

Avon Local School District

Lorain County

Single Audit

Fiscal Year Audited Under GAGAS: 2006

BALESTRA, HARR & SCHERER, CPAs, INC.
528 South West Street, P.O. Box 687
Piketon, Ohio 45661

Telephone (740) 289-4131
Fax (740) 289-3639
www.bhspcpas.com



Mary Taylor, CPA
Auditor of State

Board of Education
Avon Local School District
35573 Detroit Road
Avon, Ohio 44011

We have reviewed the *Independent Auditor's Report* of the Avon Local School District, Lorain County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2005 through June 30, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

March 14, 2007

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Avon Local School District
Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

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Fax (740) 289-3639
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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

Independent Auditor's Report

Members of the Board
Avon Local School District
35573 Detroit Road
Avon, Ohio 44011

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Avon Local School District (the District), Lorain County, as of and for the year ended June 30, 2006, 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 an opinion 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparisons for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2006 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 11 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The schedule of federal awards receipts and expenditures is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of federal awards receipts and expenditures has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 23, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 42, "*Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*" and GASB Statement No. 46, "*Net Assets Restricted by Enabling Legislation*", and GASB Statement No. 47, "*Accounting for Termination Benefits*".

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in dark ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.

November 17, 2006

Avon Local School District

Management's Discussion and Analysis For the Year Ended June 30, 2006 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, 2006. 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 2006 are as follows:

- Total assets increased \$5,946,709 in governmental activities.
- Total revenues in governmental activities were \$ 27.8 million. General revenues accounted for \$ 25.3 million in revenue or 91.0 percent of all revenues for governmental activities. Program-specific revenues in the form of charges for services, sales, operating grants, interest and contributions accounted for \$ 2.5 million or 9.0 percent of total revenues.
- Total program expenses were \$ 23.2 million in governmental activities. Instructional expenses made up \$12.2 million or 52.6 percent of this total while support services accounted for 7.7 million or 33.2 percent.
- Total outstanding debt decreased by \$ 1,525,000 to a total of \$ 29,410,000.

Using this Annual Financial Report

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

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

Reporting the School District as a Whole

Statement of Net 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 2006 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.

Avon Local School District

Management's Discussion and Analysis
For the Year Ended June 30, 2006
Unaudited

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

Reporting the School District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

Avon Local School District

Management's Discussion and Analysis
For the Year Ended June 30, 2006
Unaudited

The School District as a Whole

You may recall 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 2006 compared to 2005:

Table 1
Net Assets

	Governmental Activities	
	2006	2005
Assets		
Current Assets	\$27,445,576	\$24,383,723
Capital Assets, net	40,400,608	37,515,752
Total Assets	67,846,184	61,899,475
Liabilities		
Other Liabilities	20,036,652	17,083,371
Long-term Liabilities	31,717,009	33,255,250
Total Liabilities	51,753,661	50,338,621
Net Assets		
Invested in Capital Assets, Net of Debt	10,791,629	6,102,443
Restricted	3,584,549	4,115,854
Unrestricted	1,716,345	1,342,557
Total Net Assets	\$16,092,523	\$11,560,854

At June 30, 2006, assets show cash of \$ 5.9 million, taxes receivable of \$ 21.4 million, capital assets of \$ 40.4 million and other assets of 0.2 million. Liabilities show accrued salaries of \$ 2.0 million, long term debt of \$ 30.7 million and 19.1 in other liabilities. Total net assets were valued at \$ 16.1 million at June 30, 2006.

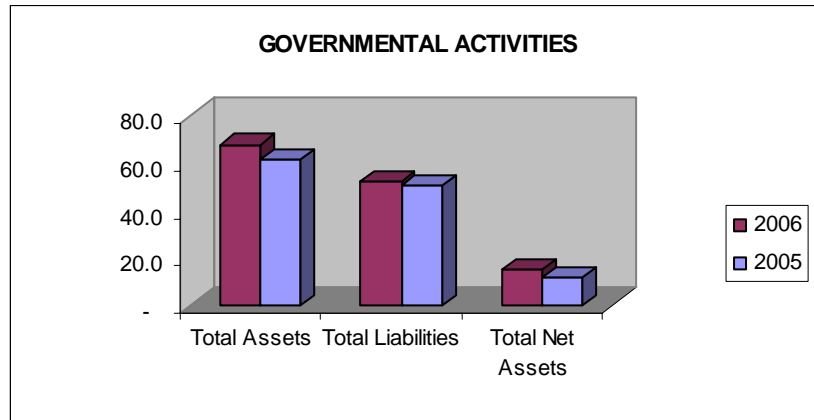


Table 2, the Statement of Activities, shows the change in net assets for fiscal year 2006. A comparative analysis of government-wide data is presented.

Avon Local School District

Management's Discussion and Analysis
For the Year Ended June 30, 2006
Unaudited

Table 2
Changes in Net Assets

	<u>2006</u> Amount	% of Total	<u>2005</u> Amount	% of Total
Revenues				
General Revenues				
Property Taxes Levies for:				
General Purpose	\$ 15,369,214	55.33%	\$ 14,884,252	56.88%
Debt Service	2,779,435	10.01%	2,577,743	9.85%
Capital Improvements	657,475	2.37%	632,308	2.42%
Unrestricted Grants	5,973,155	21.50%	5,252,584	20.07%
Investment Earnings	308,216	1.11%	221,280	0.85%
Miscellaneous	195,988	0.71%	301,807	1.15%
Total General Revenues	<u>25,283,483</u>	<u>91.02%</u>	<u>23,869,974</u>	<u>91.22%</u>
Total Program Revenues	<u>2,494,700</u>	<u>8.98%</u>	<u>2,298,013</u>	<u>8.78%</u>
Total Revenues	<u>27,778,183</u>	<u>100.00%</u>	<u>26,167,987</u>	<u>100.00%</u>
Program Expenses				
Instruction:				
Regular	10,064,225	43.29%	13,956,304	52.23%
Special	1,412,824	6.08%	1,266,201	4.74%
Vocational	121,653	0.52%	70,637	0.26%
Other	599,710	2.58%	463,497	1.73%
Support Services:				
Pupils	942,733	4.06%	895,055	3.35%
Instructional Staff	971,177	4.18%	958,752	3.59%
Board of Education	209,083	0.90%	154,515	0.58%
Administration	1,939,194	8.34%	1,927,392	7.21%
Fiscal	605,487	2.60%	524,735	1.96%
Business	32,701	0.14%	32,581	0.12%
Operation and Maintenance of Plant	1,494,150	6.43%	1,874,545	7.01%
Pupil Transportation	1,362,072	5.86%	1,401,484	5.24%
Central	138,137	0.59%	178,740	0.67%
Operation of Non-Instructional Services				
Food Service Operation	645,787	2.78%	558,396	2.09%
Latchkey Operations	82,427	0.35%	65,611	0.25%
Community Services	445,107	1.91%	413,546	1.55%
Extracurricular Activities				
Academic and Subject Oriented	51,007	0.22%	44,283	0.17%
Sports Oriented	597,025	2.57%	493,580	1.85%
Co-curricular	25,108	0.11%	27,851	0.10%
Interest	1,506,907	6.48%	1,415,293	5.30%
Total Program Expenses	<u>23,246,514</u>	<u>100.00%</u>	<u>26,722,998</u>	<u>100.00%</u>
Increase(Decrease) in Net Assets	4,531,669		(555,011)	
Net Assets, Beginning of Year	<u>11,560,854</u>		<u>12,115,865</u>	
Net Assets, End of Year	<u>\$ 16,092,523</u>		<u>\$ 11,560,854</u>	

