



**Auditor of State
Betty Montgomery**

**AVON LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Board of Education
Avon Local School District
Lorain County
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, Lorain County, Ohio (the District) as of and for the fiscal year ended June 30, 2003, 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 financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Avon Local School District, Lorain County, Ohio as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2003, the District increased the capitalization threshold for capital assets and implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 5, 2004, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Government Accounting Standards Board requires. 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.

We conducted our audit to form opinions on the financial statements that collectively comprise the District's basic financial statements. The schedule of federal awards receipts and expenditures is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected this information to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

April 5, 2004

AVON LOCAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
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, 2003. 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 2003 are as follows:

- Total net assets decreased \$860,706 in governmental activities.
- Total revenues in governmental activities were \$ 17.8 million. General revenues accounted for \$ 16.0 million in revenue or 89.9 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 \$1.8 million or 10.1 percent of total revenues.
- Total program expenses were \$ 18.7 million in governmental activities.
- Total outstanding debt increased by \$ 13,885,000 to a total of \$ 33,455,000.

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 2003 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 FISCAL YEAR ENDED JUNE 30, 2003
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 Fund, and Building Fund.

Governmental Funds

Most of the School District's activities are reported in governmental funds, which accounts for flow of money into and out of those funds and the year-end balances available for spending in future years. These funds are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps the reader determine the amount of financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net 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 FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED

The School District as a Whole

The Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2003 compared to 2002:

At June 30, 2003, assets show cash of \$21.5 million, taxes receivable of \$11.9 million and capital assets of

Table 1
Net Assets

	Governmental Activities	
	2003	2002
Assets		
Current and other assets	\$ 33,512,948	\$ 18,481,767
Capital assets, net	28,215,453	27,307,814
Total assets	<u>61,728,401</u>	<u>45,789,581</u>
Liabilities		
Other liabilities	13,406,681	10,782,705
Long term liabilities	34,964,635	20,789,085
Total liabilities	<u>48,371,316</u>	<u>31,571,790</u>
Net assets		
Invested in capital assets, net of related debt	9,710,453	7,737,814
Restricted	17,572,930	4,167,887
Unrestricted (deficit)	(13,926,298)	2,312,090
Total net assets	<u>\$ 13,357,085</u>	<u>\$ 14,217,791</u>

\$28 million. Liabilities show accrued salaries of \$1.6 million and long term obligations of \$35 million. Total net assets were valued at \$13.3 million at June 30, 2003.

Total assets increased \$15,938,820. The majority of the increase is related to the unspent proceeds from the issuance of bond anticipation notes in the amount of \$14,950,000.

Total liabilities increased \$16,799,526. Again, the majority of the increase is attributed to the liability when the District issued bond anticipation notes of \$14,950,000.

AVON LOCAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED

Table 2, the Statement of Activities, shows the change in net assets for fiscal year 2003.

Table 2
Change in Net Assets

	Amount	% of Total
Revenues:		
General revenues		
Property taxes levied for:		
General purpose	\$ 8,977,214	50.46%
Debt service	1,620,925	9.11%
Capital improvements	338,839	1.90%
Grants and entitlements not restricted to specific purposes	4,735,003	26.62%
Investment earnings	123,246	0.69%
Miscellaneous	228,695	1.29%
Total general revenues	16,023,922	90.07%
Total program revenues	1,766,282	9.93%
Total revenue	17,790,204	100.00%
Program expenses:		
Instruction		
Regular	8,219,225	44.07%
Special	1,326,513	7.11%
Vocational	145,857	0.78%
Other instruction	168,793	0.91%
Supporting services		
Pupil	846,713	4.54%
Instructional staff	532,245	2.85%
Board of education	130,641	0.70%
Administration	1,330,838	7.14%
Fiscal services	438,070	2.35%
Operation and maintenance	1,838,732	9.86%
Pupil transportation	906,122	4.86%
Central services	61,846	0.33%
Operation of non-instructional services		
Food service operation	596,215	3.20%
Enterprise operations	207,530	1.11%
Community services	308,712	1.66%
Extracurricular activities		
Academic and subject oriented	61,947	0.33%
Occupation oriented	659	0.00%
Sports oriented	429,240	2.30%
Co-curricular	26,834	0.14%
Interest	1,074,178	5.76%
Total program expenses	18,650,910	100.00%
Decrease in net assets	(860,706)	
Net assets beginning of year - restated	14,217,791	
Net assets end of year	\$ 13,357,085	

AVON LOCAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED

The vast majority of revenue supporting all Governmental Activities is general revenue. General revenue totaled \$ 16,023,922 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 \$1,766,282 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	\$ 8,219,225	\$ (8,086,062)
Special	1,326,513	(1,045,494)
Vocational	145,857	(145,857)
Other instruction	168,793	(46,028)
Supporting services		
Pupil	846,713	(630,365)
Instructional staff	532,245	(510,089)
Board of education	130,641	(130,641)
Administration	1,330,838	(1,245,052)
Fiscal services	438,070	(421,124)
Operation and maintenance	1,838,732	(1,838,732)
Pupil transportation	906,122	(906,122)
Central services	61,846	(61,846)
Operation of non-instructional services		
Food service operation	596,215	(133,057)
Enterprise operations	207,530	(61,828)
Community services	308,712	(258,222)
Extracurricular activities		
Academic and subject oriented	61,947	(49,182)
Occupation oriented	659	(659)
Sports oriented	429,240	(337,035)
Co-curricular	26,834	(15,461)
Interest	1,074,178	(961,772)
Totals	<u>\$ 18,650,910</u>	<u>\$ (16,884,628)</u>

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

The 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 FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED

The largest Governmental Activities program expense remains instruction, comprising \$9.8 million or 52.9 percent of expenses. When combined with supporting services of \$6.1 million, these categories make up 85.5 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.

School District's Funds

The General Fund assets increased by \$2 million due mainly to the passage of a \$1 million Emergency Levy in the fall of 2002. Liabilities increased by \$2.4 million with fund balance reserves decreasing by \$.5 million due to reserves for property taxes.

Significant changes in the Capital Projects Funds were caused by the District passing a \$ 2.5 million Bond Levy in May of 2003. This levy generated \$14,950,000 which the District borrowed using Bond Anticipation Notes, the total amount of \$14,950,000 was placed into the Building Fund, which shows a balance of \$15.1 million.

Information regarding the School District's major funds begins on page 13.

