and maintenance	2,200,219	-	-	-	(2,200,219)
Pupil transportation	1,942,994	-	9,000	-	(1,933,994)
Central services	103,729	-	10,800	-	(92,929)
Operation of non-instructional services					
Food service operation	786,243	559,461	225,718	-	(1,064)
Latchkey operations	155,754	206,354	-	-	50,600
Community services	601,645	-	542,045	-	(59,600)
Extracurricular activities	1,067,438	410,425	-	-	(657,013)
Interest	2,146,255	-	-	-	(2,146,255)
Totals	<u>\$ 38,656,237</u>	<u>\$ 1,703,420</u>	<u>\$ 1,890,872</u>	<u>\$ 15,000</u>	<u>\$ (35,046,945)</u>

General revenues

Property taxes levied for:

General purpose	22,956,080
Debt service	3,342,107
Capital improvements	691,871
Grants and entitlements not restricted to specific purposes	7,199,988
Investment earnings	301,493
Miscellaneous	<u>1,982,662</u>
Total general revenues	<u>36,474,201</u>

Change in net position

Net position, beginning of year, restated	<u>30,673,220</u>
Net position, end of year	<u>\$ 32,100,476</u>

See the accompanying notes to the basic financial statements.

AVON LOCAL SCHOOL DISTRICT

BALANCE SHEET -
GOVERNMENTAL FUNDS

JUNE 30, 2013

	General Fund	Debt Service Fund	Building Fund	Other Governmental Funds	Total Governmental Funds
Assets and deferred inflow s of resources					
Assets					
Cash and cash equivalents	\$ 13,264,288	\$ 4,260,471	\$ 32,133,727	\$ 3,983,393	\$ 53,641,879
Restricted cash	-	-	-	10,459	10,459
Receivables, net of allow ance					
Taxes, current	23,431,854	3,525,146	-	720,957	27,677,957
Taxes, delinquent	904,451	136,106	-	27,777	1,068,334
Accrued interest	64,099	-	-	-	64,099
Due from other governments	75,923	-	-	113,049	188,972
Total assets	<u>37,740,615</u>	<u>7,921,723</u>	<u>32,133,727</u>	<u>4,855,635</u>	<u>82,651,700</u>
Total assets and deferred inflow s of resources	<u>\$ 37,740,615</u>	<u>\$ 7,921,723</u>	<u>\$ 32,133,727</u>	<u>\$ 4,855,635</u>	<u>\$ 82,651,700</u>
Liabilities, deferred outflow s of resources and fund balance					
Liabilities					
Accounts and contracts payable	\$ 60,664	\$ -	\$ 38,187	\$ 167,502	\$ 266,353
Retainage payable	-	-	-	10,459	10,459
Accrued salaries and benefits	2,877,689	-	-	73,973	2,951,662
Due to other governments	1,020,366	-	-	27,522	1,047,888
Compensated absences	183,793	-	-	-	183,793
Total liabilities	<u>4,142,512</u>	<u>-</u>	<u>38,187</u>	<u>279,456</u>	<u>4,460,155</u>
Deferred inflow s of resources					
Property taxes	20,568,354	3,087,799	-	637,049	24,293,202
Unavailable revenue - delinquent taxes	904,451	136,106	-	27,777	1,068,334
Unavailable revenue - other	64,099	-	-	113,049	177,148
Total deferred inflow s of resources	<u>21,536,904</u>	<u>3,223,905</u>	<u>-</u>	<u>777,875</u>	<u>25,538,684</u>
Fund balances					
Restricted	-	4,697,818	32,095,540	3,834,517	40,627,875
Assigned	128,937	-	-	-	128,937
Unassigned (deficit)	11,932,262	-	-	(36,213)	11,896,049
Total fund balances	<u>12,061,199</u>	<u>4,697,818</u>	<u>32,095,540</u>	<u>3,798,304</u>	<u>52,652,861</u>
Total liabilities, deferred outflow s of resources and fund balance	<u>\$ 37,740,615</u>	<u>\$ 7,921,723</u>	<u>\$ 32,133,727</u>	<u>\$ 4,855,635</u>	<u>\$ 82,651,700</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, 2013

Total governmental funds balances	\$ 52,652,861
Amount reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.	52,922,341
Other long term assets are not available to pay for current period expenditures and therefore are deferred in the funds.	
Delinquent property taxes	1,068,334
Intergovernmental and other	177,148
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Compensated absences	(2,755,250)
Capital lease	(63,464)
Bonds payable	(68,195,339)
Unamortized bond premium	(3,419,593)
Deferral on refunding	(5,665)
Accrued interest payable	<u>(280,897)</u>
Net position of governmental activities	<u>\$ 32,100,476</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, 2013