Avon Local School District

Management's Discussion and Analysis
For the Year Ended June 30, 2006
Unaudited

The vast majority of revenue supporting all Governmental Activities is general revenue. General revenue totaled \$ 25,283,483 or 91.0 percent of total revenue. The most significant portion of the general revenue is local property tax. The remaining amount of revenue received was in the form of program revenues, which equated to \$ 2,494,700 or only 9.0 percent of total revenue.

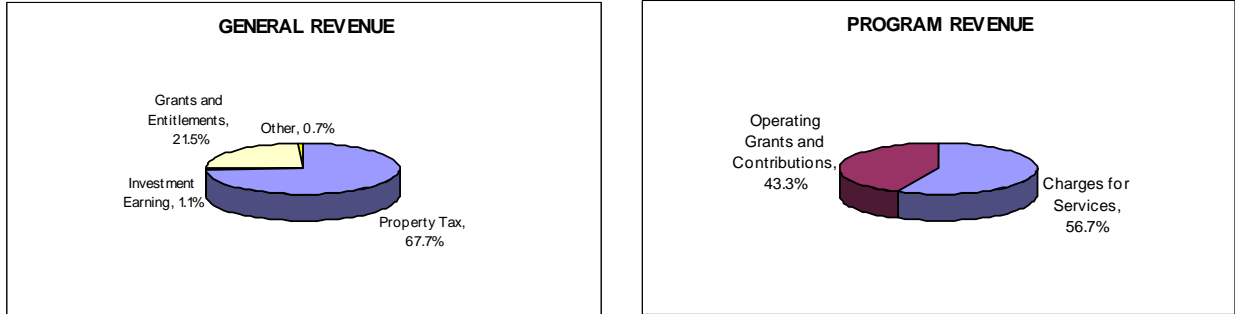


Table 3 shows the total cost of services for governmental activities and net cost of those services. That is, it identifies the cost of these services supported by tax revenue and unrestricted state entitlements.

Table 3
Governmental Activities

Governmental Activities	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
Instruction:		
Regular	\$ 10,064,225	\$ (9,400,904)
Special	1,412,824	(1,102,879)
Vocational	121,653	(121,653)
Other Instruction	599,710	(599,710)
Support Services:		
Pupils	942,733	(783,645)
Instructional Staff	971,177	(885,821)
Board of Education	209,083	(209,083)
Administration	1,939,194	(1,897,609)
Fiscal	605,487	(605,487)
Business	32,701	(32,701)
Operation and Maintenance of Plant	1,494,150	(1,494,150)
Pupil Transportation	1,362,072	(1,362,072)
Central	138,137	(120,137)
Operation of Non-Instructional Services		
Food Service Operation	645,787	62,595
Latchkey Operations	82,427	22,530
Community Services	445,107	(41,041)
Extracurricular Activities		
Academic and Subject Oriented	51,007	(51,007)
Sports Oriented	597,025	(597,025)
Co-curricular	25,108	(25,108)
Interest	1,506,907	(1,506,907)
Total	<u><u>\$ 23,246,514</u></u>	<u><u>\$ (20,751,814)</u></u>

Avon Local School District

Management’s Discussion and Analysis
For the Year Ended June 30, 2006
Unaudited

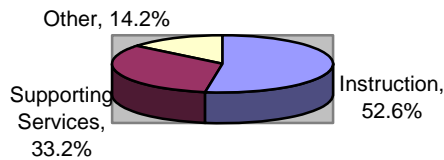
As you can see the reliance upon local tax revenues for governmental activities is crucial. A significant percentage of our instructional and supporting services are covered by our property tax collections.

The 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.

The largest Governmental Activities program expense remains instruction, comprising \$ 12.2 million or 52.6 percent of expenses. When combined with supporting services of \$ 7.7 million, these categories make up 85.8 percent of expenses.

PROGRAM 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 Funds

The General Fund assets increased by \$ 3.7 million due mainly to the passage of a \$1.5 million Emergency Levy in the fall of 2004. Liabilities increased by \$ 2.4 million with fund balance reserves increasing by \$ 1.4 million due to reserves for property taxes.

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 2006 the School District amended its General Fund budget several times. State Foundation revenues were more than originally estimated due to the per student increase in student population. Commercial property development known as the Avon Commons increased the personal property taxes significantly along with the increased housing starts that were added to the tax duplicate.

On the General Fund expenditure side of the equation, the District increased its staffing needs due to the increased student population which had been anticipated in the original budgeting process.

Avon Local School District

Management's Discussion and Analysis
For the Year Ended June 30, 2006
Unaudited

Capital Assets and Debt Administration

Capital Assets

At the end of Fiscal Year 2006, the School District had \$40,400,608 invested in land, construction in process, land improvements, buildings and improvements, furniture and equipment, and vehicles. Table 4 shows fiscal 2006 balances compared to fiscal 2005:

Table 4
Capital Assets at June 30, 2006
Governmental Activities

	<u>2006</u>	<u>2005</u>
Land	\$ 2,738,195	\$ 2,738,195
Construction in process	190,700	10,554,064
Land improvements	4,169,642	3,344,737
Buildings and improvements	31,764,448	19,066,703
Furniture and equipment	566,295	703,234
Vehicles	971,328	1,108,819
	<u>\$ 40,400,608</u>	<u>\$ 37,515,752</u>

All capital assets, except land, are reported net of depreciation. The increase in capital assets is due to the continuing construction projects. For more information about the District's capital assets, see Notes to the Basic Financial Statements.

Avon Local School District

Management's Discussion and Analysis
For the Year Ended June 30, 2006
Unaudited

Debt

At June 30, 2006, the Avon Local Schools had \$ 29.6 million in bonds and notes outstanding, a decrease of \$ 1,326,021 from fiscal year 2005. The bonds were issued in 1996 (\$ 5.9 million), 2000 (\$ 1.9 million), 2003 (\$14.9 million) and 2004 (\$6.4 million) for improvements for the construction of the High School, the Heritage North Elementary, and Heritage South Elementary.

As of June 30, 2006 the District had \$ 340,000 of Notes that were issued in 1999, with \$ 100,000 of the notes due within one year.