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 2003, the School District amended its General Fund budget several times. General Fund Revenues totaled \$716,915 more than the final budget estimates due mainly to the rapid increase in the student population (about 20% for FY03) as well as the growth of the commercial and industrial base in the City of Avon. 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 2003 balances compared to fiscal 2002:

Table 4
Capital Assets at June 30, 2003
Governmental Activities

	2003	2002
Land	\$ 2,690,786	\$ 2,690,786
Construction in process	-	6,403,131
Land Improvements	3,614,485	3,076,826
Buildings and improvements	20,655,067	13,879,363
Furniture and equipment	480,987	502,547
Vehicles	774,128	755,161
	\$ 28,215,453	\$ 27,307,814

AVON LOCAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED

At the end of fiscal 2003, the School District had \$28.2 million, net of depreciation, invested in land, land improvement, buildings and improvements, furniture and equipment and vehicles.

Debt

At June 30, 2003, the Avon Local Schools had \$17.5 million in bonds outstanding, a decrease of \$ 830,000 from fiscal year 2002. \$ 915,000 of the bonds is due within one year. The bonds were issued in 1996 (\$12 million) and 2000 (\$ 8 million) for improvements for the construction of the High School and the Heritage Elementary. The District passed a bond levy for \$14.9 million in May of 2003 which the District borrowed short term notes in anticipation of selling the bonds for long term debt. The main purpose of this levy is for constructing a new elementary school next to the Heritage Elementary, and adding an addition onto the East Elementary School. Both projects are to be completed in the fall of 2005.

As of June 30, 2003 the District had \$15,900,000 of Notes that were issued in 1999, 2001 and 2003, \$15,185,000 of the notes are due within one year.

Notes	<u>2003</u>	<u>2002</u>
Tax Anticipation Note (2001) 4.55% through 2005	\$ 300,000	\$ 400,000
Tax Anticipation Note (2001) 4.70% through 2005	200,000	300,000
Energy Conservation (1999) 5.2% through 2013	450,000	485,000
Bond anticipation notes (2003) 1.52% through 2003	14,950,000	-
Total Notes	<u>15,900,000</u>	<u>1,185,000</u>
 Bonds		
School Improvement (1996) 4.8% through 2001	10,415,000	10,920,000
School Improvement (2000) 5.32% through 2001	<u>7,140,000</u>	<u>7,465,000</u>
Total Bonds	<u>17,555,000</u>	<u>18,385,000</u>
 Total Debt	 <u><u>\$ 33,455,000</u></u>	 <u><u>\$ 19,570,000</u></u>

At June 30, 2003, the School District's overall legal debt margin was \$ 20,032,720 with an unvoted debt margin of \$ 41,764,133.

AVON LOCAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
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 (LERC) 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 co-op for its Health Insurance Program under the name of "4 Health Co-op". This Co-op consists of Avon Local School, Avon Lake City Schools, Westlake City Schools and Rocky River City School Districts. The purpose of the new Co-op 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 may 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. Craig A. Holcomb, Treasurer, can be contacted at the Avon Local School District, 3075 Stoney Ridge Road, Avon, Ohio 44011.

AVON LOCAL SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2003

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 21,230,497
Cash with fiscal agents	265,673
Accounts receivable	7,292
Due from other governments	64,168
Inventories and supplies	4,075
Taxes receivable	11,941,243
Capital assets	
Nondepreciable capital assets	2,690,786
Depreciable capital assets, net	25,524,667
Total assets	61,728,401
 Liabilities	
Accounts and contracts payable	355,690
Retainage payable	133,491
Accrued salaries and benefits	1,649,483
Claims payable	225,940
Interest payable	169,573
Due to other governments	376,196
Deferred revenue	10,496,308
Long term liabilities	
Due within one year	16,243,082
Due in more than one year	18,721,553
Total liabilities	48,371,316
 Net assets	
Invested in capital assets, net of related debt	9,710,453
Restricted for:	
Debt service	2,077,960
Capital projects	15,326,177
Other purposes	168,793
Unrestricted (deficit)	(13,926,298)
Total net assets	\$ 13,357,085

The accompanying notes are an integral part of the basic financial statements.

AVON LOCAL SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2003

	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	\$ 8,219,225	\$ -	\$ 111,972	\$ 21,191	\$ (8,086,062)
Special	1,326,513	-	281,019	-	(1,045,494)
Vocational	145,857	-	-	-	(145,857)
Other instruction	168,793	122,765	-	-	(46,028)
Supporting services					
Pupil	846,713	120,284	96,064	-	(630,365)
Instructional staff	532,245	-	22,156	-	(510,089)
Board of education	130,641	-	-	-	(130,641)
Administration	1,330,838	-	85,786	-	(1,245,052)
Fiscal services	438,070	-	-	16,946	(421,124)
Operation and maintenance	1,838,732	-	-	-	(1,838,732)
Pupil transportation	906,122	-	-	-	(906,122)
Central services	61,846	-	-	-	(61,846)
Operation of non-instructional services					
Food service operation	596,215	398,013	65,145	-	(133,057)
Enterprise operations	207,530	145,702	-	-	(61,828)
Community services	308,712	-	50,490	-	(258,222)
Extracurricular activities					
Academic and subject oriented	61,947	12,765	-	-	(49,182)
Occupation oriented	659	-	-	-	(659)
Sports oriented	429,240	79,092	13,113	-	(337,035)
Co-curricular	26,834	11,373	-	-	(15,461)
Interest	1,074,178	-	-	112,406	(961,772)
Totals	<u>\$ 18,650,910</u>	<u>\$ 889,994</u>	<u>\$ 725,745</u>	<u>\$ 150,543</u>	<u>\$ (16,884,628)</u>

General revenues

Property taxes levied for:

General purpose	8,977,214
Debt service	1,620,925
Capital improvements	338,839
Grants and entitlements not restricted to specific purposes	4,735,003
Investment earnings	123,246
Miscellaneous	228,695
Total general revenues	<u>16,023,922</u>

Change in net assets

Change in net assets	(860,706)
Net assets, beginning of year, as restated	14,217,791
Net assets, end of year	<u>\$ 13,357,085</u>

The accompanying notes are an integral part of the basic financial statements.