	General Fund	Debt Service Fund	Building Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes	\$ 22,604,981	\$ 3,293,556	\$ -	\$ 681,000	\$ 26,579,537
Tuition and fees	759,053	-	-	-	759,053
Interest	32,222	-	10,298	148	42,668
Intergovernmental	6,769,378	465,475	-	1,757,958	8,992,811
Charges for services	-	-	-	559,461	559,461
Extracurricular	188,973	-	-	228,587	417,560
Miscellaneous	1,457,402	207,705	-	284,901	1,950,008
Total revenues	31,812,009	3,966,736	10,298	3,512,055	39,301,098
Expenditures					
Current					
Instruction					
Regular	14,840,499	-	-	279,843	15,120,342
Special	5,413,625	-	-	535,132	5,948,757
Vocational	172,805	-	-	-	172,805
Other instruction	752,579	-	-	-	752,579
Supporting services					
Pupil	1,041,230	-	-	140,381	1,181,611
Instructional staff	578,123	-	-	90,910	669,033
Board of education	143,000	-	-	-	143,000
Administration	2,535,337	-	-	39,959	2,575,296
Fiscal services	824,424	104,466	432,862	11,606	1,373,358
Business	(34,710)	-	-	1,553	(33,157)
Operation and maintenance	2,288,088	-	-	-	2,288,088
Pupil transportation	1,773,265	-	-	9,000	1,782,265
Central services	100,323	-	-	10,800	111,123
Operation of non-instructional services					
Food service operation	-	-	-	767,437	767,437
Community services	300	-	-	593,436	593,736
Enterprise operations	8,832	-	-	155,754	164,586
Extracurricular activities	735,509	-	-	223,723	959,232
Capital outlay	-	-	1,133,182	464,742	1,597,924
Debt service					
Principal	107,392	2,620,000	-	-	2,727,392
Interest	6,079	1,286,049	-	-	1,292,128
Total expenditures	31,286,700	4,010,515	1,566,044	3,324,276	40,187,535
Excess (deficiency) of revenues over expenditures	525,309	(43,779)	(1,555,746)	187,779	(886,437)
Other financing sources (uses)					
Payment to refunded bond escrow agent	-	(3,464,443)	-	-	(3,464,443)
Premium on bond/note issuance	-	2,474,429	433,479	-	2,907,908
Refunding bond proceeds	-	3,260,000	-	-	3,260,000
Bond proceeds	-	-	37,018,980	-	37,018,980
Total other financing sources (uses)	-	2,269,986	37,452,459	-	39,722,445
Net change in fund balances	525,309	2,226,207	35,896,713	187,779	38,836,008
Fund balances, beginning of year	11,535,890	2,471,611	(3,801,173)	3,610,525	13,816,853
Fund balances, end of year	\$ 12,061,199	\$ 4,697,818	\$ 32,095,540	\$ 3,798,304	\$ 52,652,861

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, 2013

Net change in fund balances - total governmental funds \$ 38,836,008

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.

Capital asset additions, net	1,875,918	
Depreciation expense	<u>(1,980,677)</u>	(104,759)

The issuance of long term debt (bond, note proceeds) 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. (40,278,980)

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

Property taxes	410,521	
Intergovernmental	113,049	
Interest	<u>64,099</u>	587,669

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. 5,987,392

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 is amortized over the term of the bonds, whereas in governmental funds, the expenditure is reported when the bonds are issued.

Accrued interest	(169,237)	
Amortization - bond premium	(2,713,182)	
Amortization - deferral of refunding	102,222	
Annual accretion	<u>(609,861)</u>	(3,390,058)

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

Compensated absences		<u>(210,016)</u>
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Change in net position of governmental activities \$ 1,427,256

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, 2013

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
Revenues and other financing sources	\$ 34,392,569	\$ 34,392,569	\$ 31,826,570	\$ (2,565,999)
Expenditures and other financing uses	<u>31,070,905</u>	<u>31,070,905</u>	<u>31,007,611</u>	<u>63,294</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	3,321,664	3,321,664	818,959	(2,502,705)
Fund balances, beginning of year	11,652,741	11,652,741	11,652,741	-
Prior year encumbrances	<u>523,444</u>	<u>523,444</u>	<u>523,444</u>	<u>-</u>
Fund balances, end of year	<u>\$ 15,497,849</u>	<u>\$ 15,497,849</u>	<u>\$ 12,995,144</u>	<u>\$ (2,502,705)</u>

See the accompanying notes to the basic financial statements.

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

JUNE 30, 2013

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	\$ 77,444
Total assets	<u>\$ 77,444</u>
Liabilities	
Accounts payable	\$ 155
Due to others	6,603
Due to students	<u>70,686</u>
Total liabilities	<u>\$ 77,444</u>

See the accompanying notes to the basic financial statements.