	2006	2005
Notes		
Tax Anticipation Note (2001) 4.55% through 2005	\$ -	\$ 100,000
Energy Conservation (1999) 5.2% through 2013	340,000	380,000
Total Notes	340,000	480,000
Bonds		
School improvement, (1996) 4.80% through 2020	1,910,000	2,645,000
School improvement, (2000) 5.32% through 2019	5,950,000	6,375,000
School improvement (2003) 2.00% through 2029	14,455,000	14,555,000
School improvement, capital appreciation bonds, and accretion of interest (2003) 10.62 (average effective) 2015 ,2016, 2017, 2018 maturity	511,344	395,000
School improvement refunding current interest bonds (2004) 2.00% through 2020	6,170,000	6,295,000
School improvement refunding capital appreciation bonds, and accretion of interest (2004) 10.78 (average effective) 2016, 2017 maturity	272,635	190,000
Total Bonds	29,268,979	30,455,000
Total Debt	\$ 29,608,979	\$ 30,935,000

At June 30, 2006, the School District's overall legal debt margin was \$ 29,268,979 with an unvoted debt margin of \$45,908,062. For more information about the District's debt, see Notes to the Basic Financial Statements.

Avon Local School District

Management's Discussion and Analysis For the Year Ended June 30, 2006 Unaudited

Current Issues

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

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

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

This scenario requires management to plan carefully and prudently to provide the resources to meet student needs over the next several years. All of the School District's financial abilities will be needed to meet the challenges of the future.

Contacting the School District Fiscal Management

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

Avon Local School District
Statement of Net Assets
June 30, 2006

	Governmental Activities
Assets	
Cash and Cash Equivalents	\$ 5,911,048
Accrued Interest Receivable	10,633
Due from Other Governments	104,160
Inventories and Supplies	6,034
Taxes Receivable	21,353,388
Restricted Cash	60,313
Capital Assets	
Nondepreciable Capital Assets	2,928,895
Depreciable Capital Assets, Net	37,471,713
<i>Total Assets</i>	67,846,184
 Liabilities	
Accounts and Contracts Payable	328,850
Retainage Payable	60,313
Accrued Salaries and Benefits	1,980,504
Interest Payable	114,556
Due to Other Governments	578,678
Deferred Revenue	16,490,350
Unamortized Bond Premium	483,401
Long-Term Liabilities:	
Due within One Year	1,002,939
Due in More than One Year	30,714,070
<i>Total Liabilities</i>	51,753,661
 Net Assets	
Invested in Capital Assets, Net of Related Debt	10,791,629
Restricted for:	
Debt Service	2,764,877
Capital Projects	767,673
Other Purposes	51,999
Unrestricted	1,716,345
<i>Total Net Assets</i>	\$ 16,092,523

See accompanying notes to the basic financial statements.

Avon Local School District
Statement of Activities
For the Fiscal Year Ended June, 30, 2006

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	
Governmental Activities:				
Instruction:				
Regular	\$ 10,064,225	\$ 600,886	\$ 62,435	\$ (9,400,904)
Special	1,412,824	-	309,945	(1,102,879)
Vocational	121,653	-	-	(121,653)
Other Instruction	599,710	-	-	(599,710)
Support Services:				
Pupils	942,733	-	159,088	(783,645)
Instructional Staff	971,177	-	85,356	(885,821)
Board of Education	209,083	-	-	(209,083)
Administration	1,939,194	-	41,585	(1,897,609)
Fiscal	605,487	-	-	(605,487)
Business	32,701	-	-	(32,701)
Operation and Maintenance of Plant	1,494,150	-	-	(1,494,150)
Pupil Transportation	1,362,072	-	-	(1,362,072)
Central Services	138,137	-	18,000	(120,137)
Operation of Non-Instructional Services				
Food Service Operations	645,787	708,382	-	62,595
Latchkey Operations	82,427	104,957	-	22,530
Community Services	445,107	-	404,066	(41,041)
Extracurricular Activities				
Academic and Subject Oriented	51,007	-	-	(51,007)
Sports Oriented	597,025	-	-	(597,025)
Co-Curricular	25,108	-	-	(25,108)
Interest	1,506,907			(1,506,907)
<i>Totals</i>	<u>\$ 23,246,514</u>	<u>\$ 1,414,225</u>	<u>\$ 1,080,475</u>	<u>\$ (20,751,814)</u>
General Revenues				
Property Taxes levied for:				
General Purpose				15,369,214
Debt Service				2,779,435
Capital Improvements				657,475
Grants and entitlements not restricted to specific purposes				5,973,155
Investment earnings				308,216
Miscellaneous				195,988
Total General Revenues				<u>25,283,483</u>
<i>Change in Net Assets</i>				4,531,669
<i>Net Assets, beginning of year</i>				11,560,854
<i>Net Assets, end of year</i>				<u>\$ 16,092,523</u>

See accompanying notes to the basic financial statements.

Avon Local School District
Balance Sheet
Governmental Funds
June 30, 2006

	General Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and Cash Equivalents	\$ 2,594,380	\$ 2,017,296	\$ 1,299,372	\$ 5,911,048
Restricted Cash	-	-	60,313	60,313
Receivables, net of allowance				
Taxes, current	16,916,597	3,561,417	688,823	21,166,837
Taxes, delinquent	156,517	23,978	6,056	186,551
Accrued interest	10,633	-	-	10,633
Due from Other Governments	-	-	104,160	104,160
Interfund Receivable	200,000	-	-	200,000
Inventories and Supplies	-	-	6,034	6,034
Total Assets	19,878,127	5,602,691	2,164,758	27,645,576
Liabilities and Fund Balances				
Liabilities				
Accounts and Contracts Payable	64,758	-	264,092	328,850
Retainage Payable	-	-	60,313	60,313
Accrued Salaries and Benefits	1,915,342	-	65,162	1,980,504
Due to Other Governments	564,698	-	13,980	578,678
Interfund Payable	-	-	200,000	200,000
Compensated Absences	202,147	-	792	202,939
Deferred Revenue	13,289,797	2,861,792	525,312	16,676,901
Total Liabilities	16,036,742	2,861,792	1,129,651	20,028,185
Fund Balances				
Reserved for Property Taxes	3,783,317	723,603	169,597	4,676,517
Reserved for Encumbrances	441,532	-	173,547	615,079
Unreserved, Reported in				
General Fund	(383,464)	-	-	(383,464)
Special Revenue Funds	-	-	205,871	205,871
Debt Service	-	2,017,296	-	2,017,296
Capital Projects	-	-	486,092	486,092
Total Fund Balances	3,841,385	2,740,899	1,035,107	7,617,391
Total Liabilities and Fund Balances	\$ 19,878,127	\$ 5,602,691	\$ 2,164,758	\$ 27,645,576

See accompanying notes to the basic financial statements.

Avon Local School District
*Reconciliation of Total Governmental Fund Balances
to Net Assets of Governmental Activities
June 30, 2006*

Total Governmental Fund Balances	\$	7,617,391
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital Assets used in governmental activities are not financial resources and therefore are not reported in the funds.		40,400,608
Other long-term assets are not available to pay for current-period expenditures and therefore are not reported in the funds. These deferrals are attributed to property taxes		186,551
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
Compensated Absences		(1,905,091)
Bonds Payable		(29,268,979)
Notes Payable		(340,000)
Unamortized Bond Premium		(483,401)
Accrued Interest Payable		(114,556)
		(33,531,027)
Net Assets of Governmental Activities	\$	16,092,523

See accompanying notes to the basic financial statements.