AVON LOCAL SCHOOL DISTRICT

BALANCE SHEET -
GOVERNMENTAL FUNDS

JUNE 30, 2003

	General Fund	Debt Service Fund	Building Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 3,310,349	\$ 1,880,516	\$ 15,292,268	\$ 675,934	\$ 21,159,067
Restricted cash	71,430	-	-	-	71,430
Receivables, net of allowance					
Taxes, current	9,970,018	1,486,482	-	369,028	11,825,528
Taxes, delinquent	98,155	13,980	-	3,580	115,715
Due from other governments	-	-	-	64,168	64,168
Interfund receivable	262,347	-	-	-	262,347
Inventories and supplies	-	-	-	4,075	4,075
Total assets and other debits	\$ 13,712,299	\$ 3,380,978	\$ 15,292,268	\$ 1,116,785	\$ 33,502,330
Liabilities and fund balances					
Liabilities					
Accounts and contracts payable	\$ 194,203	\$ -	\$ -	\$ 161,487	\$ 355,690
Retainage payable	-	-	133,491	-	133,491
Accrued salaries and benefits	1,591,096	-	-	58,387	1,649,483
Interest payable	1,942	-	-	-	1,942
Due to other governments	269,516	-	-	21,960	291,476
Interfund payable	-	-	-	255,055	255,055
Notes payable	500,000	-	-	-	500,000
Deferred revenue	8,959,063	1,316,998	-	335,962	10,612,023
Total liabilities	11,515,820	1,316,998	133,491	832,851	13,799,160
Fund balances					
Reserved for textbooks	71,430	-	-	-	71,430
Reserved for property taxes	1,109,110	183,464	-	36,646	1,329,220
Reserved for encumbrances	963,990	-	200,183	253,383	1,417,556
Unreserved, reported in					
General Fund	51,949	-	-	-	51,949
Special Revenue Funds	-	-	-	111,270	111,270
Debt Service Fund	-	1,880,516	-	-	1,880,516
Capital Projects Funds	-	-	14,958,594	(117,365)	14,841,229
Total fund balances	2,196,479	2,063,980	15,158,777	283,934	19,703,170
Total liabilities and fund balances	\$ 13,712,299	\$ 3,380,978	\$ 15,292,268	\$ 1,116,785	\$ 33,502,330

The accompanying notes are an integral part of the basic financial statements.

AVON LOCAL SCHOOL DISTRICT
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES -
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2003

Total governmental funds balances	\$	19,703,170
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.		28,215,453
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.		115,715
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.		39,733
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.		(84,720)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
Compensated absences		(1,508,160)
Bonds payable		(17,555,000)
Notes payable		(450,000)
Capital lease		(1,475)
Bond anticipation notes		(14,950,000)
Accrued interest payable		(167,631)
		(167,631)
Net assets of governmental activities	\$	13,357,085

The accompanying notes are an integral part of the basic financial statements.

AVON LOCAL SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2003

	General Fund	Debt Service Fund	Building Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes	\$ 8,956,808	\$ 1,624,199	\$ -	\$ 338,238	\$ 10,919,245
Tuition and fees	122,765	-	-	-	122,765
Interest	94,817	-	11,137	156	106,110
Intergovernmental	4,757,209	112,406	-	741,676	5,611,291
Charges for services	145,702	-	-	398,013	543,715
Extracurricular	-	-	-	223,514	223,514
Miscellaneous	149,541	-	-	79,154	228,695
Total revenues	14,226,842	1,736,605	11,137	1,780,751	17,755,335
Expenditures					
Current					
Instruction					
Regular	7,006,099	-	-	81,848	7,087,947
Special	1,123,385	-	-	143,317	1,266,702
Vocational	138,110	-	-	-	138,110
Other instruction	168,793	-	-	-	168,793
Supporting services					
Pupil	638,602	-	-	174,621	813,223
Instructional staff	421,688	-	-	39,812	461,500
Board of education	130,641	-	-	-	130,641
Administration	1,271,648	-	-	49,477	1,321,125
Fiscal services	411,918	12,572	-	2,255	426,745
Operation and maintenance	1,602,544	-	-	2,852	1,605,396
Pupil transportation	914,969	-	-	-	914,969
Central services	51,711	-	-	9,041	60,752
Operation of non-instructional services					
Food service operation	-	-	-	583,421	583,421
Community services	9,663	-	-	289,246	298,909
Enterprise operations	156,327	-	-	51,815	208,142
Extracurricular activities					
Academic and subject oriented	48,951	-	-	12,984	61,935
Occupation oriented	659	-	-	-	659
Sports oriented	291,831	-	-	78,940	370,771
Co-curricular	15,246	-	-	11,568	26,814
Capital outlay	587,989	-	863,507	399,010	1,850,506
Debt service					
Principal	8,798	865,000	-	-	873,798
Interest	27,214	1,052,644	-	-	1,079,858
Total expenditures	15,026,786	1,930,216	863,507	1,930,207	19,750,716
Excess (deficiency) of revenues over expenditures	(799,944)	(193,611)	(852,370)	(149,456)	(1,995,381)
Other financing sources (uses)					
Transfers-in	227,925	-	-	72,662	300,587
Transfers-out	(72,662)	(227,925)	-	-	(300,587)
Note proceeds	-	-	14,950,000	-	14,950,000
Total other financing sources (uses)	155,263	(227,925)	14,950,000	72,662	14,950,000
Net change in fund balances	(644,681)	(421,536)	14,097,630	(76,794)	12,954,619
Fund balances, beginning of year, as restated	2,841,160	2,485,516	1,061,147	360,728	6,748,551
Fund balances, end of year	\$ 2,196,479	\$ 2,063,980	\$ 15,158,777	\$ 283,934	\$ 19,703,170

The accompanying notes are an integral part of 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, 2003

Net change in fund balances - total governmental funds		\$ 12,954,619
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.</p>		
	Fixed asset additions	1,981,482
	Depreciation expense	<u>(1,073,843)</u>
		907,639
Other financing sources in the governmental funds increase long term liabilities in the statement of net assets.		(14,950,000)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
	Property taxes	<u>17,733</u>
		17,733
Repayment of note and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		873,798
In the statement of activities, interest is accrued on outstanding bonds, whereas in the governmental funds, an interest expenditure is reported when due.		5,680
<p>Some expenses reported in the statement of activities, such as compensated absences and intergovernmental payable which represents contractually required pension contributions, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p>		
	Compensated absences	(269,348)
	Pension obligations	<u>2,039</u>
		(267,309)
The internal service fund used by management to charge the costs of insurance to individual funds is not reported in district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.		<u>(402,866)</u>
Change in net assets of governmental activities		<u>\$ (860,706)</u>

The accompanying notes are an integral part of the basic financial statements.