AVON LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

The Avon Local School District (the 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 District is a local school district as defined by Section 3311.03 of the Ohio Revised Code. The District operates under an elected Board of Education consisting of five members and is responsible for providing public education to residents of the District. Average daily membership on, or as of, October 1, 2012 was 4,153. The District employs 235 certificated and 135 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 District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities of the District.

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

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

The District is associated with the North Coast Council, the Lorain County Joint Vocational School District, and the Ohio School Council of Governments which are considered to be jointly governed organizations. These organizations and their relationships with the District are described in more detail in Notes 19 to these financial statements.

B. BASIS OF PRESENTATION

The financial statements of the 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 District's accounting policies.

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

AVON LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

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

Fund Financial Statements

During the year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the District at this more detailed level. The focus of governmental 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 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 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 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 is reported as fund balance. The following are the District's major governmental funds:

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

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 District.

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

AVON LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. FUND ACCOUNTING (continued)

Fiduciary Funds

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

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 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.

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 bases of accounting arise in the recognition of revenue, the recording of deferred outflows/inflows of resources and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "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 District, available means expected to be received within sixty days of fiscal year end.

AVON LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. BASIS OF ACCOUNTING (continued)

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 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 District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. Deferral on refunding is the difference between the reacquisition price and the net carrying amount of the old debt amortized over the life of the new or old debt whichever is shorter.

In addition to liabilities, the statements of net 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 District, deferred inflows of resources include property taxes, unavailable revenues, and deferral on refunding. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2013, but which were levied to finance fiscal year 2014 operations. The amounts have been recorded as deferred inflows on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet and represents receivables which will not be collected within the available period. These amounts are deferred and recognized as inflows of resources in the period the amounts become available. Deferral on refunding is the difference between the reacquisition price and the net carrying amount of the old debt amortized over the life of the new or old debt whichever is shorter.

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.

AVON LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. BUDGETARY PROCESS (continued)

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate 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 District is deposited in one central bank account with individual fund balance integrity maintained through 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 2013 amounted to \$ 32,222, which includes \$ 17,287 assigned from other District Funds.

During fiscal year 2013, 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.

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, 2013.

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.

AVON LOCAL SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 assets 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 District maintains a capitalization threshold of five thousand dollars. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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	5-30 years
Buildings	30-50 years
Building improvements	30-50 years
Furniture and equipment	7-20 years
Vehicles	10 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 assets.

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 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 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 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. There were no current unpaid compensated absences at year end. 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.

AVON LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

The government-wide statement of net position reports \$ 40,475,546 of net position restricted, of which \$ 39,918,128 is restricted by enabling legislation. Net position restricted for other purposes include other grants and rotary funds.

O. FUND BALANCE

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

Nonspendable

The nonspendable fund balance 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 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 District Board of Education. Those committed amounts cannot be used for any other purpose unless the District Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements. The District has no committed fund balances.

AVON LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

O. FUND BALANCE (continued)

Assigned

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted 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 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 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.

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.

NOTE 2 – CHANGE IN ACCOUNTING PRINCIPLES AND PRIOR PERIOD ADJUSTMENT

A. ACCOUNTING PRINCIPLES

For fiscal year 2013, the District has implemented Governmental Accounting Standard Board (GASB) Statement No. 60 “Accounting and Financial Reporting for Service Concession Arrangements”, Statement No. 61 “The Financial Reporting Entity: Omnibus – an amendment of GASB Statement No. 14 and No. 34”, Statement No. 62 “Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements”, Statement No. 63 “Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position”, Statement No. 64 “Derivative Instruments: Application of Hedge Accounting Termination Provisions” and Statement No. 65 “Items Previously Reported as Assets and Liabilities”.

GASB Statement No. 60, “Accounting and Financial Reporting for Service Concession Arrangements”. The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011 and have been implemented by the District. The implementation of GASB Statement No. 60 did not have an effect on the financial statements of the District.

AVON LOCAL SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2013

NOTE 2 – CHANGE IN ACCOUNTING PRINCIPLES AND PRIOR PERIOD ADJUSTMENT (continued)

A. ACCOUNTING PRINCIPLES (continued)

GASB Statement No. 61, “The Financial Reporting Entity: Omnibus – an amendment of GASB Statement No. 14 and No. 34”. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

GASB Statement No. 62, “Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements”. The objective of this Statement is to incorporate into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in the FASB and AICPA pronouncements which does not conflict with or contradict GASB pronouncements. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011 and have been implemented by the District. The implementation of GASB Statement No. 62 did not have an effect on the financial statements of the District.

GASB Statement No. 63, “Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position”. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011 and have been implemented by the District. The District’s financial statements have been updated to reflect the implementation of this standard.