Avon Local School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2006

	General Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$ 15,460,801	\$ 2,796,630	\$ 661,425	\$ 18,918,856
Tuition & Fees	600,886	-	-	600,886
Interest	283,929	-	24,287	308,216
Intergovernmental	5,449,536	285,428	1,318,666	7,053,630
Charges for Services	-	-	538,329	538,329
Extracurricular	-	-	184,356	184,356
Miscellaneous	64,010	-	222,632	286,642
<i>Total Revenues</i>	<u>21,859,162</u>	<u>3,082,058</u>	<u>2,949,695</u>	<u>27,890,915</u>
Expenditures				
Current:				
Instruction:				
Regular	9,596,697	-	145,628	9,742,325
Special	1,447,432	-	244,709	1,692,141
Vocational	118,571	-	-	118,571
Other Instruction	677,826	-	21,884	699,710
Support Services:				
Pupils	793,072	-	253,366	1,046,438
Instructional Staff	1,096,885	-	100,606	1,197,491
Board of Education	209,083	-	-	209,083
Administration	1,816,316	-	48,452	1,864,768
Fiscal	559,589	40,346	9,818	609,753
Business	32,701	-	-	32,701
Operation and Maintenance of Plant	2,120,940	-	-	2,120,940
Pupil Transportation	1,307,826	-	-	1,307,826
Central	120,816	-	17,294	138,110
Operation of Non-Instructional Services:				
Food Service Operation	-	-	825,174	825,174
Community Services	-	-	441,402	441,402
Enterprise Operations	-	-	83,905	83,905
Extracurricular Activities:				
Academic and Subject Oriented	43,242	-	7,767	51,009
Sports Oriented	393,872	-	119,104	512,976
Co-curricular	14,249	-	10,819	25,068
Capital Outlay	-	-	1,651,928	1,651,928
Debt Service:				
Principal	40,000	1,385,000	-	1,425,000
Interest	21,463	1,347,492	-	1,368,955
<i>Total Expenditures</i>	<u>20,410,580</u>	<u>2,772,838</u>	<u>3,981,856</u>	<u>27,165,274</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>1,448,582</u>	<u>309,220</u>	<u>(1,032,161)</u>	<u>725,641</u>
Other Financing Sources/(Uses)				
Transfer - Out	(145,000)	-	-	(145,000)
<i>Total Other Financing Sources/(Uses)</i>	<u>(145,000)</u>	<u>-</u>	<u>-</u>	<u>(145,000)</u>
<i>Net Change in Fund Balances</i>	1,303,582	309,220	(1,032,161)	580,641
<i>Fund Balances at Beginning of Year</i>	<u>2,537,803</u>	<u>2,431,679</u>	<u>2,067,268</u>	<u>7,036,750</u>
<i>Fund Balances at End of Year</i>	<u>\$ 3,841,385</u>	<u>\$ 2,740,899</u>	<u>\$ 1,035,107</u>	<u>\$ 7,617,391</u>

See accompanying notes to the basic financial statements.

Avon Local School District
*Reconciliation of the Statement of Revenues, Expenditures, and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2006*

Net Change in Fund Balances - Total Governmental Funds \$ 580,641

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

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

Capital Asset Additions	4,554,732	
Depreciation Expense	<u>(1,669,876)</u>	2,884,856

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

Property Taxes	(112,732)
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Repayment of notes and bonds principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. In the statement of activities, interest is accrued on outstanding bonds, whereas in the governmental funds, an interest expenditure is reported when due.

1,287,048

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

Compensated Absences	(169,680)	(169,680)
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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.

61,536

Change in Net Assets of Governmental Activities

\$ 4,531,669

See accompanying notes to the basic financial statements.

Avon Local School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Budget Basis (Non-GAAP) and Actual - General Fund
General Fund
For the Fiscal Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
Revenues and Other Financing Sources	\$ 22,082,217	\$ 21,642,826	\$ 21,502,521	\$ (140,305)
Expenditures and Other Financing Uses	21,184,839	21,184,839	21,182,958	1,881
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	897,378	457,987	319,563	(138,424)
Fund Balance, Beginning of year	1,454,627	1,454,627	1,454,627	-
Prior Year Encumbrances	304,437	304,437	304,437	-
Fund Balance, End of Year	<u>\$ 2,656,442</u>	<u>\$ 2,217,051</u>	<u>\$ 2,078,627</u>	<u>\$ (138,424)</u>

See accompanying notes to the basic financial statements.

Avon Local School District
Statement of Revenues, Expenses and Changes in Net Assets
Internal Service Fund
For the Year Ended June 30, 2006

	<u>Self Insurance</u>
Operating Revenues	
Charges for Services	\$ 80,143
Operating Expenses	
Claims	163,607
Operating Loss	(83,464)
Non-operating Revenue	
Transfer In	145,000
Change in Net Assets	61,536
Net Assets, Beginning of Year	(61,536)
Net Assets, End of Year	\$ -

See accompanying notes to the basic financial statements.

Avon Local School District
Statement of Cash Flows
Internal Service Fund
For the Year Ended June 30, 2006

	<u>Self Insurance</u>
Cash Flows from Operating Activities	
Cash received from interfund services	\$ 80,143
Cash payments for claims	(423,141)
Net cash (used for) operating activities	(342,998)
Cash Flows from Noncapital financing activities	
Operating transfers to other funds	145,000
Net decrease in cash and cash equivalents	(197,998)
Cash and Cash Equivalents, beginning of year	197,998
Cash and Cash Equivalents, end of year	\$ -
Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	\$ (83,464)
Adjustments	
Decrease in claims payable	(259,534)
Net Cash (used for) operating activities	\$ (342,998)

See accompanying notes to the basic financial statements.

Avon Local School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2006

	<u>Agency Fund</u>
Assets	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	\$ 40,108
Total Assets	<u>\$ 40,108</u>
 Liabilities	
Current Liabilities:	
Accounts Payable	\$ 1,061
Due to Others	9,557
Due to Students	<u>29,490</u>
Total Liabilities	<u>\$ 40,108</u>

See Accompanying Notes to the Basic Financial Statements

AVON LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2006

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, 2005 was 2787. The District employs 183 certificated and 109 non-certificated employees.

REPORTING ENTITY

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

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

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

The District is associated with the Lake Erie Educational Computer Association, the Lorain County Joint Vocational School District, and the Ohio School Council of Governments which are considered to be jointly governed organizations. These organizations and their relationships with the District are described in more detail in Notes 10 and 20 to these financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities and to its proprietary funds provided they do not conflict with or contradict GASB pronouncements. The following are the more significant of the District's accounting policies.

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.

