

Avon Local School District

Lorain County

Regular Audit

Fiscal Year Audited Under GAGAS: 2004

BALESTRA, HARR & SCHERER, CPAs, INC.
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**Auditor of State
Betty Montgomery**

Board of Education
Avon Local School District
Avon, Ohio

We have reviewed the *Independent Auditor's Report* of the Avon Local School District, Lorain County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2003 through June 30, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

April 20, 2006

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Avon Local School District
Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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INDEPENDENT AUDITOR'S REPORT

Members of the Board
Avon Local School District
3075 Stoney Ridge Road
Avon, Ohio 44011

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 (the District), Lorain County, as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

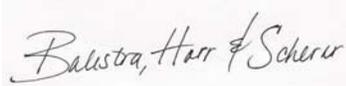
Insurance claims reported in the Self Insurance Fund (an internal service fund, included in the governmental activities, and internal service fund) are processed by a service organization independent of the District. The service organization did not provide us with information we requested regarding the design or proper operation of its internal controls. We were therefore unable to satisfy ourselves as to the proper processing of health insurance claims expenses and liabilities. Those claims represent 9% of the expenses and .9% of accrued liabilities reported with the governmental activities and 52% of the expenses and 26% of liabilities reported in the remaining fund information.

In our opinion, except for the effects of such adjustments, if any, as might have been necessary had we been able to examine certain information regarding health insurance claims reported with the governmental activities and internal service fund as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2005, and the respective changes in financial position thereof and cash flows, where applicable, and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2005 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Board of Trustees
Avon Local School District
Independent Auditor's Report
Page 2

The Management's Discussion and Analysis on pages 3-12 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Balestra, Harr & Scherer, CPAs, Inc.
December 15, 2005

Avon Local School District
Management's Discussion and Analysis
For the Year Ended June 30, 2004
Unaudited

The discussion and analysis of the Avon Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the School District's financial performance as a whole. Readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2004 are as follows:

- Total net assets decreased \$1,241,220 in governmental activities.
- Total revenues in governmental activities were \$ 21.1 million. General revenues accounted for \$ 19.1 million in revenue or 90.5 percent of all revenues for governmental activities. Program-specific revenues in the form of charges for services, sales, operating and capital grants, interest and contributions accounted for \$ 2.0 million or 9.5 percent of total revenues.
- Total program expenses were \$ 22.3 million in governmental activities.
- Total outstanding debt increased by \$ 14.0 million to a total of \$ 32.0 million.

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains all the funds used by the School District to provide programs and activities, the view of the School District as an entity looks at all financial transactions and asks the question, "How did we do financially during the 2004 fiscal year?" The *Statement of Net Assets* and the *Statement of Activities* answers this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School District's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. Changes to our net assets are a direct result of 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 Assets* and the *Statement of Activities*, the School District is classified into Governmental Activities. Most of the School District's programs and services are reported here including instruction, support services operation and maintenance of plant, pupil transportation, extracurricular activities and general administration.

Avon Local School District
Management's Discussion and Analysis
For the Year Ended June 30, 2004
Unaudited

Reporting the School District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

Most of the School District's activities are reported in governmental funds, which accounts for flow of money into and out of those funds and the year-end balances available for spending in future years. These funds are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps the reader determine the amount of financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets 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, 2004
Unaudited

The School District as a Whole

The Statement of Net Assets provides the perspective of the School District as a whole.

	Governmental Activities	
	2004	2003
Assets		
Current assets	\$ 32,503,683	\$ 33,512,948
Capital assets, net	31,564,460	28,215,453
Total assets	64,068,143	61,728,401
 Liabilities		
Other Liabilities	4,584,899	13,406,681
Long-term liabilities	47,367,379	34,964,635
Total liabilities	51,952,278	48,371,316
 Net assets		
Invested in capital assets, net of related debt	14,924,460	9,710,453
Restricted	13,344,257	17,572,930
Unrestricted (deficit)	(16,152,852)	(13,926,298)
Total net assets	\$ 12,115,865	\$ 13,357,085

At June 30, 2004, assets show cash of \$ 17.7 million, taxes receivable of \$ 14.2 million and capital assets of \$ 31.5 million. Liabilities show accrued salaries of \$ 1.9 million and long term debt of \$ 32.5 million. Total net assets were valued at \$ 12.1 million at June 30, 2004.

Total assets increased \$ 2,339,742. The majority of the increase is related to increases in capital assets and taxes receivable.

Total liabilities increased by \$ 3,580,962. The majority was due to increases in long-term debt.

Avon Local School District
Management's Discussion and Analysis
For the Year Ended June 30, 2004
Unaudited

Table 2, the Statement of Activities, shows the change in net assets for fiscal year 2004.

Table 2
Change in Net Assets

	2004 Amount	% of Total	2003 Amount	% of Total
Revenues:				
General revenues				
Property taxes levied for:				
General purpose	\$ 11,733,763	55.66%	8,977,214	50.46%
Debt service	1,573,484	7.46%	1,620,925	9.11%
Capital improvements	404,511	1.92%	338,839	1.90%
Grants and entitlements not restricted to specific purposes	4,931,170	23.39%	4,735,003	26.62%
Investment earnings	287,576	1.36%	123,246	0.69%
Miscellaneous	140,674	0.67%	228,695	1.29%
Total general revenues	<u>19,071,178</u>	<u>90.47%</u>	<u>16,023,922</u>	<u>90.07%</u>
Total program revenues	<u>2,008,558</u>	<u>9.53%</u>	<u>1,766,282</u>	<u>9.93%</u>
Total revenue	<u>21,079,736</u>	<u>100.00%</u>	<u>17,790,204</u>	<u>100.00%</u>
Program expenses:				
Instruction				
Regular	9,424,069	42.22%	8,219,225	44.07%
Special	1,710,133	7.66%	1,326,513	7.11%
Vocational	152,918	0.69%	145,857	0.78%
Other instruction	298,381	1.34%	168,793	0.91%
Supporting services				
Pupil	1,029,504	4.61%	846,713	4.54%
Instructional staff	562,980	2.52%	532,245	2.85%
Board of education	359,982	1.61%	130,641	0.70%
Administration	1,627,948	7.29%	1,330,838	7.14%
Fiscal services	551,921	2.47%	438,070	2.35%
Business	25,412	0.11%	-	0.00%
Operation and maintenance	1,862,050	8.34%	1,838,732	9.86%
Pupil transportation	1,508,816	6.76%	906,122	4.86%
Central services	109,517	0.49%	61,846	0.33%
Operation of non-instructional services				
Food service operation	664,517	2.98%	596,215	3.20%
Enterprise operations	95,768	0.43%	207,530	1.11%
Community services	318,029	1.42%	308,712	1.66%
Extracurricular activities				
Academic and subject oriented	56,983	0.26%	61,947	0.33%
Occupation oriented	740	0.00%	659	0.00%
Sports oriented	482,930	2.16%	429,240	2.30%
Co-curricular	23,379	0.10%	26,834	0.14%
Interest	1,454,979	6.52%	1,074,178	5.76%
Total program expenses	<u>22,320,956</u>	<u>100.00%</u>	<u>18,650,910</u>	<u>100.00%</u>
Decrease in net assets	(1,241,220)		(860,706)	
Net assets beginning of year - restated	13,357,085		14,217,791	
Net assets end of year	<u>\$ 12,115,865</u>		<u>\$ 13,357,085</u>	