GASB Statement No. 64, “Derivative Instruments: Application of Hedge Accounting Termination Provisions”. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty’s credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2011 and have been implemented by the District. The implementation of GASB Statement No. 64 did not have an effect on the financial statements of the District.

GASB Statement No. 65, “Items Previously Reported as Assets and Liabilities”. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

B. PRIOR PERIOD ADJUSTMENT

In prior periods, the District had reported assets related to unamortized debt issuance costs in the Governmental Activities entity-wide financial statements. GASB Statement Number 65, Items Previously Reported as Assets and Liabilities, has reclassified debt issuance costs as an expense in the period incurred rather than amortizing the costs over the life of the debt. The implementation of GASB Statement Number 65 requires a restatement of prior period’s net position as follows:

	Governmental Activities
Net Position, June 30, 2012	\$ 30,789,406
Unamortized debt issuance costs	(116,186)
Restated Net Position, June 30, 2012	\$ 30,673,220

AVON LOCAL SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2013

NOTE 3 – DEFICIT FUND BALANCE

At June 30, 2013, the Title VI-B Fund had a deficit fund balance of \$ 36,213. 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 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 (Non-GAAP Budgetary Basis) and Actual presented for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis 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 as a reservation of 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	\$ 818,959
Adjustments, increase (decrease):	
Revenue accruals	(14,561)
Expenditure accruals	(414,962)
Encumbrances	142,441
Funds budgeted separately	(6,568)
GAAP basis, as reported	\$ 525,309

AVON LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 5 – FUND BALANCES

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

Fund Balance	General Fund	Debt Service Fund	Building Fund	Other Governmental Funds	Total
Restricted for					
Debt Service	\$ -	\$ 4,697,818	\$ -	\$ -	\$ 4,697,818
Capital Projects	-	-	32,095,540	2,960,887	35,056,427
Food Service	-	-	-	443,659	443,659
Other Grants	-	-	-	16,574	16,574
Latchkey	-	-	-	174,695	174,695
Athletics	-	-	-	196,059	196,059
Auxiliary Service	-	-	-	29,251	29,251
Title I	-	-	-	11,292	11,292
Misc Federal Grants	-	-	-	2,100	2,100
Total restricted for	<u>-</u>	<u>4,697,818</u>	<u>32,095,540</u>	<u>3,834,517</u>	<u>40,627,875</u>
Assigned for					
Other Purposes	<u>128,937</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>128,937</u>
Unassigned (Deficit)	<u>11,932,262</u>	<u>-</u>	<u>-</u>	<u>(36,213)</u>	<u>11,896,049</u>
Total Fund Balances	<u>\$ 12,061,199</u>	<u>\$ 4,697,818</u>	<u>\$ 32,095,540</u>	<u>\$ 3,798,304</u>	<u>\$ 52,652,861</u>

AVON LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 6 - DEPOSITS AND INVESTMENTS

A. LEGAL REQUIREMENTS

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

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

Inactive deposits are public deposits 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 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 subdivision, or other units or agencies of this state or its political subdivision;
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 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, 2013

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 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 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 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 District had \$ 100 in cash on hand which is included on the balance sheet of the District as part of "Cash and Cash Equivalents".

B. DEPOSITS

Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned. The District does not have a deposit policy for custodial credit risk. At fiscal year end, the carrying amount of the District's deposits was \$ 7,398,800 and the bank balance was \$ 7,892,824. Of the bank balance, \$ 250,000 was covered by federal depository insurance and \$ 7,642,824 was collateralized with securities held by the pledging institution's trust department not in the 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 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 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, 2013, the District had the following investments:

	Weighted Average Maturities Years	Fair Value
US agencies	0.360	\$ 45,299,836
Mutual fund	n/a	1,000,934
Investment in State Treasurer's Investment Pool	0.145	30,112
		\$ 46,330,882

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, 2013

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

E. CREDIT RISK

The District follows the Ohio Revised Code that limits its investment choices. As of June 30, 2013, the District's investments in Star Ohio, mutual funds and the U.S. agencies, which consisted of FNMA, FHLB, FFCB, and FNMAMTN, 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 District places no limit on the amount that may be invested in any one issuer. 0.06% of the District's investments were in Star Ohio, 2.16% in mutual funds and 97.78% in U.S. agencies.

NOTE 7 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis, while the District's fiscal year runs from July through June. First-half tax distributions are received by the 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, public utility, and tangible personal (used in business) property located in the District. Real and public utility property tax revenues received in calendar year 2013 represent the collection of calendar year 2012 taxes. Real property taxes for 2013 were levied after April 1, 2012, on the assessed values as of January 1, 2012, 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 2013 were levied after April 1, 2012, on the assessed values as of December 31, 2011, 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.