AVON LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. BASIS OF PRESENTATION (continued)

Government-wide Financial Statements

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

The statement of net assets presents the financial condition of the governmental activities of the District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the District’s governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient for the goods or services offered by the program, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements

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

B. FUND ACCOUNTING

The District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the District are grouped into the categories governmental, proprietary, and fiduciary.

Governmental Funds

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

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.

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

AVON LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. FUND ACCOUNTING (continued)

Proprietary Fund

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

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

Fiduciary Funds

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

C. MEASUREMENT FOCUS

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

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

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

D. BASIS OF ACCOUNTING

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

AVON LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. BASIS OF ACCOUNTING (continued)

Revenues - Exchange and Non-exchange Transactions

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 6). Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of June 30, 2006, but which were levied to finance fiscal year 2007 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.

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.

AVON LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. BUDGETARY PROCESS (continued)

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

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

F. CASH AND INVESTMENTS

Cash received by the District is deposited in one central bank account with individual fund balance integrity maintained through District records. Monies for all funds are maintained in this account or temporarily transferred to the State Treasurer's investment pool (STAROhio) or other short term investments. Following Ohio statutes, the Board of Education has specified the allocation of interest earnings to funds based on average monthly cash balances. Interest income earned for the year ended June 30, 2006, totaled \$308,216.

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.

STAROhio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on June 30, 2006.

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

G. INVENTORY

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

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

H. RESTRICTED ASSETS

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other government or imposed by enabling legislation. Restricted assets include the amount required by State statute to be set aside for certain expenditures.

AVON LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. CAPITAL ASSETS

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

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

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

<u>Description</u>	<u>Estimated Lives</u>
Land improvements	5-30 years
Buildings	30-50 years
Building improvements	30-50 years
Furniture and equipment	7-20 years
Vehicles	10 years

J. INTERFUND BALANCES

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

K. COMPENSATED ABSENCES

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means.

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

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. There were no current unpaid compensated absences at year end. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported.

AVON LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

N. FUND BALANCE RESERVES AND DESIGNATIONS

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

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

O. OPERATING REVENUES AND EXPENSES

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

P. INTERFUND TRANSACTIONS

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

Q. ESTIMATES

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

AVON LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2006

NOTE 3 – DEFICIT FUND BALANCE

At June 30, 2006, the Building Fund had a deficit fund balance of \$ 35,238, the Food Service Fund had a deficit fund balance of \$ 40,203, the MIS Fund had a deficit fund balance of \$ 2,747 and the Miscellaneous State Grant Fund had a deficit fund balance of \$ 213. The General Fund is liable for deficits in the funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities.

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

While the District is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Budgetary Basis) and Actual presented for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis statements are the following:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

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

Net Change in Fund Balance	
General Fund	
	General
Budget Basis	\$ 319,563
Adjustments, increase (decrease)	
Revenue accruals	356,641
Expenditure accruals	121,089
Encumbrances	506,289
GAAP basis, as reported	\$ 1,303,582

NOTE 5 - DEPOSITS AND INVESTMENTS

A. LEGAL REQUIREMENTS

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

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

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

AVON LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2006

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

A. LEGAL REQUIREMENTS (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.

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

Interim monies may be invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio, its political subdivision, or other units or agencies of this state or its political subdivision;
5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);
8. Securities lending agreements in which the District lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2), or cash, or both securities and cash, equal value for equal value;
9. High grade commercial paper in an amount not to exceed five percent of the District's total average portfolio;
10. Bankers acceptances for a period not to exceed 270 days in an amount not to exceed ten percent of the District's total average portfolio.

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

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

AVON LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2006

NOTE 5 - DEPOSITS AND INVESTMENTS(continued)

A. LEGAL REQUIREMENTS (continued)

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

B. DEPOSITS

Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned. The District does not have a deposit policy for custodial credit risk. At fiscal year end, the carrying amount of the District's deposits was \$ 737,962 and the bank balance was \$ 979,219. Of the bank balance, \$244,993 was covered by federal depository insurance and \$734,226 was uninsured. Of the remaining balance, \$ 734,226 was collateralized with securities held by the pledging institution's trust department not in the District's name and was exposed to custodial credit risk.

C. INVESTMENTS

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of June 30, 2006, the District had the following investments:

	<u>Maturities (Yrs)</u>	<u>Fair Value</u>
Money Market Funds	0	\$ 3,987,895
Investment in State Treasurer's Investment Pool	0	1,285,612
		<u>\$ 5,273,507</u>

D. INTEREST RATE RISK

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

E. CREDIT RISK

The District follows the Ohio Revised Code that limits its investment choices. As of June 30, 2006, the District's investments in StarOhio were rated AAAM by Standard & Poor's.

F. CONCENTRATION OF CREDIT RISK

The District places no limit on the amount that may be invested in any one issuer. 100% of the District's investments were in Money Market Funds and StarOhio.

NOTE 6 - PROPERTY TAXES

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

AVON LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2006

NOTE 6 - PROPERTY TAXES (continued)

Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the District. Real and public utility property tax revenues received in calendar year 2006 represent the collection of calendar year 2005 taxes. Real property taxes for 2006 were levied after April 1, 2006, on the assessed values as of January 1, 2005, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility real and tangible personal property taxes received in 2006 were levied after April 1, 2005, on the assessed values as of December 31, 2004, the lien date. Public utility real property is assessed at 35 percent of true value; tangible personal property is currently assessed at varying percentages of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

Tangible personal property tax revenues received in calendar year 2006 (other than public utility property) represent the collection of calendar year 2006 taxes. Tangible personal property taxes for 2006 were levied after April 1, 2005, on the value as of December 31, 2005. Tangible personal property is currently assessed at 25 percent of true value. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30 with the remainder payable by September 20.

The District receives property taxes from Lorain County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2006, are available to finance fiscal year 2006/2007 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, public utility property, and tangible personal property taxes which were measurable as of June 30, 2006 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, amounts to be received during the available period are not subject to reasonable estimation at June 30, nor were they levied to finance fiscal year 2006 operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance was recognized as revenue.

The amount available as an advance at June 30, 2006, was \$ 3,783,317 in the General Fund, \$ 723,603 in the Debt Service Fund and \$ 169,597 in the Capital Projects Fund.

The assessed values upon which the fiscal year 2006 taxes were collected are:

	2005 Second Half Collections		2006 First Half Collections	
	Amount	%	Amount	%
Agricultural/Residential	\$408,693,210	71.67	\$453,889,000	71.96
Commercial/Industrial	115,967,450	20.34	138,891,480	22.02
Public Utilities	7,810	0.00	7,860	0.00
Mineral	5,050	0.00	830	0.00
Tangible Personal Property	45,571,095	7.99	38,025,238	6.03
Total Assessed Value	<u>\$570,244,615</u>	<u>100.00</u>	<u>\$630,814,408</u>	<u>1.00</u>
Tax rate per \$1,000 of assessed valuation	<u>52.06</u>		<u>51.95</u>	

AVON LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2006

NOTE 7 – RECEIVABLES

Receivables at June 30, 2006, 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.