Avon Local School District
Management's Discussion and Analysis
For the Year Ended June 30, 2004
Unaudited

The vast majority of revenue supporting all Governmental Activities is general revenue. General revenue totaled \$ 19,071,178 or 90 percent of total revenue. The most significant portion of the general revenue is local property tax. The remaining amount of revenue received was in the form of program revenues, which equated to \$ 2,008,558 or only 10 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	9,424,069	\$ (9,034,644)
Special	1,710,133	(1,465,721)
Vocational	152,918	(152,918)
Other instruction	298,381	(298,381)
Supporting services		
Pupil	1,029,504	(978,103)
Instructional staff	562,980	(554,840)
Board of education	359,982	(359,982)
Administration	1,627,948	(1,618,943)
Fiscal services	551,921	(316,206)
Business	25,412	(25,412)
Operation and maintenance	1,862,050	(1,862,050)
Pupil transportation	1,508,816	(1,508,816)
Central services	109,517	(94,517)
Operation of non-instructional services		
Food service operation	664,517	(119,170)
Enterprise operations	95,768	(20,731)
Community services	318,029	(22,850)
Extracurricular activities		
Academic and subject oriented	56,983	(56,983)
Occupation oriented	740	(740)
Sports oriented	482,930	(343,033)
Co-curricular	23,379	(23,379)
Interest	1,454,979	(1,454,979)
Totals	\$ 22,320,956	\$(20,312,398)

As you can see the reliance upon local tax revenues for governmental activities is crucial. 95.0 percentage of our instructional and supporting services are covered by our property tax collections.

The unusual nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. As a result of legislation enacted in 1976, the overall revenue generated by a voted millage does not increase as a result of inflation. The effective millage rate is reduced in direct proportion to the increase in property valuation, which results in virtually no increase in property tax.

Our School District, which is very dependent upon property taxes, is hampered by a lack of revenue growth and must periodically ask the voters to increase property taxes to maintain a constant level of service.

Avon Local School District
Management's Discussion and Analysis
 For the Year Ended June 30, 2004
 Unaudited

The largest Governmental Activities program expense remains instruction, comprising \$11.6 million or 51.9 percent of expenses. When combined with supporting services of \$ 7.6 million, these categories make up 86.1 percent of expenses.

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.

The School District's Funds

The General Fund assets increased by \$ 1,060,077 due mainly to an increase in taxes receivable. General Fund liabilities increased by \$ 1,576,529 largely due to increase in deferred revenue related to taxes receivable as well as increase in accrued wages and benefits.

Significant changes in the Building Fund were due to a building project entered during fiscal year 2004. The project resulted in a decrease in cash of \$ 2,728,793 and an increase in contracts and accounts payable of \$ 1,068,150.

General Fund Budgeting Highlights

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

During the course of fiscal year 2004 the School District amended its General Fund budget several times. State Foundation revenues were more than originally estimated due to the per student increase in student population. Commercial property development known as the Avon Commons increased the personal property taxes significantly along with the increased housing starts that were added to the tax duplicate. 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. However, the expenditures did out pace the revenues this year as the District's expenses due to the high growth are beginning to have a negative effect on the resources of the District.

Capital Assets and Debt Administration

Capital Assets

Table 4 shows fiscal 2004 balances compared to fiscal 2003:

Table 4
 Capital Assets at June 30, 2004
 Governmental Activities

	2004	2003
Land	\$ 2,738,195	\$ 2,690,786
Construction in process	3,760,071	-
Land improvements	4,358,644	3,614,485
Buildings and improvements	25,821,612	20,655,067
Furniture and equipment	1,174,294	480,987
Vehicles	1,663,316	774,128
	39,516,132	28,215,453

At the end of fiscal 2004 the School District had \$ 31.6 million, net of depreciation, invested in land, construction in process, buildings and improvements, furniture and equipment and vehicles.

Avon Local School District
Management's Discussion and Analysis
For the Year Ended June 30, 2004
Unaudited

Debt

At June 30, 2004, the Avon Local Schools had \$ 31.6 million in bonds outstanding, an increase of \$14,035,000 from fiscal year 2003. The bonds were issued in 1996 (\$ 3 million), 2000 (\$ 8 million), 2003 (14.95 million) and 2004 refunding (\$ 6.54 million of the 1996 bonds) for improvements for the construction of the High School, the Heritage North Elementary, and Heritage South Elementary.

As of June 30, 2004 the District had \$ 715,000 of Notes that were issued in 1999, 2001 and 2003, \$ 235,000 of the notes are due within one year.

	2004	2003
Notes		
Tax Anticipation Note (2001) 4.55% through 2005	\$ 200,000	\$ 300,000
Tax Anticipation Note (2001) 4.70% through 2005	100,000	200,000
Energy Conservation (1999) 5.2% through 2013	415,000	450,000
Bond Anticipation Note (2003) 1.52% through 2003	-	14,950,000
Total Notes	715,000	15,900,000
Bonds		
School improvement, (1996) 4.80% through 2001	3,310,000	10,415,000
School improvement, (2000) 5.32% through 2019	6,790,000	7,140,000
School improvement (2003) 2.00% through 2029	14,555,000	-
School improvement, capital appreciation bonds, and accretion of interest (2003) 10.62 (average effective) 2015 ,2016, 2017, 2018 maturity	395,000	-
School improvement refunding current interest bonds (2004) 2.00% through 2020	6,350,000	-
School improvement refunding capital appreciation bonds, and accretion of interest (2004) 10.78 (average effective) 2016, 2017 maturity	190,000	-
Total Bonds	31,590,000	17,555,000
Total Debt	\$ 32,305,000	\$ 33,455,000

At June 30, 2004, the School District's overall legal debt margin was \$ 31,590,000 with an unvoted debt margin of \$ 45,908,062.

Avon Local School District
Management's Discussion and Analysis
For the Year Ended June 30, 2004
Unaudited

Current Issues

The District has also been impacted by the continuing national trend of rapidly escalating employee benefit costs. The District has participated in the LERC Health Insurance Program for many years, which has been made up of 14 school districts. In fall of 2001 the District notified LERC of its decision to withdraw from the LERC Consortium. The final notice was delivered to LERC in November of 2003 and the District officially withdrew from the LERC Health Consortium as of January 1, 2004. The District has established a new coop for its Health Insurance Program under the name of "4 Health Coop". This Coop consists of Avon Local School, Avon Lake City Schools, Westlake City Schools and Rocky River City School Districts. The purpose of the new Coop is to better manage and control the District's health care costs by obtaining better information and instituting a newly designed case management review for on-going and catastrophic health care cases.

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 School District has the necessary revenue base to support current program levels for only the next two fiscal years. 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 addition operational funds.

Several significant legislative and judicial actions have occurred that will have a major impact on our School District. The Ohio Supreme Court has issued its fourth decision regarding school funding reform in Ohio. We believe that the ultimate resolution of funding reform is still some time away. The sudden downturn in the economy has put pressures on both the State budget as well as our School District budget. We are concerned that the tax base may be weakened as a result of the current economic conditions and therefore negatively impact tax revenues. The ongoing legislative efforts to support the existence of community (charter) schools come at the expense of our current State subsidy. This year funds will be deducted from our State subsidy and redirected to community (charter) schools. The School District's commitment to improve fiscal management has led to many budgeting, reporting and internal control enhancements.