Tangible personal property tax revenue received during calendar 2013 (other than public utility property tax) represents the collection of 2013 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, furniture and fixtures is no longer levied and collected. Tangible personal property taxes received from telephone companies in calendar year 2013 were levied after October 1, 2012, on the value as of December 31, 2012. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30; however this year the settlement was late.

The District receives property taxes from Lorain County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2013, are available to finance fiscal year 2013/2014 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, public utility property and tangible personal property taxes which are measurable as of June 30, 2013 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 revenue.

AVON LOCAL SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2013

NOTE 7 - PROPERTY TAXES (continued)

The amount available as an advance at June 30, 2013 was \$ 2,863,500 in the General Fund, \$ 437,347 in the Debt Service Fund and \$ 83,908 in the Capital Projects Fund. The amount available as an advance at June 30, 2012, was \$ 3,063,110 in the General Fund, \$ 661,275 in the Debt Service Fund and \$ 96,862 in the Capital Projects Fund.

The assessed values upon which the fiscal year 2013 taxes were collected are:

	2012 Second Half Collections		2013 First Half Collections	
	Amount	%	Amount	%
Agricultural/Residential	\$ 591,340,000	76.55	\$ 550,176,210	75.28
Commercial / Industrial	170,542,580	22.08	169,038,370	23.13
Public Utilities	10,591,870	1.37	11,582,520	1.59
Total Assessed Value	<u>\$ 772,474,450</u>	<u>100.00</u>	<u>\$ 730,797,100</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	<u>\$ 56.57</u>		<u>\$ 57.28</u>	

NOTE 8 - RECEIVABLES

Receivables at June 30, 2013, 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	
Major funds	
General Fund	\$ 75,923
Non-major fund	
Federal grants	113,049
	<u>\$ 188,972</u>

AVON LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 9 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2013 was as follows:

	<u>Balance</u> <u>June 30, 2012</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2013</u>
Governmental Activities				
Nondepreciable capital assets				
Land	\$ 3,548,206	\$ 55,694	\$ -	\$ 3,603,900
Construction in progress	205,500	1,191,995	205,500	1,191,995
Total nondepreciable capital assets	<u>3,753,706</u>	<u>1,247,689</u>	<u>205,500</u>	<u>4,795,895</u>
Depreciable capital assets				
Land improvements	2,038,872	-	-	2,038,872
Buildings and improvements	59,023,998	756,170	-	59,780,168
Furniture and equipment	1,171,530	77,559	-	1,249,089
Vehicles	3,144,150	-	-	3,144,150
Total capital assets being depreciated	<u>65,378,550</u>	<u>833,729</u>	<u>-</u>	<u>66,212,279</u>
Less accumulated depreciation				
Land improvements	(390,152)	(12,090)	-	(402,242)
Buildings and improvements	(12,584,882)	(1,749,883)	-	(14,334,765)
Furniture and equipment	(672,788)	(80,079)	-	(752,867)
Vehicles	(2,457,334)	(138,625)	-	(2,595,959)
Total accumulated depreciation	<u>(16,105,156)</u>	<u>(1,980,677)</u>	<u>-</u>	<u>(18,085,833)</u>
Depreciable capital assets, net of accumulated depreciation	<u>49,273,394</u>	<u>(1,146,948)</u>	<u>-</u>	<u>48,126,446</u>
Governmental activities capital assets, net	<u>\$ 53,027,100</u>	<u>\$ 100,741</u>	<u>\$ 205,500</u>	<u>\$ 52,922,341</u>

Depreciation expense was charged to governmental functions as follows:

Instruction	
Regular	\$ 1,675,004
Supporting services	
Instructional staff	322
Operation and maintenance of plant	15,787
Pupil transportation	156,326
Operation of noninstructional services	
Food service operation	18,806
Community services	7,479
Extracurricular activities	106,953
Total depreciation expense	<u>\$ 1,980,677</u>

AVON LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 10 - RISK MANAGEMENT

The 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 2013, the 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.

The 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 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 then 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.

The District provides life insurance and accidental death and dismemberment insurance to its employees. Life insurance is provided through the Medical Life and Insurance Company.

AVON LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS)

Plan Description - The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at www.ohsers.org under Employers/Audit Resources.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For fiscal year ending June 30, 2013, the allocation to pension and death benefits is 13.10%. The remaining 0.90% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds (most recent information available). The District's required contributions for SERS for the years ended June 30, 2013, 2012, and 2011 were \$ 552,445, \$ 503,651, and \$ 499,806, respectively. The full amount has been contributed for 2012 and 2011. For 2013, \$ 502,988 (91%) has been contributed with the remainder being reflected as an intergovernmental payable.

B. STATE TEACHERS RETIREMENT SYSTEM OF OHIO (STRS OHIO)

Plan Description - The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. 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 DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor 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.