AVON LOCAL SCHOOL DISTRICT

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

FOR THE YEAR ENDED JUNE 30, 2003

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
Revenues				
Taxes	\$ 7,678,555	\$ 8,599,833	\$ 9,185,979	\$ 586,146
Tuition and fees	52,679	59,000	122,765	63,765
Interest	134,824	151,000	94,817	(56,183)
Intergovernmental	4,242,930	4,752,000	4,757,209	5,209
Other	40,615	45,488	149,541	104,053
Total revenues	10,306,739	13,607,321	14,310,311	702,990
Expenditures				
Current				
Instruction				
Regular	6,125,478	6,972,490	6,988,106	(15,616)
Special	989,439	1,126,255	1,078,169	48,086
Vocational	123,604	140,696	136,566	4,130
Other instruction	160,283	182,446	169,337	13,109
Supporting services				
Pupil	584,733	665,588	622,719	42,869
Instructional staff	387,909	441,548	431,274	10,274
Board of education	112,461	128,012	130,923	(2,911)
Administration	1,175,410	1,337,942	1,302,466	35,476
Fiscal services	405,405	461,463	426,911	34,552
Operation and maintenance	1,812,334	2,062,938	2,037,796	25,142
Pupil transportation	905,241	1,030,415	1,057,144	(26,729)
Central services	52,480	59,737	52,424	7,313
Extracurricular activities				
Academic and subject oriented	43,772	49,825	49,063	762
Occupation oriented	615	700	706	(6)
Sports oriented	253,409	288,450	292,638	(4,188)
Co-curricular	17,439	19,850	18,730	1,120
Capital outlay	677,694	771,403	739,015	32,388
Total expenditures	13,827,707	15,739,758	15,533,987	205,771
Excess (deficiency) of revenues over expenditures	(3,520,968)	(2,132,437)	(1,223,676)	908,761
Other financing sources (uses)				
Advances-out	(57,104)	(65,000)	(62,347)	2,653
Transfers-out	(65,474)	(74,528)	(72,662)	1,866
Total other financing sources (uses)	(122,578)	(139,528)	(135,009)	4,519
Excess (deficiency) of revenues over expenditures and other sources (uses)	(3,643,546)	(2,271,965)	(1,358,685)	913,280
Fund balances, beginning of year	2,767,698	2,767,698	2,767,698	-
Prior year encumbrances	808,541	808,541	808,541	-
Fund balances, end of year	\$ (67,307)	\$ 1,304,274	\$ 2,217,554	\$ 913,280

The accompanying notes are an integral part of the basic financial statements.

AVON LOCAL SCHOOL DISTRICT
STATEMENT OF FUND NET ASSETS
INTERNAL SERVICE FUND

JUNE 30, 2003

	<u>Self Insurance</u>
Assets	
Cash with fiscal agent	<u>\$ 265,673</u>
Liabilities	
Claims payable	<u>225,940</u>
Net assets	
Unrestricted	<u><u>\$ 39,733</u></u>

The accompanying notes are an integral part of the basic financial statements.

AVON LOCAL SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
INTERNAL SERVICE FUND
FOR THE YEAR ENDED JUNE 30, 2003

	Self Insurance
Operating revenues	
Charges for services	\$ 910,069
Operating expenses	
Purchased services	72,946
Claims	1,085,062
Fringe benefits	172,063
Total operating expenses	1,330,071
Operating loss	(420,002)
Non operating revenue	
Interest	17,136
Change in net assets	(402,866)
Net assets, beginning of year, as restated	442,599
Net assets, end of year	\$ 39,733

The accompanying notes are an integral part of the basic financial statements.

AVON LOCAL SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUND
FOR THE YEAR ENDED JUNE 30, 2003

	Self Insurance
Cash flows from operating activities	
Cash received from interfund services	\$ 910,069
Cash payments for goods and services	(72,946)
Cash payments for claims	(1,171,178)
Net cash (used for) operating activities	(334,055)
Cash flows from investing activities	
Interest	17,136
Net (decrease) in cash and cash equivalents	(316,919)
Cash and cash equivalents, beginning of year	582,592
Cash and cash equivalents, end of year	\$ 265,673
Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	\$ (420,002)
Adjustments	
Increase in claims payable	85,947
Net cash used for operating activities	\$ (334,055)

The accompanying notes are an integral part of the basic financial statements.

AVON LOCAL SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

JUNE 30, 2003

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	\$ 27,473
Due from others	5,856
Total assets	<u>\$ 33,329</u>
Liabilities	
Accounts payable	\$ 132
Interfund payable	7,292
Due to students	25,905
Total liabilities	<u>\$ 33,329</u>

The accompanying notes are an integral part of the basic financial statements.

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AVON LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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, 2002 was 2,424. The District employs 165 certificated and 85 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 provide 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 is considered to be jointly governed organizations. These organizations and their relationships with the District are described in more detail in Notes 11 and 21 to these financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of 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 fund provided they do not conflict with or contradict GASB pronouncements. 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, 2003
(CONTINUED)

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. The internal service fund is presented in a single column on the face of the proprietary fund statements. 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 are the District's major governmental funds:

AVON LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(CONTINUED)

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 to be used for the acquisition or construction of major capital facilities.

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 funds accounts for student activities and a 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, 2003
(CONTINUED)

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 the fiduciary fund also use the accrual basis of accounting. Differences in the accrual and modified accrual bases of accounting arise in the recognition of revenue, the recording of deferred 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 7). Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

Deferred 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, 2003, but which were levied to finance fiscal year 2004 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, 2003
(CONTINUED)

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 for all funds.

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 (STAR Ohio) or other short term investments. Following Ohio statutes, the Board of Education has specified the allocation of interest earnings to funds based on average monthly cash balances. Interest income earned for the year ended June 30, 2003 totaled \$ 123,246.

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, 2003
 (CONTINUED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. CASH AND INVESTMENTS (continued)

STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2003.

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 purchased.

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 to create a reserve for textbooks.

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 fixed 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, 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:

<u>Description</u>	<u>Estimated Lives</u>
Land improvements	20 years
Buildings and Improvements	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, 2003
(CONTINUED)

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 receivables/payables". 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. 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, 2003
(CONTINUED)

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, textbooks, 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.