Contacting the School District Fiscal Management

This financial report was designed to comply with the most current reporting requirements and is intended to provide our parents, citizens, taxpayers, investors and creditors an understanding of the School District's financial position. Kent R. Zeman, Treasurer, can be contacted at the Avon Local School District, 35575 Detroit Road, Avon, Ohio 44011.

AVON LOCAL SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2004

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 17,684,471
Cash with fiscal agents	54,134
Due from other governments	594,002
Inventories and supplies	12,472
Taxes receivable	14,158,604
Capital assets	
Nondepreciable capital assets	6,498,266
Depreciable capital assets, net	25,066,194
Total assets	64,068,143
 Liabilities	
Accounts and contracts payable	1,145,964
Retainage payable	361,028
Accrued salaries and benefits	1,924,427
Claims payable	462,740
Interest payable	169,720
Due to other governments	521,020
Unearned revenue	12,776,303
Unamortized bond premium	525,417
Long term liabilities	
Due within one year	1,503,561
Due in more than one year	32,562,098
Total liabilities	51,952,278
 Net assets	
Invested in capital assets, net of related debt	14,924,460
Restricted for:	
Debt service	1,892,972
Capital projects	11,384,934
Other purposes	66,351
Unrestricted (deficit)	(16,152,852)
Total net assets	\$ 12,115,865

See the accompanying notes to the basic financial statements.

AVON LOCAL SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants Interest and Contributions	Capital Grants and Contributions	
Governmental activities					
Instruction					
Regular	\$ 9,424,069	\$ 272,748	\$ 116,677	\$ -	(9,034,644)
Special	1,710,133	-	244,412	-	(1,465,721)
Vocational	152,918	-	-	-	(152,918)
Other instruction	298,381	-	-	-	(298,381)
Supporting services					
Pupil	1,029,504	51,401	-	-	(978,103)
Instructional staff	562,980	-	8,140	-	(554,840)
Board of education	359,982	-	-	-	(359,982)
Administration	1,627,948	-	9,005	-	(1,618,943)
Fiscal services	551,921	-	-	235,715	(316,206)
Business	25,412	-	-	-	(25,412)
Operation and maintenance	1,862,050	-	-	-	(1,862,050)
Pupil transportation	1,508,816	-	-	-	(1,508,816)
Central services	109,517	-	15,000	-	(94,517)
Operation of non-instructional services					
Food service operation	664,517	443,508	101,839	-	(119,170)
Enterprise operations	95,768	75,037	-	-	(20,731)
Community services	318,029	-	295,179	-	(22,850)
Extracurricular activities					
Academic and subject oriented	56,983	-	-	-	(56,983)
Occupation oriented	740	-	-	-	(740)
Sports oriented	482,930	139,897	-	-	(343,033)
Co-curricular	23,379	-	-	-	(23,379)
Interest	1,454,979	-	-	-	(1,454,979)
Totals	<u>\$ 22,320,956</u>	<u>\$ 982,591</u>	<u>\$ 790,252</u>	<u>\$ 235,715</u>	<u>\$ (20,312,398)</u>

General revenues

Property taxes levied for:

General purpose	11,733,763
Debt service	1,573,484
Capital improvements	404,511
Grants and entitlements not restricted to specific purposes	4,931,170
Investment earnings	287,576
Miscellaneous	140,674
Total general revenues	<u>19,071,178</u>

Change in net assets	(1,241,220)
Net assets, beginning of year	13,357,085
Net assets, end of year	<u>\$ 12,115,865</u>

See the accompanying notes to the basic financial statements.

AVON LOCAL SCHOOL DISTRICT
BALANCE SHEET -
GOVERNMENTAL FUNDS

JUNE 30, 2004

	General Fund	Debt Service Fund	Building Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 2,713,203	\$ 1,634,709	\$ 12,563,475	\$ 802,206	\$ 17,713,593
Receivables, net of allowance					
Taxes, current	11,735,881	1,790,762	-	487,311	14,013,954
Taxes, delinquent	123,292	16,774	-	4,584	144,650
Due from other governments	-	-	-	594,002	594,002
Interfund receivable	200,000	-	-	-	200,000
Inventories and supplies	-	-	-	12,472	12,472
Total assets and other debits	\$ 14,772,376	\$ 3,442,245	\$ 12,563,475	\$ 1,900,575	\$ 32,678,671
Liabilities and fund balances					
Liabilities					
Accounts and contracts payable	\$ 22,938	\$ -	\$ 1,068,150	\$ 54,876	\$ 1,145,964
Retainage payable	-	-	361,028	-	361,028
Accrued salaries and benefits	1,883,480	-	-	40,947	1,924,427
Interest payable	1,163	-	-	-	1,163
Due to other governments	388,091	-	-	14,761	402,852
Interfund payable	-	-	-	200,000	200,000
Notes payable	300,000	-	-	-	300,000
Compensated absences	131,781	-	-	1,780	133,561
Deferred revenue	10,364,896	1,566,047	-	990,010	12,920,953
Total liabilities	13,092,349	1,566,047	1,429,178	1,302,374	17,389,948
Fund balances					
Reserved for property taxes	1,494,277	241,489	-	49,244	1,785,010
Reserved for encumbrances	517,430	-	10,987,919	134,613	11,639,962
Unreserved, reported in					
General Fund	(331,680)	-	-	-	(331,680)
Special Revenue Funds	-	-	-	288,483	288,483
Debt Service Fund	-	1,634,709	-	-	1,634,709
Capital Projects Funds	-	-	146,378	125,861	272,239
Total fund balances	1,680,027	1,876,198	11,134,297	598,201	15,288,723
Total liabilities and fund balances	\$ 14,772,376	\$ 3,442,245	\$ 12,563,475	\$ 1,900,575	\$ 32,678,671

See the accompanying notes to the basic financial statements.

AVON LOCAL SCHOOL DISTRICT
 RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
 NET ASSETS OF GOVERNMENTAL ACTIVITIES
 JUNE 30, 2004

Total governmental funds balances	\$	15,288,723
Amount reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.		31,564,460
Other long term assets are not available to pay for current period expenditures and therefore are deferred in the funds. These deferrals are attributed to property taxes.		144,650
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		(437,728)
Due to other governments includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore not reported in the funds.		(118,168)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
Compensated absences		(1,627,098)
Bonds payable		(31,590,000)
Notes payable		(415,000)
Unamortized bond premium		(525,417)
Accrued interest payable		(168,557)
		(34,825,522)
Net assets of governmental activities	\$	12,115,865

See the accompanying notes to the basic financial statements.