	<u>Amount</u>
Governmental Activities	
Non-major funds	\$ 14,627
Food service	<u>89,533</u>
Title VIB	<u><u>\$104,160</u></u>

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	<u>Balance</u> <u>June 30, 2005</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2006</u>
Governmental Activities				
Nondepreciable capital assets				
Land	\$ 2,738,195	\$ -	\$ -	\$ 2,738,195
Construction in progress	<u>10,554,064</u>	<u>4,515,876</u>	<u>14,879,240</u>	<u>190,700</u>
Total nondepreciable capital assets	<u>13,292,259</u>	<u>4,515,876</u>	<u>14,879,240</u>	<u>2,928,895</u>
Depreciable capital assets				
Land improvements	4,358,644	1,028,335	-	5,386,979
Buildings and improvements	25,821,612	13,850,905	-	39,672,517
Furniture and equipment	1,271,507	-	-	1,271,507
Vehicles	<u>1,973,593</u>	<u>38,856</u>	-	<u>2,012,449</u>
Total capital assets being depreciated	<u>33,425,356</u>	<u>14,918,096</u>	-	<u>48,343,452</u>
Less accumulated depreciation				
Land improvements	(1,013,907)	(203,430)	-	(1,217,337)
Buildings and improvements	(6,754,909)	(1,153,160)	-	(7,908,069)
Furniture and equipment	(568,273)	(136,939)	-	(705,212)
Vehicles	<u>(864,774)</u>	<u>(176,347)</u>	-	<u>(1,041,121)</u>
Total accumulated depreciation	<u>(9,201,863)</u>	<u>(1,669,876)</u>	-	<u>(10,871,739)</u>
Depreciable capital assets, net of accumulated depreciation	<u>24,223,493</u>	<u>13,248,220</u>	-	<u>37,471,713</u>
Governmental activities capital assets, net	<u><u>\$ 37,515,752</u></u>	<u><u>\$17,764,096</u></u>	<u><u>\$ 14,879,240</u></u>	<u><u>\$ 40,400,608</u></u>

AVON LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2006

NOTE 8 - CAPITAL ASSETS (continued)

Depreciation expense was charged to governmental functions as follows:

Instruction		
Regular	\$	1,311,755
Supporting services		
Instructional staff		20,958
Adminstration		37,121
Operation and maintenance of plant		17,443
Pupil transportation		171,679
Central services		1,265
Operation of noninstruction services		
Food service operation		23,899
Extracurricular activities		
Sports oriented		85,756
Total depreciation expense	\$	<u>1,669,876</u>

NOTE 9 – INTERFUND ACTIVITIES

A. INTERFUND RECEIVABLES AND PAYABLES

On the fund financial statements at June 30, 2006, interfund balances consisted of the following:

Fund	Receivable	Payable
General	\$ 200,000	\$ -
Capital Projects Fund		
Capital Projects	-	200,000
Total	<u>\$ 200,000</u>	<u>\$ 200,000</u>

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

B. INTERFUND TRANSFERS

The General Fund transferred \$ 145,000 to the Internal Service Fund to provide for the payment of claims.

NOTE 10 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions, injuries to employees and natural disasters. During fiscal year 2005, the District contracted with Indiana Insurance Company for property insurance. Professional liability is covered by the Nationwide Insurance Company with a \$ 5,000,000 aggregate limit. Vehicles are covered by Nationwide Insurance Company. Automobile liability has a \$ 2,000,000 combined single limit of liability. Settled claims have not exceeded this commercial coverage in any of the past three years.

Performance bonds of \$ 20,000 are maintain for the Superintendent by Liberty Bonds Services and \$ 50,000 for the treasurer by Ohio Farmers Insurance Company. A blanket employee’s bond with a single limit of \$ 10,000 and a dishonestly bond of \$ 50,000 per employee is covered by Peerless Insurance Company.

AVON LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2006

NOTE 10 - RISK MANAGEMENT (continued)

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.

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

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

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

As of July 1, 2005, the District obtained health insurance benefits for its eligible employees from Medical Mutual of Ohio.

At June 30, 2006, the District had no claim liability related to Bridge Benefits and is based on the requirements of Governmental Standards Board Statement No. 10, which requires that a liability for unpaid claims costs, including estimates of costs related to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in balances of claims liability during the year ended June 30, 2006 and June 30, 2005 are summarized below.

	June 30, 2006	June 30, 2005
Unpaid claims, beginning of year	\$ 259,534	\$ 462,740
Incurred claims	163,607	2,417,842
Claims payments	(423,141)	(2,621,048)
Unpaid claims, end of year	\$ -	\$ 259,534

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS)

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

AVON LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Year Ended June 30, 2006

NOTE 11 - DEFINED BENEFIT PENSION PLANS (continued)

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

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The District's contributions to SERS for the years ended June 30, 2006, 2005, and 2004, were \$ 395,000, \$ 346,811, and \$ 317,800, respectively. The full amount has been contributed for 2005 and 2004. For 2006, \$ 178,533 (55%) has been contributed with the remainder being reflected as an intergovernmental payable.

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

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

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

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

DC Plan Benefits – Benefits are established under sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members' accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the members designated beneficiary is entitled to receive the members account balance.

AVON LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2006

NOTE 11 - DEFINED BENEFIT PENSION PLANS (continued)

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

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

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for a money-purchase benefit or a lump-sum payment in addition to the original retirement allowance. Benefits are increased annually 3% of the original base amount for Defined Benefit Plan participants.

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

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

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

Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2005 were 10% of covered payroll for members and 14% for employers. The District's contribution to STRS OHIO for the years ended June 30, 2006, 2005, and 2004, were \$ 1,348,100, \$ 1,232,846, and \$ 1,178,100, respectively. The full amount has been contributed for 2005 and 2004. For 2006, \$ 1,125,225 (83%) has been contributed with the remainder being reported as a liability within the respective funds. Member and employer contributions actually made for Defined Contribution and Combined Plan participants will be provided upon written request.

STRS Ohio issues a stand-alone financial report. Copies of STRS Ohio's 2005 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 or by visiting the STRS Ohio Web site at www.strsoh.org.

NOTE 12 - POSTEMPLOYMENT BENEFITS

A. SCHOOL EMPLOYEES RETIREMENT SYSTEM

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

AVON LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Year Ended June 30, 2006

NOTE 12 - POSTEMPLOYMENT BENEFITS (continued)

A. SCHOOL EMPLOYEES RETIREMENT SYSTEM (continued)

After the allocation for basic benefits, the remainder of the employer's contribution is allocated to providing health care benefits. At June 30, 2006, the healthcare allocation rate is 3.42%. 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 2006, the minimum pay has been established as \$ 35,800. The surcharge rate added to the unallocated portion of the 14% employer contribution rate provides for maintenance of the asset target level for the health care fund.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of annual health care expenses. Net health care costs at June 30, 2006 were \$ 178,221,113. The target level for the health care fund is 150% of the projected claims less premium contributions for the next fiscal year. As of June 30, 2006, the value of the health care fund was \$ 295.6 million, which is about 221% of the next year's projected net health care costs of \$ 158,751,207. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150% of estimated annual net claim costs.