AVON LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 11 - DEFINED BENEFIT PENSION PLANS (continued)

B. STATE TEACHERS RETIREMENT SYSTEM OF OHIO (STRS OHIO) (continued)

Funding Policy - For the fiscal year ended June 30, 2013, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations (most recent information available). Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contribution for pension obligations to the DB Plan for the fiscal years ended June 30, 2013, 2012, and 2011 were \$ 1,808,437, \$ 1,617,694, and \$ 1,721,042, respectively. The full amount has been contributed for 2012 and 2011. For 2013, \$ 1,487,287 (82%) has been contributed with the remainder being reported as a liability within the respective funds.

C. SOCIAL SECURITY SYSTEM

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2013, three members of the Board of Education have elected Social Security. The contribution rate is 6.2 percent of wages.

NOTE 12 - POSTEMPLOYMENT BENEFITS

A. SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS)

Postemployment Benefits

In addition to a cost-sharing multiple-employer defined benefit pension plan the School Employees Retirement System of Ohio (SERS) administers two postemployment benefit plans.

Medicare Part B Plan

The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefits recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2013 was \$ 104.90 for most participants, but could be as high as \$335.70 per month depending on their income. SERS' reimbursement to retirees was \$ 45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2013, the actuarially required allocation is .74% (most recent information available). The District contributions for the years ended June 30, 2013, 2012, and 2011, were \$ 29,201, \$ 26,981, and \$ 27,132 respectively, which equaled the required contributions each year.

Health Care Plan

ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMOs, PPOs, Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

AVON LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 12 - POSTEMPLOYMENT BENEFITS (continued)

A. SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) (continued)

The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans.

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. For the year ended June 30, 2013, the health care allocation is 0.16%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, prorated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2013, the minimum compensation level was established at \$20,525. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund (most recent information available). The District contributions assigned to health care for the years ended June 30, 2013, 2012, and 2011 were \$ 6,314, \$ 19,786, and \$ 51,052, respectively; 91 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

The financial reports of SERS' Health Care and Medicare B plans are included in its Comprehensive Annual Financial Report. The report can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

B. STATE TEACHERS RETIREMENT SYSTEM OF OHIO (STRS OHIO)

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

Funding Policy – Ohio law 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 Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2013, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund (most recent information available). The District's contributions for health care for the fiscal years ended June 30, 2013, 2012, and 2011 were \$ 139,111, \$ 124,437, and \$ 132,387, respectively; 82 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011.

AVON LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 13 – 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				
Serial	2003	2.00% - 4.00%	\$ 5,495,000	12/1/2013
Capital appreciation	2003	10.49 - 10.80%	\$ 395,000	12/1/2018
School Improvement Refunding				
Serial	2004	2.00% - 3.80%	\$ 3,090,000	12/1/2013
Capital appreciation	2004	17.62% - 17.93%	\$ 190,000	12/1/2017
School Improvement				
Serial and term	2006	4.00% - 4.50%	\$ 14,518,000	12/1/2034
Capital appreciation	2006	12.54%	\$ 261,974	12/1/2015
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

The 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 District's financial statements. At June 30, 2013, \$ 19,850,000 of bonds outstanding are considered to be defeased.

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, 2013 was \$ 1,080,390. The accreted interest of \$ 685,390 has been included in the Statement of Net Position at June 30, 2013. This year the addition to these bonds was \$ 256,177 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, 2013 was \$ 898,547. The accreted interest of \$ 708,547 has been included in the Statement of Net Position at June 30, 2013. This year the addition to these bonds was \$ 140,767 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, 2013 was \$ 918,881. The accreted interest of \$ 523,907 has been included in the Statement of Net Position at June 30, 2013. This year the addition to these bonds was \$ 104,331 which represents the increase in the accretion of interest. The final amount of these bonds will be \$ 1,080,000 payable through December 2015.

AVON LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 13 – LONG-TERM OBLICATIONS (continued)

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, 2013 was \$ 348,619. The accreted interest of \$ 228,629 has been included in the Statement of Net Position at June 30, 2013. This year the addition to these bonds was \$ 53,664 which represents the increase in the accretion of interest. The final amount of these bonds will be \$ 1,070,000 payable through December 2020.

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, 2013 was \$ 3,128,902. The accreted interest of \$ 54,922 has been included in the Statement of Net Position at June 30, 2013. This year the addition of these bonds was \$ 54,922 which represents the increase in the accretion of interest. The final amount of these bonds will be \$ 9,030,000.

During 2013, the 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 of \$ 3,260,000 of general obligation bonds. 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. The reacquisition price exceeded the net carrying amount of the old debt by \$ 204,443. This amount is recorded as deferred outflows of resources – deferral on refunding and amortized over the life of the new debt, which is shorter than the life of the old debt. The advance refunding was undertaken to reduce total debt service payments over the next 8 years by \$ 256,282 and resulted in an economic gain of \$ 222,708.