AVON LOCAL SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

	General Fund	Debt Service Fund	Building Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes	\$ 11,708,626	\$ 1,570,690	\$ -	\$ 403,507	\$ 13,682,823
Tuition and fees	272,748	-	-	-	272,748
Interest	61,332	-	225,074	-	286,406
Intergovernmental	4,931,170	197,230	-	828,737	5,957,137
Charges for services	-	-	-	518,393	518,393
Extracurricular	-	-	-	191,298	191,298
Miscellaneous	98,305	-	-	42,521	140,826
Total revenues	17,072,181	1,767,920	225,074	1,984,456	21,049,631
Expenditures					
Current					
Instruction					
Regular	7,964,975	-	-	135,974	8,100,949
Special	1,560,151	-	-	90,426	1,650,577
Vocational	145,207	-	-	-	145,207
Other instruction	298,381	-	-	-	298,381
Supporting services					
Pupil	842,289	-	-	154,140	996,429
Instructional staff	456,303	-	-	26,891	483,194
Board of education	359,982	-	-	-	359,982
Administration	1,522,977	-	-	33,782	1,556,759
Fiscal services	515,056	27,066	-	10,256	552,378
Operation and maintenance	1,810,790	-	-	3,377	1,814,167
Pupil transportation	1,326,112	-	-	-	1,326,112
Central services	86,121	-	-	20,690	106,811
Operation of non-instructional services					
Food service operation	-	-	-	670,939	670,939
Community services	-	-	-	309,219	309,219
Enterprise operations	53,920	-	-	41,733	95,653
Extracurricular activities					
Academic and subject oriented	49,720	-	-	7,275	56,995
Occupation oriented	740	-	-	-	740
Sports oriented	359,169	-	-	100,723	459,892
Co-curricular	18,455	-	-	4,944	23,399
Capital outlay	51,921	-	4,249,554	226,184	4,527,659
Debt service					
Principal	-	22,440,000	-	-	22,440,000
Interest	-	1,539,043	-	-	1,539,043
Total expenditures	17,422,269	24,006,109	4,249,554	1,836,553	47,514,485
Excess (deficiency) of revenues over expenditures	(350,088)	(22,238,189)	(4,024,480)	147,903	(26,464,854)
Other financing sources (uses)					
Transfers-in	-	-	-	166,364	166,364
Transfers-out	(166,364)	-	-	-	(166,364)
Bond proceeds	-	22,050,407	-	-	22,050,407
Total other financing sources (uses)	(166,364)	22,050,407	-	166,364	22,050,407
Net change in fund balances	(516,452)	(187,782)	(4,024,480)	314,267	(4,414,447)
Fund balances, beginning of year	2,196,479	2,063,980	15,158,777	283,934	19,703,170
Fund balances, end of year	\$ 1,680,027	\$ 1,876,198	\$ 11,134,297	\$ 598,201	\$ 15,288,723

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, 2004

Net change in fund balances - total governmental funds \$ (4,414,447)

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

Governmental funds report capital outlays as expenditures.

How ever, in the statement of activities, the cost of those assets is allocated
over their usefull lives and reported as depreciation expense. This is the amount by
w hich depreciation exceeded capital outlay in the current period.

Fixed asset additions	4,540,970	
Depreciation expense	<u>(1,191,963)</u>	
		3,349,007

Other financing sources in the governmental funds increase
long term liabilities in the statement of activities. (22,050,407)

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

Property taxes	<u>28,935</u>	
		28,935

Repayment of notes, bonds and capital lease principal is an
expenditure in the governmental funds, but the repayment
reduces long-term liabilities in the statement of net assets.

In the statement of activities, interest is accrued on outstanding bonds,
w hereas in the governmental funds, an interest expenditure
is reported w hen due.

22,524,064

Some expenses reported in the statement of activities, such as compensated
absences and intergovernmental payable w hich represents
contractually required pension contributions, do not require the
use of current financial resources and therefore
are not reported as expenditures in governmental funds.

Compensated absences	(167,463)	
Pension obligations	<u>(33,448)</u>	
		(200,911)

The internal service fund used by management to charge the costs of
insurance to individual funds is not reported in district-w ide statement
of activities. Governmental fund expenditures and
the related internal service fund revenues are eliminated. The
net revenue (expense) of the internal service fund is
allocated among the governmental activities.

(477,461)

Change in net assets of governmental activities \$ (1,241,220)

See the accompanying notes to the basic financial statements.

AVON LOCAL SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET BASIS (NON-GAAP) AND ACTUAL – GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2004

	Budgeted Amounts		Actual	Variance with Final Budget	
				Positive Original (Negative)	Final
Revenues					
Taxes	\$ 8,976,837	\$ 11,122,680	\$ 11,122,680	\$	-
Tuition and fees	-	271,934	272,748		814
Interest	-	58,570	61,332		2,762
Intergovernmental	2,000,000	4,931,170	4,931,170		-
Other	-	98,604	98,457		(147)
Total revenues	<u>10,976,837</u>	<u>16,482,958</u>	<u>16,486,387</u>		<u>3,429</u>
Expenditures					
Current					
Instruction					
Regular	7,301,925	7,973,493	7,973,493		-
Special	1,423,766	1,498,056	1,498,056		-
Vocational	141,771	141,790	141,790		-
Other instruction	180,000	298,533	298,533		-
Supporting services					
Pupil	821,449	826,553	826,553		-
Instructional staff	418,010	447,798	448,405		(607)
Board of education	164,882	376,700	376,700		-
Administration	1,408,958	1,494,248	1,494,248		-
Fiscal services	644,249	526,757	526,757		-
Operation and maintenance	2,005,516	1,872,316	1,872,316		-
Pupil transportation	1,341,710	1,507,256	1,506,251		1,005
Central services	99,916	93,356	93,356		-
Extracurricular activities					
Academic and subject oriented	52,697	49,064	49,064		-
Occupation oriented	742	735	735		-
Sports oriented	306,545	342,421	342,421		-
Co-curricular	19,666	18,973	18,973		-
Capital outlay	118,312	53,391	53,391		-
Total expenditures	<u>16,450,114</u>	<u>17,521,440</u>	<u>17,521,042</u>		<u>398</u>
Excess (deficiency) of revenues over expenditures	<u>(5,473,277)</u>	<u>(1,038,482)</u>	<u>(1,034,655)</u>		<u>3,827</u>
Other financing sources (uses)					
Advances-out	-	(16,020)	(16,020)		-
Transfers-out	(226,913)	(393,277)	(399,600)		(6,323)
Total other financing sources (uses)	<u>(226,913)</u>	<u>(176,061)</u>	<u>(182,384)</u>		<u>(6,323)</u>
Excess (deficiency) of revenues over expenditures and other sources (uses)	<u>(5,700,190)</u>	<u>(1,214,543)</u>	<u>(1,217,039)</u>		<u>(2,496)</u>
Fund balances, beginning of year	2,356,214	2,356,214	2,356,214		-
Prior year encumbrances	963,990	963,990	963,990		-
Fund balances, end of year	<u>\$ (2,379,986)</u>	<u>\$ 2,105,661</u>	<u>\$ 2,103,165</u>		<u>\$ (2,496)</u>

See the accompanying notes to the basic financial statements.

AVON LOCAL SCHOOL DISTRICT
STATEMENT OF NET ASSETS
INTERNAL SERVICE FUND

JUNE 30, 2004

	<u>Self Insurance</u>
Assets	
Cash w ith fiscal agent	<u>\$ 25,012</u>
Liabilities	
Claims payable	<u>462,740</u>
Net assets	
Unrestricted	<u>\$ (437,764)</u>

See the accompanying notes to the basic financial statements.