AVON LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(CONTINUED)

NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE

A. CHANGES IN ACCOUNTING PRINCIPLES

For fiscal year 2003, the District has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments"; GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 41, "Budgetary Comparison Schedules-Perspective Differences," and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". At June 30, 2003, there was no effect on fund balance as a result of implementing GASB Statements 37 and 38 and GASB Interpretation No. 6.

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the school district not being able to present budgetary comparisons for the General Fund and each major special revenue fund. The implementation of Statement No. 41 did not effect the presentation of the budgetary statements of the District.

GASB Statement No. 34 creates new basic financial statements for reporting on the District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements split the District's programs between governmental and business-type activities. Except for the restatement explained below, the beginning net asset amount for the business-type activities equals fund equity of the enterprise funds from last year. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2002, caused by the elimination of the internal service fund, reclassification of funds based on guidance provided in GASB Statement No. 34 and the conversion to the accrual basis of accounting.

It was determined that two enterprise funds and a certain trust fund should be reclassified to special revenue funds and that the self-insurance program should be accounted for as an internal service fund. A third enterprise fund is now accounted for in the general fund.

B. RESTATEMENT OF FUND BALANCE

The threshold amount determined to track capital assets has been increased to \$ 5,000. This change caused a decrease in capital assets by \$ 4,843,122, from \$ 32,150,936 to \$ 27,307,804 after the recognition of depreciation.

In addition, the net assets of the Internal Service Fund as of June 30, 2002, have been restated to properly account for the District's medical insurance program. The Internal Service Fund has been restated to \$ 442,599 due to the fund previously being part of the General Fund. See note 11 for additional information regarding this matter.

AVON LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(CONTINUED)

NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE (continues)

B. RESTATEMENT OF FUND BALANCE (continued)

The restatements for GASB Statement No. 34 had the following effects on fund balance of the major and nonmajor funds of the District as they were previously reported. The transition from governmental fund balance to net assets of the governmental activities is also presented.

	General Fund	Debt Service Fund	Building Fund	Other Governmental Funds	Total
Fund balances, June 30, 2002	\$ 2,842,901	\$ 2,508,055	\$ 1,061,147	\$ 568,381	\$ 6,980,484
Fund reclassifications	71,015	-	-	(71,015)	-
Fixed assets, net	-	-	-	(141,486)	(141,486)
Deferred revenue	(66,321)	(22,539)	-	(7,644)	(96,504)
Accrued expenses	(6,435)	-	-	12,492	6,057
Restated fund balances, June 30, 2002	<u>\$ 2,841,160</u>	<u>\$ 2,485,516</u>	<u>\$ 1,061,147</u>	<u>\$ 360,728</u>	<u>\$ 6,748,551</u>
GASB 34 adjustments					
Capital assets					27,307,814
Internal Service Fund					442,599
Long term assets					97,982
Long term liabilities					(20,379,155)
Governmental activities net assets, June 30, 2002					<u>\$ 14,217,791</u>
		Business-type Activities			
Net assets, June 30, 2002		<u>\$ 253,804</u>			
Fund reclassification		(253,804)			
Restated net assets, June 30, 2002		<u>\$ -</u>			

NOTE 4 – DEFICIT FUND EQUITY

At June 30, 2003, the Title I and Trust Special Revenue Funds had deficit fund balances of \$ 10,871 and \$ 250, respectively. 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, 2003
(CONTINUED)

NOTE 5 - 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 Balances - 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

	<u>General Fund</u>
Budget basis	\$ (1,358,685)
Net Adjustments for Revenue Accruals	(83,469)
Net Adjustments for Expenditure Accruals	(580,924)
Net Adjustment for Other Sources	290,272
Net Adjustments for Encumbrances	<u>1,088,125</u>
GAAP Basis	\$ <u>(644,681)</u>

NOTE 6 - 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, 2003
(CONTINUED)

NOTE 6 - 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, 2003
 (CONTINUED)

NOTE 6 - 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 "Cash and Cash Equivalents".

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 \$ 17,614,949 and the bank balance was \$ 17,379,400. Of the bank balance, \$200,000 was covered by federal depository insurance and \$17,179,400 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 District's 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 STAR Ohio, the State Treasurer's Investment Pool, is not classified by 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	\$ 3,908,694	\$ 3,908,694

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 equivalents and investments on the combined financial statements and the classification of deposits and investments according to GASB Statement No. 3 is as follows:

AVON LOCAL SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003
 (CONTINUED)

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

	Cash and Cash Equivalents	Investments
GASB Statement No. 9	\$ 21,523,643	\$ -
Investment in State Treasurer's investment Pool	(3,908,694)	3,908,694
GASB Statement 3	\$ 17,614,949	\$ 3,908,694

NOTE 7 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the school district. Real property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Real property taxes received in calendar year 2003 were levied after April 1, 2002, on the assessed value listed as of January 1, 2002, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Public utility real and tangible personal property taxes received in calendar year 2003 became a lien December 31, 2001, were levied after April 1, 2002 and are collected in 2003 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2003 (other than public utility property) represents the collection of 2003 taxes. Tangible personal property taxes received in calendar year 2003 were levied after April 1, 2002, on the value as of December 31, 2002. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Lorain County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2003, are available to finance fiscal year 2003 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2003 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

AVON LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(CONTINUED)

NOTE 7 - PROPERTY TAXES (continued)

The amount available as an advance at June 30, 2003 was \$1,109,110 in the General Fund, \$183,464 in the Debt Service Fund, and \$36,646 in the Other Governmental Funds. The amount available as an advance at June 30, 2002, was \$1,419,127 in the General Fund, \$349,564 in the Debt Service Fund, and \$52,431 in the Capital Projects Fund.