Changes in the District’s long-term obligations during fiscal year 2013 were as follows:

	Outstanding June 30, 2012	Additions	Retired	Refunded	Outstanding June 30, 2013	Amounts Due In One Year
General obligation bonds						
School Improvement, (1996)	\$ 1,740,000	\$ -	\$ -	-	\$ 1,740,000	\$ 520,000
School Improvement, (2003)	2,505,000	-	1,160,000	-	1,345,000	1,345,000
School Improvement CABs (2003)	395,000	-	-	-	395,000	-
School Improvement Refunding (2004)	3,915,000	-	550,000	3,260,000	105,000	105,000
School Improvement Refunding CABs (2004)	190,000	-	-	-	190,000	-
School Improvement, (2006)	10,715,000	-	350,000	-	10,365,000	-
School Improvement CABs (2006)	394,974	-	-	-	394,974	147,960
School Improvement Refunding (2007)	11,620,000	-	560,000	-	11,060,000	630,000
School Improvement Refunding CABs (2007)	119,990	-	-	-	119,990	-
School Improvement and Refunding (2013B)	-	3,260,000	-	-	3,260,000	35,000
School Improvement (2013A)	-	33,945,000	-	-	33,945,000	-
School Improvement CABs (2013A)	-	3,073,980	-	-	3,073,980	-
	<u>31,594,964</u>	<u>40,278,980</u>	<u>2,620,000</u>	<u>3,260,000</u>	<u>65,993,944</u>	<u>2,782,960</u>
Accretion on capital appreciation bonds	1,591,534	609,861	-	-	2,201,395	212,040
Energy conservation note	55,000	-	55,000	-	-	-
Compensated absences	2,663,474	450,081	174,512	-	2,939,043	183,793
Capital lease	115,856	-	52,392	-	63,464	54,240
Total governmental activities	<u>\$ 36,020,828</u>	<u>\$ 41,338,922</u>	<u>\$ 2,901,904</u>	<u>\$ 3,260,000</u>	<u>\$ 71,197,846</u>	<u>\$ 3,233,033</u>

AVON LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 13 – LONG-TERM OBLICATIONS (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.

NOTE 14 – DEBT SERVICE REQUIREMENTS

Debt service requirements, including principal and interest, to retire notes and bonds payable at June 30, 2013, consisted of:

Year ending June 30,	Principal	Interest	Total
2014	\$ 2,782,960	\$ 2,984,620	\$ 5,767,580
2015	2,916,011	2,483,869	5,399,880
2016	1,306,003	2,599,514	3,905,517
2017	1,015,000	3,150,876	4,165,876
2018	1,095,000	3,241,581	4,336,581
2019-2023	8,870,371	11,202,728	20,073,099
2024-2028	8,957,438	11,300,282	20,257,720
2029-2033	10,806,161	10,414,479	21,220,640
2034-2038	15,500,000	3,621,088	19,121,088
2039-2041	12,745,000	892,587	13,637,587
	<u>\$ 65,993,944</u>	<u>\$ 51,891,624</u>	<u>\$ 117,885,568</u>

NOTE 15 – NOTE PAYABLE

During the year, the District issued school improvement notes in anticipation of the issuance of bonds for improvements to the District's facilities. Note payable at June 30, 2013 consisted of the following:

	Outstanding June 30, 2012	Additions	Deductions	Outstanding June 30, 2013
School Improvement Note, Series 2011 1.00%, 12-13-12	\$ 5,020,000	\$ -	\$ 5,020,000	\$ -
School Improvement Note, Series 2012 1.00%, 4-11-13	-	5,020,000	5,020,000	-
	<u>\$ 5,020,000</u>	<u>\$ 5,020,000</u>	<u>\$ 10,040,000</u>	<u>\$ -</u>

NOTE 16 – CAPITAL LEASES

The District has entered into a capital lease agreement for office equipment. The office equipment was recorded at a value of \$ 158,150. The accumulated depreciation at June 30, 2013 was \$ 33,889 for a net book value of \$ 124,261. The future minimum lease obligation and the net present value of the minimum lease payments as of June 30, 2013 are as follows:

	June 30, Year ending	Amount
	2014	55,584
	2015	9,264
Total minimum payment		64,848
Less: amount representing interest		1,384
Present value of future minimum lease payments		<u>\$ 63,464</u>

AVON LOCAL SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2013

NOTE 17 – CONTRACTUAL COMMITMENTS

At June 30, 2013 the District had contractual commitments for building construction and renovation projects as follows:

	Contracted Amount	Expended	Remaining Liability
District renovations	\$ 424,838	\$ 183,841	\$ 240,997
Middle School	2,167,500	541,875	1,625,625
	\$ 2,592,338	\$ 725,716	\$ 1,866,622

NOTE 18 - SET-ASIDES

The 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 fund balance reserves capital improvements during fiscal year 2013.