AVON LOCAL SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
INTERNAL SERVICE FUND
FOR THE YEAR ENDED JUNE 30, 2004

	Self Insurance
Operating revenues	
Charges for services	\$ 1,592,794
Operating expenses	
Purchased services	46,167
Claims	2,025,258
Total operating expenses	2,071,425
Operating loss	(478,631)
Non operating revenue	
Interest	1,170
Change in net assets	(477,461)
Net assets, beginning of year	39,697
Net assets, end of year	\$ (437,764)

See the accompanying notes to the basic financial statements.

AVON LOCAL SCHOOL DISTRICT
STATEMENT OF CASH FLOWS -
INTERNAL SERVICE FUND
FOR THE YEAR ENDED JUNE 30, 2004

	Self Insurance
Cash flows from operating activities	
Cash received from interfund services	\$ 1,592,794
Cash payments for goods and services	(46,167)
Cash payments for claims	(1,788,458)
Net cash (used for) operating activities	(241,831)
 Cash flows from investing activities	
Interest	1,170
Net (decrease) in cash and cash equivalents	(240,661)
Cash and cash equivalents, beginning of year	265,673
Cash and cash equivalents, end of year	\$ 25,012
 Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	\$ (478,631)
Adjustments	
Increase in claims payable	236,800
Net cash (used for) operating activities	\$ (241,831)

See the accompanying notes to the basic financial statements.

AVON LOCAL SCHOOL DISTRICT
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES -
AGENCY FUNDS
JUNE 30, 2004

	Agency Funds
Assets	
Cash and cash equivalents	\$ 32,503
Total assets	<u>\$ 32,503</u>
Liabilities	
Accounts payable	\$ 36
Due to others	4,995
Due to students	27,472
Total liabilities	<u>\$ 32,503</u>

See the accompanying notes to the basic financial statements.

AVON LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 1 - 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, 2003 was 2,474. The District employs 163 certificated and 104 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 School 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 Lake Erie Educational Computer Association, the Lorain County Joint Vocational School District, the Lake Erie Regional Council of Governments, Lake Erie Regional Employee Protection Plan, 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 10 and 20 to these financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities and to its proprietary funds provided they do not conflict with or contradict GASB pronouncements. The following are the more significant of the District's accounting policies.

AVON LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. BASIS OF PRESENTATION

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

Government-wide Financial Statements

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

The statement of net assets 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.

B. 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 is the District's major governmental funds:

AVON LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. FUND ACCOUNTING (continued)

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 financial resources whose use is restricted to a particular purpose.

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

Proprietary Fund

The proprietary fund focuses on the determination of the changes in net assets, financial position, and cash flows. Proprietary funds are classified as enterprise or internal service. The District has no enterprise funds.

Internal Service Fund – The Internal Service Fund accounts for the financing of services provided by one department or agency to other departments or agencies of the District on a cost reimbursement basis. The District's only internal service fund accounts for revenue received from other funds and the settlement expenses for medical, surgical, prescription drug and dental claims of District employees.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. 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 and principal's fund.

C. MEASUREMENT FOCUS

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

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

AVON LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. MEASUREMENT FOCUS (continued)

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

D. BASIS OF ACCOUNTING

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and 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 revenue 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.

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 6). 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 Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

AVON LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. BASIS OF ACCOUNTING (continued)

Expenditures/Expenses

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

E. BUDGETARY PROCESS

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

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the 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.

F. 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 (STAROhio) 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 earned for the year ended June 30, 2004, totaled \$287,576.

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

AVON LOCAL SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. CASH AND INVESTMENTS (continued)

STAROhio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAROhio 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 STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on June 30, 2004.

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

G. 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.

H. 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.

I. 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	20 years
Buildings	20 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	8 years

AVON LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. 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.

K. 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.

L. 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.

M. NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, 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 assets 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 District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

AVON LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

N. FUND BALANCE RESERVES AND DESIGNATIONS

The District reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for property taxes and encumbrances.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles, but not available for appropriation under State statute.

O. OPERATING REVENUES AND EXPENSES

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the District, these revenues are charges for services for the self-insurance program. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of this fund. Revenues and expenses not meeting those definitions are reported as non-operating.

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 3- DEFICIT FUND BALANCE

At June 30, 2004 the Title I Fund had a deficit fund balance of \$ 584, the Summer Intervention Fund had a deficit fund balance of \$ 3,679, the Schoolnet Fund had a deficit fund balance of \$ 369 and the Insurance fund had a deficit fund balance of \$ 437,728. The General Fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities.

AVON LOCAL SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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).

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

Net Change in Fund Balance	
General Fund	
	General
Budget basis	\$ 1,837,722
Adjustments, increase (decrease)	
Revenue accruals	1,756,101
Expenditure accruals	(2,610,549)
GAAP basis, as reported	\$ 983,274

NOTE 5 - DEPOSITS AND INVESTMENTS

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

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

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.

AVON LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

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

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;
5. 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;
6. The State Treasurer's investment pool (STAR Ohio);
7. Commercial paper and bankers' acceptances (if authorized by the Board of Education), and
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

AVON LOCAL SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 5 - DEPOSITS AND INVESTMENTS(continued)

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 "Equity in Pooled Cash".

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements".

At fiscal year end, the carrying amount of the District's deposits was \$ 17,421,703 and the bank balance was \$ 17,439,258. Of the bank balance, \$ 100,000 was covered by federal depository insurance and \$ 17,339,258 was uninsured and uncollateralized.

Although the securities serving as collateral were held by the pledging financial institution's trust department in the District's name and all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the Federal Deposit Insurance Corporation.

The Districts' investments are categorized to give an indication of the level of risk assumed by the District at fiscal year end. Category 1 includes investments that are insured or registered for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the District's name. Investment in STAROhio, the State Treasurer's Investment Pool, is not classified by the degree of credit risk since it is not evidenced by securities that exist in physical or book entry form.

	Carrying Value	Market Value
Investment in State Treasurer's Investment Pool	\$ 349,405	\$ 349,405

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting".

A reconciliation between the classification of cash and cash equivalent and investments on the combined financial statements and the classification of deposits and investments according to GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents	Investments
GASB Statement No. 9	\$ 17,771,108	\$ -
Investment in State Treasurer's Investment Pool	(349,405)	349,405
GASB Statement 3	\$ 17,421,703	\$ 349,405

AVON LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 6 - 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 2004 represent the collection of calendar year 2003 taxes. Real property taxes for 2004 were levied after April 1, 2004, on the assessed values as of January 1, 2004, 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 2004 were levied after April 1, 2004, on the assessed values as of December 31, 2002, 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 revenues received in calendar year 2004 (other than public utility property) represent the collection of calendar year 2004 taxes. Tangible personal property taxes for 2005 were levied after April 1, 2003, on the value as of December 31, 2003. Tangible personal property is currently assessed at 25 percent of true value. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30 with the remainder payable by September 20.

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, 2004, are available to finance fiscal year 2004/2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, public utility property, and tangible personal property taxes which were measurable as of June 30, 2004 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, amounts to be received during the available period are not subject to reasonable estimation at June 30, nor were they levied to finance fiscal year 2004 operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance was recognized as revenue.