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

The assessed values upon which the fiscal year 2003 taxes were collected are:

	2002 Second Half Collections		2003 First Half Collections	
	Amount	%	Amount	%
Agricultural Residential				
Real Estate	\$ 272,215,560	74.33%	\$ 305,013,530	73.03%
Other Commerical	61,773,470	16.87%	76,128,920	18.23%
Public Utility Tangible	11,268,630	3.08%	10,655,040	2.55%
Tangible Personal Property	20,953,670	5.72%	25,843,840	6.19%
	<u>\$ 366,211,330</u>	<u>100.00%</u>	<u>\$ 417,641,330</u>	<u>100.00%</u>
 Tax Rate Per \$ 1,000 of Assessed Value	 <u>47.46</u>		 <u>50.54</u>	

NOTE 8 - RECEIVABLES

Receivables at June 30, 2003, 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 of due from other governments follows:

	Amount
Governmental Activities	
Non-Major Funds:	
Food Service	\$ 9,363
Title VI-B	25,152
Title I	18,759
Drug Free Schools	885
Title VI-R	10,009
Total Due From Other Governments	<u>\$ 64,168</u>

AVON LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(CONTINUED)

NOTE 9 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

	Balance July 1, 2002	Additions	Deletions	Balance June 30, 2003
Nondepreciable fixed assets				
Land	\$ 2,690,786	\$ -	\$ -	\$ 2,690,786
Construction in process	6,403,131	-	(6,403,131)	-
Total nondepreciable assets	<u>9,093,917</u>	<u>-</u>	<u>(6,403,131)</u>	<u>2,690,786</u>
Depreciable fixed assets				
Land improvements	3,686,111	672,533	-	4,358,644
Buildings and improvements	18,214,879	7,581,321	-	25,796,200
Furniture and equipment	774,462	20,363	-	794,825
Vehicles	1,224,311	110,396	-	1,334,707
Total historical cost	<u>23,899,763</u>	<u>8,384,613</u>	<u>-</u>	<u>32,284,376</u>
Less accumulated depreciation				
Land improvements	(609,285)	(134,874)	-	(744,159)
Buildings and improvements	(4,335,516)	(805,617)	-	(5,141,133)
Furniture and equipment	(271,915)	(41,923)	-	(313,838)
Vehicles	(469,150)	(91,429)	-	(560,579)
Total accumulated depreciation	<u>(5,685,866)</u>	<u>(1,073,843)</u>	<u>-</u>	<u>(6,759,709)</u>
Depreciable net assets, net of accumulated depreciation	<u>18,213,897</u>	<u>7,310,770</u>	<u>-</u>	<u>25,524,667</u>
Governmental activities capital assets, net	<u>\$ 27,307,814</u>	<u>\$ 7,310,770</u>	<u>\$ (6,403,131)</u>	<u>\$ 28,215,453</u>

Depreciation expense was charged to governmental functions as follows:

Instruction	
Regular	\$ 930,945
Support services	
Instructional staff	16,479
Administration	1,960
Operation and maintenance	1,785
Pupil transportation	94,669
Central	1,265
Extracurricular activities	16,938
Food service operations	9,802
Total depreciation expense	<u>\$ 1,073,843</u>

AVON LOCAL SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003
 (CONTINUED)

NOTE 10 - INTERFUND ACTIVITY

A. INTERFUND RECEIVABLES AND PAYABLES

On the fund financial statements at June 30, 2003, interfund balances consisted of the following:

	Receivable	Payable
General Fund	\$ 262,347	-
Special Revenue		
Trust Fund	-	250
Idea Part-B Fund	-	25,152
Title II Fund	-	18,759
Drug Free Schools Fund	-	885
Title I Fund	-	10,009
Capital Projects Fund	-	200,000
Agency Fund		
High School Activity Fund	-	7,292
Total	\$ 262,347	\$ 262,347

These amounts are represented as "Interfund Receivable/Payable" on the balance sheet. The loans were made to support programs and projects in the Special Revenue and Agency Funds.

B. INTERFUND TRANSFERS

The General Fund transferred \$60,000 to the Food Service Fund, \$11,936 to the Heritage School Principal's Fund, \$254 to the IVDL Grant Fund, and \$472 to the Safe and Drug Free Schools Grant Fund to provide for the payment of expenditures.

NOTE 11 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During fiscal year 2003, 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 maintained for the superintendent by the 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 dishonesty 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 districts 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, 2003
 (CONTINUED)

NOTE 11 - 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 selection 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 has contracted with Lake Erie Regional Employee Protection Plan (LEEP) to provide medical/surgical and dental benefits for its employees and their dependents. The LEEP is a shared risk pool comprised of thirteen school districts that provide public education within Lorain County.

The Districts pay monthly contributions that are placed in a common fund from which eligible claims and expenses are paid for the employees of participating school districts and their covered dependents. Claims are paid for all participants regardless of claims flow. This plan contains a stop-loss provision of \$ 165,000 per participant.

Premium contributions are determined annually based on the claims experience of the individual districts. Premiums can be increased or decreased by up to 25% of the prior year's contribution. Member districts may become liable for additional contributions to fund the liability of the pool. In the event of termination, all participating district's claims would be paid without regard to their individual account balances. The LEEP Board of Directors has authority to return monies to an exiting district subsequent to the settlement of all claims and expenses. This plan provides medical/surgical and dental plan with a \$ 100 deductible for family coverage and \$ 50 deductible for single coverage.

The claim liability of \$ 225,940 reported at June 30, 2003, was estimated by LERC and is based on their 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 the balances of claims liability during the year ended June 30, 2003 are summarized below. Changes in balances of claims liability during the year ended June 30, 2002 are not available due to this fund previously being part of the General Fund. Incurred claims and claims payments are not segregated between current and prior years claims due to the impracticability of obtaining such information.

	June 30, 2003
Unpaid claims, beginning of year	\$ 311,887
Incurred claims	1,085,231
Claims payment	(1,171,178)
Unpaid claims, end of year	\$ 225,940

AVON LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(CONTINUED)

NOTE 12 - 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 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 43215-3476 or by calling (614) 222-5853.

Plan members are required to contribute 9 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. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17 percent of annual covered salary was used to fund pension obligations. For fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. 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, 2003, 2002, and 2001 were \$ 261,463, \$ 216,700, and \$ 201,100, respectively. The full amount has been contributed for 2002 and 2001. For 2003, \$ 78,195 (30%) has been contributed with the remainder being reflected as an intergovernmental payable.

B. STATE TEACHERS RETIREMENT SYSTEM (STRS)

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 – Effective July 1, 2002, two new plan options were offered to selected members. 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.

Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one-time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001.

AVON LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(CONTINUED)

NOTE 12 - DEFINED BENEFIT PENSION PLANS (continued)

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

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.

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 nine 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.

AVON LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(CONTINUED)

NOTE 12 - DEFINED BENEFIT PENSION PLANS (continued)

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

Prior to February 1, 2002, benefits were increased annually by the greater of the amount of the change in the Consumer Price Index (CPI) or the cumulative CPI increase since retirement, less previous cost-of-living increases, up to a maximum of 3% of the original base benefit. Effective February 1, 2002, benefits are increased annually by 3% of the original base amount, regardless of the change in the CPI.