The number of benefit recipients receiving health care benefits is approximately 59,492. The portion of the District's contributions that were used to fund postemployment benefits amounted to \$ 156,472.

B. STATE TEACHERS RETIREMENT SYSTEM OF OHIO

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

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

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For the fiscal year ended June 30, 2006 and June 30, 2005, the board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$ 3.5 billion on June 30, 2006.

For the year ended June 30, 2006 net health care costs paid by STRS Ohio were \$ 282,743,000. There were 119,184 eligible benefit recipients.

AVON LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2006

NOTE 13 – NOTES PAYABLE

Notes payable at June 30, 2006 consisted of the following:

	Outstanding June 30, 2005	Additions	Deductions	Outstanding June 30, 2006
Tax anticipation note (2001) 4.55% through 2005	\$ 100,000	\$ -	\$ 100,000	\$ -
Energy conservation (1999) 5.20% through 2013	380,000	-	40,000	340,000
	<u>\$ 480,000</u>	<u>\$ -</u>	<u>\$ 140,000</u>	<u>\$ 340,000</u>

NOTE 14 – BONDS PAYABLE

Bonds payable at June 30, 2006 consisted of the following:

	Outstanding June 30, 2005	Additions	Deductions	Outstanding June 30, 2006
General obligation bonds				
School Improvement, (1996) 4.80%, through 2020	\$ 2,645,000	\$ -	\$ 735,000	\$ 1,910,000
School Improvement, (2000) 5.32%, through 2019	6,375,000	-	425,000	5,950,000
School Improvement, (2003) 2.00%, through 2029	14,555,000	-	100,000	14,455,000
School Improvement capital appreciation bonds, and accretion of interest (2003) 4.43%, 4.53%, 4.63%, 4.73% (average effective) 2015, 2016, 2017, 2018 ma	395,000	116,344	-	511,344
School improvement refunding current interest bonds (2004) 2.00% through 2020	6,295,000	-	125,000	6,170,000
School improvement refunding capital appreciation bonds, and accretion of interest (2004) 4.70%, 4.78% (average effective) 2016, 2017 maturity	190,000	82,635	-	272,635
	<u>\$ 30,455,000</u>	<u>\$ 198,979</u>	<u>\$ 1,385,000</u>	<u>\$ 29,268,979</u>

At June 30, 2006, outstanding general obligation bonds (including prior year's refunding) of \$6,360,000 are considered to be defeased.

The original amount of bonds issued in 2003 was \$14,950,000. The general obligation bonds included serial and capital appreciation bonds. The present value (as of issue date) reported in the Statement of Net Assets at June 30, 2006 was \$ 14,850,000. The accreted interest of \$ 116,344 has been included in the Statement of Net Assets at June 30, 2006. This year the addition of these bonds was \$ 116,344 which represents the increase in the accretion of interest. The final amount of these bonds will be \$ 1,660,000 payable through December 2018.

AVON LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2006

NOTE 14 – BONDS PAYABLE (continued)

The original amount of bonds issued in 2004 was \$6,540,000. The general obligation bonds included serial and capital appreciation bonds. The present value (as of issue date) reported in the Statement of Net Assets at June 30, 2006 was \$ 6,360,000. The accreted interest of \$ 82,635 has been included in the Statement of Net Assets at June 30, 2006. This year the addition of these bonds was \$ 82,635 which represents the increase in the accretion of interest. The final amount of these bonds will be \$ 1,745,000 payable through December 2017.

NOTE 15 - LONG-TERM OBLIGATIONS

Changes in the District's long-term obligations during fiscal year 2006 were as follows:

	Outstanding June 30, 2005	Additions	Retired	Outstanding June 30, 2006	Amounts Due In One Year
Compensated absences	\$ 1,815,841	\$ 495,128	\$ 202,939	\$ 2,108,030	202,939
Notes payable	480,000	-	140,000	340,000	40,000
Serial bonds	29,870,000	-	1,385,000	28,485,000	760,000
Capital appreciation bonds	585,000	-	-	585,000	-
Accretion on capital appreciation bonds	-	198,979	-	198,979	-
	<u>\$ 32,750,841</u>	<u>\$ 694,107</u>	<u>\$ 1,727,939</u>	<u>\$ 31,717,009</u>	<u>\$ 1,002,939</u>

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

NOTE 16 – DEBT SERVICE REQUIREMENTS

Debt service requirements, including principal and interest, to retire notes and bonds payable at June 30, 2006, consisted of:

Year ending June 30,	Principal	Interest	Total
2007	800,000	1,319,158	2,119,158
2008	1,015,000	1,288,852	2,303,852
2009	1,210,000	1,252,743	2,462,743
2010	1,420,000	1,205,618	2,625,618
2011	1,670,000	1,144,473	2,814,473
2012-2016	10,725,000	4,244,177	14,969,177
2017-2021	6,255,000	4,075,175	10,330,175
2022-2026	2,540,000	1,327,988	3,867,988
2027-2030	3,775,000	430,369	4,205,369
	<u>\$ 29,410,000</u>	<u>\$ 16,288,553</u>	<u>\$45,698,553</u>

AVON LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2006

NOTE 17 – OPERATING LEASES

The District is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations. During 2006, expenditures for operating leases totaled \$ 56,231.

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, 2006.

	Year ending June 30,	Amount
	<u>2007</u>	\$ 57,163
	2008	57,163
	2009	4,764
Total minimum lease payments		<u>\$ 119,090</u>

NOTE 18 – CONTRACTUAL COMMITMENTS

At June 30, 2006 the District had contractual commitments for building construction and renovation projects as follows:

	Contracted Amount	Expended	Remaining Liability
Avon East Elementary	\$ 4,473,839	\$ 4,428,845	\$ 44,994
Transportation Facility	1,050,070	175,380	874,690
	<u>\$ 5,523,909</u>	<u>\$ 4,604,225</u>	<u>\$ 919,684</u>

NOTE 19 - SET-ASIDES

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

The following cash basis information identifies the changes in the fund balance reserves for textbooks and capital improvements during fiscal year 2006.

	Textbook	Capital Maintenance
Balance, July 1, 2005	\$ (235,589)	\$ (188,152)
Required set aside	386,419	386,419
Qualifying expenditures	<u>(704,619)</u>	<u>(718,326)</u>
Balance, June 30, 2006	<u>\$ (553,789)</u>	<u>\$ (520,059)</u>

Expenditures and offset credits for textbooks and capital maintenance during the year were \$ 704,619 and \$ 718,326, respectively. Textbook expenditures have exceeded statutory requirements by \$ 553,789 which may be used to offset future years' set aside requirements.