The amount available as an advance at June 30, 2004, was \$ 1,494,277 in the General Fund, \$ 241,489 in the Debt Service Fund and \$ 49,244 in the Other Governmental Funds.

AVON LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 6 - PROPERTY TAXES (continued)

The assessed values upon which the fiscal year 2005 taxes were collected are:

	2003 Second Half Collections		2004 First Half Collections	
	Amount	%	Amount	%
Agricultural/Residential	\$ 305,013,530	73.03	\$ 367,405,730	72.03
Commercial / Industrial	76,128,920	18.23	100,851,970	19.77
Public Utilities	10,655,040	2.55	10,960,870	2.15
Tangible Personal Property	25,843,840	6.19	30,871,010	6.05
Total Assessed Value	<u>\$ 417,641,330</u>	<u>100.00</u>	<u>\$ 510,089,580</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	<u>50.54</u>		<u>49.30</u>	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2004, 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
Non-major funds	
Food service	\$ 10,774
Title VI-B	520,742
Title V	16,125
Drug Free Schools	6,234
Title II	40,127
Total Due From Other Governments	<u>\$ 594,002</u>

AVON LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	Balance June 30, 2003	Additions	Disposals	Balance June 30, 2004
Governmental Activities				
Nondepreciable capital assets				
Land	\$ 2,690,786	\$ 47,409	\$ -	2,738,195
Construction in progress	-	3,760,071	-	3,760,071
Total nondepreciable capital assets	<u>2,690,786</u>	<u>3,807,480</u>	<u>-</u>	<u>6,498,266</u>
Depreciable capital assets				
Land improvements	4,358,644	-	-	4,358,644
Buildings and improvements	25,796,200	25,412	-	25,821,612
Furniture and equipment	794,825	379,469	-	1,174,294
Vehicles	1,334,707	328,609	-	1,663,316
Total capital assets being depreciated	<u>32,284,376</u>	<u>733,490</u>	<u>-</u>	<u>33,017,866</u>
Less accumulated depreciation				
Land improvements	(744,159)	(134,874)	-	(879,033)
Buildings and improvements	(5,141,133)	(806,888)	-	(5,948,021)
Furniture and equipment	(313,838)	(117,496)	-	(431,334)
Vehicles	(560,579)	(132,705)	-	(693,284)
Total accumulated depreciation	<u>(6,759,709)</u>	<u>(1,191,963)</u>	<u>-</u>	<u>(7,951,672)</u>
Depreciable capital assets, net of accumulated depreciation	<u>25,524,667</u>	<u>(458,473)</u>	<u>-</u>	<u>25,066,194</u>
Governmental activities capital assets, net	<u>\$ 28,215,453</u>	<u>\$ 3,349,007</u>	<u>\$ -</u>	<u>\$ 31,564,460</u>

Depreciation expense was charged to governmental functions as follows:

Instruction	
Regular	\$ 967,776
Supporting services	
Instructional staff	20,958
Adminstration	29,571
Operation and maintenance of plant	8,205
Pupil transportation	135,945
Central services	1,265
Operation of noninstruction services	
Food service operation	11,043
Extracurricular activities	
Sports oriented	17,200
Total depreciation expense	<u>\$ 1,191,963</u>

AVON LOCAL SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 9 – INTERFUND ACTIVITIES

A. INTERFUND RECEIVABLES AND PAYABLES

On the fund financial statements at June 30, 2004, interfund balances consisted of the following:

Fund	Receivable	Payable
General	\$ 200,000	\$ -
Capital Projects Fund		
Capital Projects	-	200,000
Total	\$ 200,000	\$ 200,000

These amounts are represented as “Interfund Receivable/Payable” on the balance sheet. The loans were made to support programs and projects in the Capital Projects Funds.

B. INTERFUND TRANSFERS

The General Fund transferred \$ 160,000 to the Food Service Fund, \$2,755 to the Data Communications Fund, \$ 3,505 to the Title VI B Fund, and \$ 104 to the Title VI Fund, and the Support Fund transferred \$ 3,088 to the Student Activities Fund (an agency fund) to provide for the payment of expenditures.

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 2004, the District contracted with Indiana Insurance Company for property insurance. Professional liability is protected by Nationwide Insurance Company with a \$ 5 million aggregate limit.

Vehicles are covered by Nationwide Insurance Company. Automobile liability has a \$2 million 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 maintain for the Superintendent by Liberty Bonds Services and \$ 50,000 for the treasurer by Ohio Farmers Insurance Company. A blanket employee’s bond with a single limit of \$ 10,000 and a dishonestly bond of \$ 50,000 per employee is covered by Peerless 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 pay an enrollment fee to the GRP to cover the cost of administering the program.

AVON LOCAL SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 10 - RISK MANAGEMENT (continued)

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 than calculated and each participant's individual performance is compared to the overall savings percentage of GRP.

A participant will then either receive money from or be required to contribute to the "equity pooling fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selected criteria. The firm of Gates McDonald & Co., 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.

The District, along with four other districts established a health insurance program co-op. "4 Health Co-op" to provide medical/surgical and dental benefits for its employees and their dependents. The "4 Health Co-op" is a shared risk pool comprised of four school districts that provide public education within Lorain and Cuyahoga Counties.

The claim liability of \$ 462,740 reported at June 30, 2004, was estimated by Bridge Benefits and is based on the requirements of Governmental Standards Board Statement No. 10, which requires that a liability for unpaid claims costs, including estimates of costs related to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in balances of claims liability during the year ended June 30, 2003 are summarized below. Incurred claims and claims payments are not segregated between current and prior years claims due to the impracticability of obtaining such information.

	<u>June 30, 2003</u>	<u>June 30, 2004</u>
Unpaid claims, beginning of year	\$ 225,887	\$ 225,940
Incurred claims	1,085,231	2,025,258
Claims payments	(1,171,178)	(1,788,458)
Unpaid claims, end of year	<u>\$ 225,940</u>	<u>\$ 462,740</u>

AVON LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS)

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit 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 state statute per 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 SERS, 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current rate is 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 District's contributions to SERS for the years ended June 30, 2004, 2003, and 2002, were \$ 317,800, \$ 261,463, and \$ 216,700 respectively. The full amount has been contributed for 2003 and 2002. For 2004, \$ 258,736 (81%) has been contributed with the remainder being reflected as an intergovernmental payable.

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

The District contributes to the State Teachers Retirement System of Ohio (STRS OHIO), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS OHIO is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, college, university, institution or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof.

Plan options – New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to invest all their member contributions and employer contributions equal to 10.5% of earned compensation. The Combined Plan offers features of 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. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a bi-weekly basis. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

DB Plan Benefits – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit", the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the "money-purchase benefit" calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

AVON LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 11 - DEFINED BENEFIT PENSION PLANS (continued)

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

DC Plan Benefits – Benefits are established under sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. 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. Employer contributions into members' accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the members designated beneficiary is entitled to receive the members account balance.

Combined Plan Benefits – Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1% of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for a money-purchase benefit or a lump-sum payment in addition to the original retirement allowance.

Benefits are increased annually 3% of the original base amount for Defined Benefit Plan participants.

The Defined Benefit and Combined Plans offer access to health care coverage to retirees who participated in the plans and their dependents. Coverage under the current program includes hospitalization, physician fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio Law, healthcare benefits are not guaranteed.