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.

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.

Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2003 were 9.3% of covered payroll for members and 14% for employers; 13 percent was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5 percent. The District's contribution to STRS for the years ended June 30, 2003, 2002, and 2001 were \$ 1,018,008, \$ 853,900, and \$ 728,800, respectively. The full amount has been contributed for 2002 and 2001. For 2003, \$ 868,572 (85%) has been contributed with the remainder being reported as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal year 2003 were \$9,149 made by the District and \$ 19,713 made by plan members.

STRS Ohio issues a stand-alone financial report. Copies of STRS Ohio's 2002 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 13 - 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. Members retiring on or after August 1, 1989 with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service, up to a maximum of 75% of the premium.

AVON LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(CONTINUED)

NOTE 13 - POSTEMPLOYMENT BENEFITS (continued)

A. SCHOOL EMPLOYEES RETIREMENT SYSTEM (continued)

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. At June 30, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll, a decrease of 2.71 percent from fiscal year 2002. 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 2003, the minimum pay has been established as \$ 14,500. 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.

The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2002 (the latest information available) were \$ 182,946,777 and the target level was \$ 274.4 million. At June 30, 2002, the Retirement System's net assets available for payment of health care benefits were \$ 335.2 million.

The number of benefit recipients receiving health care benefits is approximately 50,000. The portion of the District's contributions that were used to fund postemployment benefits amounted to \$ 185,888.

B. STATE TEACHERS RETIREMENT SYSTEM

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, the State Teachers Retirement Board (the 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. For the District, this amount equaled \$78,308 for fiscal year 2003.

The Retirement Board allocates employer contributions to the Health Care Reserve Fund from which health care benefits are paid. For the fiscal year ended June 30, 2002 (the latest information available), the board allocated employer contributions equal to 4.5% of covered payroll to the Health Care Reserve Fund. Effective, July 1, 2002, 1% of covered payroll will be allocated to the fund. The balance in the Health Care Stabilization Fund was \$ 3.011 billion on June 30, 2002.

For the year ended June 30, 2002, net health care costs paid by STRS Ohio were \$ 354,697,000. There were 105,300 eligible benefit recipients.

AVON LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(CONTINUED)

NOTE 14 – NOTES PAYABLE

Notes payable at June 30, 2003 consisted of the following:

	Outstanding June 30, 2002	Additions	Deductions	Outstanding June 30, 2003
Tax anticipation note (2001) 4.55% through 2005	\$ 400,000	\$ -	\$ 100,000	\$ 300,000
Tax anticipation note (2001) 4.70% through 2004	300,000	-	100,000	200,000
Energy conservation, (1999) 5.20% through 2013	485,000	-	35,000	450,000
Bond anticipation note (2003) 1.52% through 2003	-	14,950,000	-	14,950,000
	<u>\$ 1,185,000</u>	<u>\$ 14,950,000</u>	<u>\$ 235,000</u>	<u>\$ 15,900,000</u>

NOTE 15 – BONDS PAYABLE

Bonds payables at June 30, 2003 consisted of the following:

	Outstanding June 30, 2002	Additions	Deductions	Outstanding June 30, 2003
General obligation bonds				
School improvement, (1996) 4.80% through 2001	\$ 10,920,000	\$ -	\$ 505,000	\$ 10,415,000
School improvement, (2000) 5.32% through 2019	7,465,000	-	325,000	7,140,000
	<u>\$ 18,385,000</u>	<u>\$ -</u>	<u>\$ 830,000</u>	<u>\$ 17,555,000</u>

NOTE 16 - LONG-TERM OBLIGATIONS

Changes in the District's long-term obligations during fiscal year 2003 were as follows:

	Outstanding June 30, 2002	Additions	Deductions	Outstanding June 30, 2003	Amounts Due In One Year
Compensated absences	\$ 1,219,156	\$ 289,004	\$ -	\$ 1,508,160	\$ 141,607
Bonds payable	18,385,000	-	830,000	17,555,000	915,000
Notes payable	1,185,000	-	235,000	950,000	235,000
Capital lease	10,273	-	8,798	1,475	1,475
Bond anticipation notes	-	14,950,000	-	14,950,000	14,950,000
	<u>\$ 20,799,429</u>	<u>\$ 15,239,004</u>	<u>\$ 1,073,798</u>	<u>\$ 34,964,635</u>	<u>\$ 16,243,082</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.

AVON LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(CONTINUED)

NOTE 17 – DEBT SERVICE REQUIREMENTS

Debt service requirements, including principal and interest, to retire notes and bonds payable at June 30, 2003, consisted of:

Year ending June 30,	Principal	Interest	Total
2004	\$ 16,100,000	1,024,412	\$ 17,124,412
2005	1,315,000	961,424	2,276,424
2006	1,300,000	893,783	2,193,783
2007	405,000	849,588	1,254,588
2008	575,000	824,537	1,399,537
2009 - 2013	4,120,000	3,510,275	7,630,275
2014 - 2018	5,805,000	2,008,311	7,813,311
2019 - 2021	3,835,000	322,301	4,157,301
	<u>\$ 33,455,000</u>	<u>\$10,394,631</u>	<u>\$ 43,849,631</u>

NOTE 18 – CAPITAL LEASES

The district has entered into a lease agreement for financing copiers. This lease qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of its future minimum lease payments as of June 30, 2003. The assets acquired through this capital lease are as follows:

Assets	Cost	Accumulated Depreciation	Net
Copiers	<u>\$ 44,295</u>	<u>\$ 42,818</u>	<u>\$ 1,477</u>

The following is a schedule of future minimum payments for the capital leases with the net present value of the minimum lease payments as of June 30, 2003.

	Year ending June 30,	Amount
	2004	\$ 1,477
Less amount representing interest		(2)
Net present value of minimum lease payments		<u>\$ 1,475</u>

AVON LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(CONTINUED)

NOTE 19 – OPERATING LEASE

The District is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or leases obligations. During 2003, expenditures for operating leases totaled \$ 3,827.

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, 2003.

	Year ending June 30,	Amount
	2004	\$ 45,924
	2005	45,924
	2006	42,097
Total minimum lease payments		\$ 133,945

NOTE 20 - 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. In addition, the District has set aside money for budget stabilization.

The following cash basis information identifies the changes in the fund balance reserves for textbooks, capital improvements, and budget stabilization during fiscal year 2003.