AVON LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2006

NOTE 20 - JOINTLY GOVERNED ORGANIZATIONS

A. LAKE ERIE EDUCATIONAL COMPUTER ASSOCIATION

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

LEECA is governed by a board of directors chosen from the general membership of the LEECA assembly. The board of directors consists of a representative from the fiscal agent, the chairman of each operating committee, and at least one assembly member from each county from which participating districts are located. Financial information can be obtained by contacting the Treasurer at the Educational Service Center of Lorain County, which serves as fiscal agent, located at 1885 Lake Avenue, Elyria, Ohio 44035. During the year ended June 30, 2006, the District paid \$ 88,316 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 provided for the vocational and special education needs of the students. Its Board of Education consists of representatives from the board of each participating school district. The Board is responsible for approving its own budgets, appointing personnel, and accounting and financing related activities. Avon Local School District may attend the vocational school. Each school district's control is limited to its representation on the board. Financial information can be obtained by contacting the Treasurer at the Lorain County Joint Vocational School District located at 15181 State Route 58, Oberlin, Ohio 44074.

C. OHIO SCHOOLS COUNCIL

The Ohio Schools Council (Council) is a jointly governed organization among eighty-three school districts. The Council was formed to offer supplies and services at the lowest possible cost to the member districts. Each district supports the Council by paying an annual participation fee for the services provided. The Council's Board consists of seven superintendents of the participating districts whose term rotates every fiscal year. The degree of control exercised by any school district is limited to its representation on the Board. In fiscal year 2006 the District paid \$183,375 to the Council.

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

The District participates in the Council's prepaid natural gas program which was implemented during fiscal year 2000. This program allows school districts to purchase natural gas at reduced rates, if the school districts will commit to participating for a twelve year period. The participants make monthly payments based on estimated usage. Each June these estimated payments are compared to their actual usage and any necessary adjustments are made

AVON LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2006

NOTE 20 - JOINTLY GOVERNED ORGANIZATIONS (continued)

C. OHIO SCHOOLS COUNCIL (continued)

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

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

NOTE 21 - SCHOOL FOUNDATION PROGRAM

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

NOTE 22 - CONTINGENCIES

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

Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2005.

NOTE 23 - CHANGE IN ACCOUNTING PRINCIPLE

For the fiscal year 2006, the District implemented GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*, and GASB Statement No. 47, *Accounting for Termination Benefits*. GASB Statement No. 42 establishes accounting and financial reporting standards for impairment of capital assets. GASB Statement No. 46 requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets. GASB Statement No. 47 establishes accounting standards for termination benefits. The application of these new standards did not have a material effect on the financial statements, nor did their implementation require a restatement of prior year balances.

NOTE 24 - SUBSEQUENT EVENT

In May 2006, the community of Avon approved a 1.9 mil levy. In August 2006, the District received \$14,800,000 of this bond issue with the remaining balance of \$ 5,000,000 scheduled to be issued in February 2007.

Avon Local School District
Lorain County
Schedule of Federal Awards Receipts and Expenditures
For the Year Ended June 30, 2006

Federal Grantor/ <i>Pass Through Grantor/ Program Title</i>	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
United States Department of Agriculture						
<i>Passed through Ohio Department of Education</i>						
<i>Nutrition Cluster:</i>						
National School Lunch	LLP4	10.555	\$ 109,945	\$ -	\$ 109,945	\$ -
Total - Nutrition Cluster			109,945	-	109,945	-
Food Distribution Program	NA	10.550	-	56,250	-	56,250
Total United States Department of Agriculture			109,945	56,250	109,945	56,250
United States Department of Education						
<i>Passed through Ohio Department of Education</i>						
Special Education Grants to States	6BSF	84.027	527,191	-	596,219	-
Safe & Drug Free Schools and Communities - State Grants	DRS1	84.186	6,022	-	5,946	-
School Grants for Innovative Programs	C2S1	84.298	8,900	-	10,954	-
Improving Teacher Quality - State Grants	TRS1	84.367	40,313	-	40,854	-
Total Passed through Ohio Department of Education			582,426	-	653,973	-
Total United States Department of Education			582,426	-	653,973	-
Total Federal Financial Assistance			<u>\$ 692,371</u>	<u>\$ 56,250</u>	<u>\$ 763,918</u>	<u>\$ 56,250</u>

NA - Not Available

See accompanying notes to the Schedule of Federal Awards Expenditures

Avon Local School District
Notes to Schedule of Federal Awards Receipts and Expenditures
For the Fiscal Year Ended June 30, 2006

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of federal awards expenditures is a summary of the activity of the District's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B - FOOD DISTRIBUTIONS

Non monetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. Monies are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2006, the District had no significant food commodities in inventory.

BALESTRA, HARR & SCHERER, CPAs, INC.

528 South West Street, P.O. Box 687
Piketon, Ohio 45661

Telephone (740) 289-4131
Fax (740) 289-3639
www.bhscpas.com

Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

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

Members of the Board
Avon Local School District
35573 Detroit Road
Avon, Ohio 44011

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Avon Local School District (the District), as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 17, 2006 in which we indicated the District implemented GASB Statement No. 42, GASB Statement No. 46, and GASB Statement No. 47. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion 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 that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts 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.

Compliance and Other Matters

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that is required to be reported under *Government Auditing Standards*.

Members of the Board

Avon Local School District

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

Page 2

This report is intended solely for the information and use of the audit committee, management, members of the Board, 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 cursive script that reads "Balestra, Harr & Scherer". The signature is written in black ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.

November 17, 2006

BALESTRA, HARR & SCHERER, CPAs, INC.

528 South West Street, P.O. Box 687
Piketon, Ohio 45661

Telephone (740) 289-4131
Fax (740) 289-3639
www.harscherer.com

Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

Members of the Board
Avon Local School District
35573 Detroit Road
Avon, Ohio 44011

Compliance

We have audited the compliance of the Avon Lake Local School District (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 its major federal program for the year ended June 30, 2006. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program 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 with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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 of the District's compliance with those requirements.

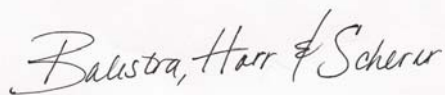
In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2006.

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 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.

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 reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulation, contracts and grants caused by an error or fraud 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.

This report is intended solely for the information and use of the audit committee, management, members of the Board, 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.



Balestra, Harr & Scherer, CPAs, Inc.

November 17, 2006

Avon Local School District
Lorain County

Schedule of Findings
OMB Circular A-133 §.505
For the Fiscal Year Ended June 30, 2006

1. Summary of Auditor's Results

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

Avon Local School District
Lorain County

Schedule of Findings
OMB Circular A-133 §.505
For the Fiscal Year Ended June 30, 2006

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

**AVON LOCAL SCHOOL DISTRICT
LORAIN COUNTY
JUNE 30, 2006**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 SECTION .315(b)**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2005-001	Material Weakness – Claims Reporting	Yes	



Mary Taylor, CPA
Auditor of State

AVON LOCAL SCHOOL DISTRICT
LORAIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 27, 2007