A defined Benefit or Combined Plan member with five or more years' credited service who becomes disabled may qualify for a disability benefit. Eligible spouse and dependents of these active members who die before retirement may qualify for survivor benefits. A death benefit of \$ 1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage up to \$ 2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to member's beneficiaries.

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers.

AVON LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 11 - DEFINED BENEFIT PENSION PLANS (continued)

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

Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2004 were 10% of covered payroll for members and 14% for employers. The District's contribution to STRS OHIO for the years ended June 30, 2004, 2003, and 2002, were \$ 1,178,100, \$ 1,018,000, and \$ 853,900, respectively. The full amount has been contributed for 2003 and 2002. For 2004, \$ 916,127 (78%) has been contributed with the remainder being reported as a liability within the respective funds. Member and employer contributions actually made for Defined Contribution and Combined Plan participants will be provided upon written request.

STRS Ohio issues a stand-alone financial report. Copies of STRS Ohio's 2004 Comprehensive Annual Financial Report can be requested by writing STRS Ohio , 275 E. Broad St., Columbus, Ohio 43215-3371, or by calling 614-227-4090.

NOTE 12 - POSTEMPLOYMENT BENEFITS

A. SCHOOL EMPLOYEES RETIREMENT SYSTEM

The Ohio Revised Code gives the School Employees Retirement System (SERS) the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

After the allocation for basic benefits, the remainder of the employer's contribution is allocated to providing health care benefits. At June 30, 2004, the healthcare allocation rate is 4.91%. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal 2004, the minimum pay has been established as \$ 24,500. The surcharge rate added to the unallocated portion of the 14% employer contribution rate provides for maintenance of the asset target level for the health care fund.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2004 were \$ 223,443,805 and the target level was \$ 335.2 million. At June 30, 2004, the Retirement System's net assets available for payment of health care benefits was \$ 300.8 million.

The number of benefit recipients receiving health care benefits is approximately 62,000. The portion of the District's contributions that were used to fund postemployment benefits amounted to \$ 74,742.

AVON LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 12 - POSTEMPLOYMENT BENEFITS (continued)

B. STATE TEACHERS RETIREMENT SYSTEM OF OHIO (continued)

State Teachers Retirement System of Ohio (STRS Ohio) provides access to health care benefits to retirees who participated in the Defined Benefit or Combined Plans and their dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Pursuant to Revised Code (R.C.), the State Teachers Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium.

The Revised Code grants authority to STRS Ohio to provide health care coverage to benefit recipients, spouses, and dependents. By Ohio law, the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14% of covered payroll.

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For the fiscal year ended June 30, 2004 and June 30, 2003, the board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$ 3.1 billion on June 30, 2004.

For the year ended June 30, 2004 net health care costs paid by STRS Ohio were \$ 268,739,000. There were 111,853 eligible benefit recipients.

NOTE 13 – NOTES PAYABLE

Notes payable at June 30, 2004 consisted of the following:

	Outstanding June 30, 2003	Additions	Deductions	Outstanding June 30, 2004
Tax anticipation note (2001) 4.55% through 2005	\$ 300,000	\$	100,000	\$ 200,000
Tax anticipation note (2001) 4.70% through 2004	200,000		100,000	100,000
Energy conservation (1999) 5.20% through 2013	450,000	-	35,000	415,000
Bond anticipation note (2003) 1.52% through 2003	14,950,000	-	14,950,000	-
	<u>\$ 15,900,000</u>	<u>\$ -</u>	<u>\$ 15,185,000</u>	<u>\$ 715,000</u>

AVON LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 14 – BONDS PAYABLE

Bonds payable at June 30, 2004 consisted of the following:

	<u>Outstanding June 30, 2003</u>	<u>Additions</u>	<u>Deductions</u>	<u>Outstanding June 30, 2004</u>
General obligation bonds				
School Improvement, (1996)				
4.80%, through 2001	\$ 10,415,000	\$	\$ 7,105,000	\$ 3,310,000
School Improvement, (2000)				
5.32%, through 2019	7,140,000	-	350,000	6,790,000
School Improvement, (2003)				
2.00%, through 2029	-	14,555,000	-	14,555,000
School Improvement				
capital appreciation bonds,				
and accretion of interest (2003)				
4.43%, 4.53%, 4.63%, 4.73%				
(average effective)				
2015, 2016, 2017, 2018 maturity	-	395,000	-	395,000
School improvement refunding				
current interest bonds (2004)				
2.00% through 2020	-	6,350,000		6,350,000
School improvement refunding				
capital appreciation bonds,				
and accretion of interest (2004)				
4.70%, 4.78% (average effective)				
2016, 2017 maturity	-	190,000	-	190,000
	<u>\$ 17,555,000</u>	<u>\$ 21,490,000</u>	<u>\$7,455,000</u>	<u>\$ 31,590,000</u>

During 2004, the District advance refunded a general obligation bond issue with a new general obligation bond issue. The District issued \$ 6,540,000 of general obligation school improvement refunding bonds to provide resources to purchase U.S. government securities that were placed in escrow for the purpose of generating resources for all future debt service payments of the refunded debt. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the financial statements.

The original amount of bonds issued in 1996 was \$ 12,950,000. The general obligation bonds include serial bonds. The present value (as of issue date) reported in the Statement of Net Assets at June 30, 2004 was \$ 6,540,000.

AVON LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 15 - LONG-TERM OBLIGATIONS

Changes in the District's long-term obligations during fiscal year 2004 were as follows:

	Outstanding June 30, 2003	Additions	Retired	Outstanding June 30, 2004	Amounts Due In One Year
Compensated absences	\$ 1,508,160	\$ 394,106	\$ 141,607	\$ 1,760,659	133,561
Bonds payable	17,555,000	21,490,000	7,455,000	31,590,000	1,135,000
Notes payable	950,000	-	235,000	715,000	235,000
Capital lease	1,475	-	1,475	-	-
Bond Anticipation Notes	14,950,000	-	14,950,000	-	-
	<u>\$ 34,964,635</u>	<u>\$ 21,884,106</u>	<u>\$ 22,783,082</u>	<u>\$ 34,065,659</u>	<u>\$ 1,503,561</u>

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

NOTE 16 – DEBT SERVICE REQUIREMENTS

Debt service requirements, including principal and interest, to retire notes and bonds payable at June 30, 2004, consisted of:

Year ending June 30,	Principal	Interest	Total
2005	1,170,000	1,441,234	2,611,234
2006	1,425,000	1,367,254	2,792,254
2007	800,000	1,319,158	2,119,158
2008	1,015,000	1,288,853	2,303,853
2009	1,210,000	1,252,743	2,462,743
2010-2014	9,915,000	5,268,647	15,183,647
2015-2019	6,805,000	4,639,433	11,444,433
2020-2024	4,970,000	1,686,526	6,656,526
2025-2029	3,895,000	849,320	4,744,320
2030	1,100,000	28,875	1,128,875
	<u>32,305,000</u>	<u>\$ 19,142,043</u>	<u>51, 447,043</u>
			\$

NOTE 17 – OPERATING LEASES

The District is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations. During 2004, expenditures for operating leases totaled \$ 45,924.

The following is a schedule of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2004.