	Capital Maintenance
Balance, July 1, 2012	\$ -
Required set aside	688,722
Current year offset	(871,190)
Qualifying expenditures	(1,910,269)
Total	\$ (2,092,737)
Balance carried forward	\$ -

Expenditures and offset credits for capital maintenance during the year were \$ 2,781,459. The capital maintenance expenditures exceeded statutory requirement for fiscal year 2013 however, the excess amount cannot be used to offset future years' set-aside requirements.

AVON LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 19 - 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 5700 West Canal, Valley View, Ohio 44125. During the year ended June 30, 2013, the District paid \$ 71,330 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 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.

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 2013, the District paid \$ 62,287 for participation in the prepaid natural gas program.

The 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 District's facilities.

The 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.

AVON LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 19 - JOINTLY GOVERNED ORGANIZATIONS (continued)

C. OHIO SCHOOLS COUNCIL (continued)

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 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.

NOTE 20 - CONTINGENCIES

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

Any 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 District at June 30, 2013.

NOTE 21 - SUBSEQUENT EVENTS

The District joined the Great Lakes Regional Council of Governments on July 1, 2013 for health insurance purchasing and is self-insured effective July 1, 2013.

**AVON LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2013**

Federal Grantor <i>Pass Through Grantor</i> Program Title	Year	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
U.S. Department of Agriculture						
<i>Passed Through the Ohio Department of Education:</i>						
Child Nutrition Cluster:						
National School Lunch Program	2013	10.555	\$ 208,996	\$ 41,013	\$ 208,996	\$ 41,013
National School Breakfast Program	2013	10.553	21,459	-	21,459	-
Total Child Nutrition Cluster			<u>230,455</u>	<u>41,013</u>	<u>230,455</u>	<u>41,013</u>
Total U.S. Department of Agriculture			<u>230,455</u>	<u>41,013</u>	<u>230,455</u>	<u>41,013</u>
U.S. Department of Education						
<i>Passed Through the Ohio Department of Education:</i>						
Special Education-Grants to States	2012	84.027	-	-	83,443	-
	2013	84.027	620,394	-	596,260	-
Total Special Education - Grants to States			<u>620,394</u>	<u>-</u>	<u>679,703</u>	<u>-</u>
Title I Grants to Local Educational Agencies	2012	84.010	-	-	27,168	-
	2013	84.010	224,940	-	201,672	-
Total Title I Grants to Local Educational Agencies			<u>224,940</u>	<u>-</u>	<u>228,840</u>	<u>-</u>
English Language Acquisition Grant	2013	84.365	15,075	-	15,075	-
Improving Teacher Quality State Grants	2012	84.367	-	-	1,994	-
	2013	84.367	43,571	-	43,571	-
Total Improving Teacher Quality State Grants			<u>43,571</u>	<u>-</u>	<u>45,565</u>	<u>-</u>
Education Jobs Grant	2012	84.410	-	-	22,137	-
Race to the Top	2013	84.395	2,100	-	-	-
Total U.S. Department of Education			<u>906,080</u>	<u>-</u>	<u>991,320</u>	<u>-</u>
Total Federal Assistance			<u>\$ 1,136,535</u>	<u>\$ 41,013</u>	<u>\$ 1,221,775</u>	<u>\$ 41,013</u>

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, 2013**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

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

NOTE C - FOOD DONATION PROGRAM

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



Dave Yost • Auditor of State

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

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

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Avon Local School District, Lorain County, Ohio (the District) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 22, 2013.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

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

Dave Yost
Auditor of State
Columbus, Ohio

November 22, 2013



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO ITS 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 Each Major Federal Program

We have audited the Avon Local School District's (the District) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *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, 2013. The *Summary of Audit Results* in the accompanying schedule of findings identifies the District's major federal program.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to opine on the District's compliance for each of the District's major federal programs 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 District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on the Major Federal Program

In our opinion, the Avon Local School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2013.

Report on Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the District's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with 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 District's internal control over compliance.

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

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

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



Dave Yost
Auditor of State
Columbus, Ohio

November 22, 2013

**AVON LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2013**

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?	Yes

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURE

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

To the Board of Education:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether the Avon Local School District (the District) has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Board. Consequently, we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board amended its anti-harassment policy at its meeting on July 20, 2010 to include prohibiting harassment, intimidation, or bullying of any student "on a school bus" or by an "electronic act".

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board and is not intended to be and should not be used by anyone other than these specified parties.

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

Dave Yost
Auditor of State

November 22, 2013

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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
DECEMBER 5, 2013