	Textbook	Capital Maintenance	Budget Stabilization
Balance, July 1, 2002	\$ (12,037)	\$ -	\$ 42,840
Required set aside	255,835	255,835	0
Qualifying expenditures	(172,368)	(255,835)	(42,840)
Balance, June 30, 2003	\$ 71,430	\$ 0	\$ 0

Expenditures and offset credits for textbooks during the year were \$ 172,368, which did not meet the required set-aside. The remaining balance of \$ 71,430 will be carried forward to next year.

AVON LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(CONTINUED)

NOTE 21- 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, 2003, the District paid \$ 200,270 to LEECA.

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 provide for the vocational and special 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 finance related activities. Avon Local School District students may attend the vocational school. Each school district's control is limited to its representation on the Board. Financial information can be obtained by contacting the Lorain County Joint Vocational School District, 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 for 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, 2003, the District paid approximately \$ 932,729 to LERC.

AVON LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(CONTINUED)

NOTE 21 - JOINTLY GOVERNED ORGANIZATIONS (continued)

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 year. The degree of control exercised by any school district is limited to its representation on the Board. In fiscal year 2003 the District paid \$ 268 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 pre-purchase 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.

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 22 - 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.

AVON LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(CONTINUED)

NOTE 23 - 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 are subject to audit by the grantor agencies.

Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2003.

NOTE 24- SUBSEQUENT EVENTS

On December 31, 2003, the District terminated its contract with The Lake Erie Regional Employee Protection Plan (LEEP) for medical/surgical and dental benefits for its employees and their families.

On January 1, 2004, the District joined the 4 Health Co-op with three other local school districts. All claims made through this self insurance program will be processed by a third party, Bridge Benefits Inc.

LERC will process all claims that occurred by December 31, 2003. The District will be responsible for these amounts.

In September of 2003, the District obtained General Obligation School Improvement Bonds, Series 2003 in the amount of \$ 14,950,000. These bonds were issued for the purpose of various capital projects for the District's buildings and facilities. The principal of the bonds were used to retire the outstanding bond anticipation notes in the amount of \$ 14,950,000, which matured on December 18, 2003.

On November 4, 2003, voters approved a 1.25 mill five-year operating levy. This levy will generate \$ 525,000 in revenue for each of the next five years. Collections on this levy began in January 2004.

**AVON LOCAL SCHOOL DISTRICT
LORAIN COUNTY
SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003**

Federal Grantor		Pass-through				
Pass-through Grantor		Grantor Awarding			Non-Cash	Non-Cash
<u>Federal Program</u>	<u>CFDA #</u>	<u>Number</u>	<u>Receipts</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Expenditures</u>
United States Department Of Education						
Passed-through Ohio Department of Education						
Special Education Cluster:						
Special Education - Grants to States	84.027	48116 6B-SF	\$ 160,440		\$ 187,606	
Title 1 Grants to Local Educational Agencies	84.010	48116 C1-S1	63,982		83,113	
Innovative Education Program Strategies	84.298	48116 C2-S1	12,735		5,664	
Assistive Technology Infusion Grants	84.352A	48116 AT-S1	300		-	
Title VI-R Class Size Reduction Subsidy	84.340	48116 CR-S1	10,567		10,567	
Technology Literacy Quality State Grants	84.318	48116 AT-S1	1,911		435	
Eisenhower Professional Development State Grant	84.281	48116 MS-S1	-		486	
Improving Teacher Quality State Grants	84.367	48116 TR-S1	31,379		36,040	
Safe and Drug-Free Schools and Communities- State Grants	84.186	48116 DR-S1	<u>9,607</u>		<u>10,980</u>	
Total United States Department of Education			<u>290,921</u>		<u>334,891</u>	
United States Department Of Agriculture						
Passed-through Ohio Department of Education						
Child Nutrition Cluster:						
National School Lunch Program	10.555	48116 LL-P4	<u>64,335</u>		<u>64,335</u>	
Food Distribution Program	10.550	48116 04-PU		\$ 11,123		\$ 11,123
Total Nutrition Cluster/Total United States Department of Agriculture			<u>64,335</u>	<u>11,123</u>	<u>64,335</u>	<u>11,123</u>
Total Federal Financial Assistance			<u>\$ 355,256</u>	<u>\$ 11,123</u>	<u>\$ 399,226</u>	<u>\$ 11,123</u>

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

**AVON LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures and Receipts (Schedule) summarizes activity of the District's federal award programs. The Schedule has been prepared on the cash basis of accounting. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B – CHILD NUTRITION CLUSTER

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This nonmonetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.

NOTE C – DISCONTINUED PROGRAMS

During fiscal year 2003, the Class Size Reduction Subsidy (CFDA# 84.340) and the Eisenhower Professional Development State Grant (CFDA# 84.281) were discontinued with the program purpose continued under the Improving Teacher Quality State Grant (CFDA# 84.367).

N/A – Not Applicable

CFDA – Catalog of Federal Domestic Assistance



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS

Board of Education
Avon Local School District
Lorain County
3075 Stoney Ridge Road
Avon, Ohio 44011

We have audited the financial statements of the Avon Local School District, Lorain County, Ohio, (the District) as of and for the year ended June 30, 2003, and have issued our report thereon dated April 5, 2004, wherein we noted the District changed the capitalization threshold for capital assets and adopted Government Accounting Standards Board Statement No. 34. 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.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated April 5, 2004.

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 opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated April 5, 2004.

Avon Local School District
Lorain County
Independent Accountants' Report on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

This report is intended for the information and use of management, the Board of Education, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

April 5, 2004



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Education
Avon Local School District
Lorain County
3075 Stoney Ridge Road
Avon, Ohio 44011

Compliance

We have audited the compliance of the Avon Local School District, Lorain County, Ohio, (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Avon Local School District
Lorain County
Independent Accountants' Report on Compliance with Requirements
Applicable to Each Major Federal Program and Internal Control Over
Compliance in Accordance With OMB Circular A-133
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Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a 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 noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over compliance that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated April 5, 2004.

This report is intended for the information and use of management, the Board of Education, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

April 5, 2004

**AVON LOCAL SCHOOL DISTRICT
LORAIN COUNTY
JUNE 30, 2003**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Was there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Was there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Title 1 Grants to Local Educational Agencies – CFDA# 84.010 Special Education Cluster: Special Education Grants to States – CFDA# 84.027
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

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**Auditor of State
Betty Montgomery**

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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 27, 2004**