Year ending June 30,	Amount
2005	<u>\$ 45,924</u>
2006	<u>\$ 42,097</u>
Total minimum lease payments	<u>\$ 88,021</u>

AVON LOCAL SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 18 – CONTRACTUAL COMMITMENTS

At June 30, 2004 the District had contractual commitments for building construction and renovation projects as follows:

	Amount
Avon East Elementary	\$ 2,966,455
Heritage South	6,620,695
Kraker Project	456,635
	\$ 10,043,785

NOTE 19 - 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 purchase of textbooks and other instructional materials, and an equal amount 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 for textbooks and capital improvements during fiscal year 2004.

	Textbook	Capital Maintenance
Balance, July 1, 2004	\$ 71,430	\$ -
Required set aside	313,641	313,641
Qualifying expenditures	(626,396)	(313,641)
Balance, June 30, 2005	\$ (241,325)	\$ -

Expenditures and offset credits for textbooks and capital maintenance during the year were \$ 626,396 and \$ 313,641, respectively. Textbook expenditures have exceeded statutory requirements by \$ 241,325 which may be used to offset future years' set aside requirements.

NOTE 20 - JOINTLY GOVERNED ORGANIZATIONS

A. LAKE ERIE EDUCATIONAL COMPUTER ASSOCIATION

The Lake Erie Educational Computer Association (LEECA) is a jointly governed organization comprised of thirty school districts. The jointly governed organization was formed to provide data processing services for accounting, administrative and instructional functions of member districts. Each of the governments of these districts supports LEECA based upon a per pupil charge dependent upon the software packages utilized. The LEECA assembly consists of a superintendent or designated representative from each participating district and a representative from the fiscal agent.

LEECA is governed by a board of directors chosen from the general membership of the LEECA 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. Financial information can be obtained by contacting the Treasurer at the Educational Service Center of Lorain County, which serves as fiscal agent, located at 1885 Lake Avenue, Elyria, Ohio 44035. During the year ended June 30, 2004, the District paid \$ 220,003 to LEECA.

AVON LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 20 - JOINTLY GOVERNED ORGANIZATIONS (continued)

B. LORAIN COUNTY JOINT VOCATIONAL SCHOOL DISTRICT

The Lorain County Joint Vocational School District is a separate body politic and corporate, established by the Ohio Revised Code to provided 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. LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS (LERC)

The Lake Erie Regional Council of Governments (LERC) is a jointly governed organization among fourteen school districts. The jointly governed organization was formed for the purpose of promoting cooperative agreements and activities among its members in dealing with problems of mutual concern such as a media center, gas consumption, cooperative purchasing, food service, and insurance. Each member provided operating resources to LERC on a pupil or actual usage charge, except of insurance.

The LERC assembly consists of a superintendent or designed representative from each participating district and the fiscal agent. LERC is governed by a board of directors chosen from the general membership. The degree of control exercised by any participating district is limited to its representation on the board. Financial information can be obtained by contacting the Treasurer at the Educational Service Center of Lorain County located at 1885 Lake Ave., Elyria, Ohio 44035. During the year ended June 30, 2004, the district paid approximately \$ 879,931 to LERC.

D. 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 2004 the District paid \$281 to the Council.

The District participates in the Council's electric purchase program which was implemented during fiscal year 2000. The program allows school districts to purchase electricity at reduced rates for a period of eight years through Energy Acquisition Corporation (Corporation), a non-profit corporation with a self-appointing board of trustees. The Corporation issued \$ 119,140,000 of notes to prepurchase eight years of electricity from Cleveland Electric Illuminating (CEI). The participating school districts are not obligated in any manner for this debt. If a participating school district terminates their agreement during the eight year period, they are required to repay the savings to CEI and CEI will refund the remaining prepayment related to that participant to Energy Acquisition Corporation.

The District participates in the Council's prepaid natural gas program which was implemented during fiscal year 2000. 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 FISCAL YEAR ENDED JUNE 30, 2004

NOTE 20 - 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 21 - SCHOOL FOUNDATION PROGRAM

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional. The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...". The District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

NOTE 22 - 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, 2004.

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Ohio Society of Certified Public Accountants

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

Members of the Board
Avon Local School District
3075 Stoney Ridge Road
Avon, OH 44011

We have audited the financial statements of Avon Local School District (the District) and its governmental activities, each major fund, and the aggregate remaining fund information as of and for the year ended June 30, 2005, and have issued our report thereon dated December 15, 2005, which was qualified since certain information related to the Internal Service Fund expenses and liabilities reported within the governmental activities and with remaining fund information was not available for audit. Except for this matter, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2004-001.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We consider reportable condition 2004-001 listed above to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which is described in the accompanying schedule of findings as item 2004-002

We noted certain other matters which we have reported to management of the District in a separate letter dated December 15, 2005

Avon Local School District
Lorain County

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

Page 2

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



Balestra, Harr & Scherer, CPAs, Inc.

December 15, 2005

**AVON LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2004**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER	2004-001
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SERVICE ORGANIZATION REPORTING

Statement on Auditing Standards (SAS) No. 70, *Service Organizations*, is a recognized auditing standard developed by the American Institute of Certified Public Accountants (AICPA). A SAS 70 audit or service auditor's examination is widely recognized, because it represents that a service organization has been through an in-depth audit of their internal control activities, which generally include controls over information technology and related processes. Service organizations or service providers must demonstrate that they have adequate internal controls and safeguards when they host or process data belonging to their customers.

The District has a contract with Bridge Benefits, Inc., a third-party administrator, to provide claims processing for the District's self-insurance program. Under SAS-70, the District should be receiving a SAS 70 report from their third-party administrator annually.

Without a current Service Auditor's Report, a service organization may have to entertain multiple audit requests from its customers and their respective auditor's. Multiple visits from user auditors can place a strain on the service organization's resources. A Service Auditor's Report ensures that all user organizations and their auditor's requirements.

To reasonably ensure the completeness and accuracy of health claims processed by Bridge Benefits, Inc., a Statement of Auditing Standards No. 70 (SAS 70) Tier II report which prescribes testing and reporting standards for audits of claims processing internal controls in place at the service organization should be provided. Thus, the District should obtain a "Report on Policies and Procedures Placed in Operation and Tests of Operating Effectiveness" from Bridge Benefits. Such a report, if unqualified, would provide evidence to the District's management that health insurance and prescription claims are being processed in conformance with the District's health insurance plan. Failure to obtain such a report puts the burden on management to provide evidence that claim payments are allowable under the plan.

FINDING NUMBER	2004-002
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NONCOMPLIANCE CITATION – 412 CERTIFICATION

Ohio Revised Code Section 5705.412 states that the District is required to obtain 412 certificates on all contracts for expenditure of money under which aggregate payments from the funds include in the District's five year forecast under section 5705.391 of the revised code will exceed the lesser of the following: \$500,000 or 1% of the General Fund's estimated revenues as certified in the District's most recent certificate of estimated resources under Ohio Revised Code section 5705.36.

The District failed to obtain the required certificates for contracts with the following contractors: Seitz Builders, Clark & Post Architects, Imperial Heating, South Shore Electric, Fairweather Roofing.

The District must obtain the required certificates for the aforementioned contracts and file with appropriate parties according to Ohio Revised Code 5705.412



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

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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
MAY 4, 2006**