

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

AUDIT REPORT

OF

AVON COMMUNITY SCHOOL CORPORATION

HENDRICKS COUNTY, INDIANA

July 1, 2004 to June 30, 2006



FILED

02/06/2007

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Brenda Stipp	07-01-04 to 06-30-07
Superintendent of Schools	Richard Helton Sue Drews (Interim) Dr. Timothy Ogle	07-01-04 to 08-01-04 08-02-04 to 12-31-05 01-01-05 to 06-30-07
President of the School Board	Gary Brinkman	07-01-05 to 06-30-07



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

TO: THE OFFICIALS OF THE AVON COMMUNITY SCHOOL
CORPORATION, HENDRICKS COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Avon Community School Corporation (School Corporation), as of and for the years ended June 30, 2005 and 2006, which collectively comprise the School Corporation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School Corporation's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note I, the School Corporation prepares its financial statements on the prescribed basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash and investment balances of the governmental activities, each major fund, and the aggregate remaining fund information of the School Corporation as of June 30, 2005 and 2006, and the respective cash receipts and cash disbursements during the years then ended on the basis of accounting described in Note I.

In accordance with Government Auditing Standards, we have also issued a report dated January 8, 2007, on our consideration of the School Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Our report on compliance and on internal control over financial reporting should be read along with this report.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the School Corporation taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information 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.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(Continued)

The Schedule of Funding Progress, as listed in the Table of Contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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.

The School Corporation has not presented Management's Discussion and Analysis or Budgetary Comparison Schedules that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School Corporation's basic financial statements. The Schedule of Capital Assets and Schedule of Long-Term Debt are presented for additional analysis and are not required parts of the basic financial statements. The Schedule of Capital Assets and Schedule of Long-Term Debt have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

January 8, 2007



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS OF THE AVON COMMUNITY SCHOOL
CORPORATION, HENDRICKS COUNTY, INDIANA

We have audited the financial statements of the Avon Community School Corporation (School Corporation), as of and for the years ended June 30, 2005 and 2006, and have issued our report thereon dated January 8, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the School Corporation's management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by any one other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

January 8, 2007

AVON COMMUNITY SCHOOL CORPORATION
 STATEMENT OF CASH AND INVESTMENTS
 June 30, 2005

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 11,555,977
Restricted assets:	
Cash and investments	<u>1,503,821</u>
Total assets	<u>\$ 13,059,798</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 1,503,821
Unrestricted	<u>11,555,977</u>
Total net assets	<u>\$ 13,059,798</u>

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

AVON COMMUNITY SCHOOL CORPORATION
 STATEMENT OF CASH AND INVESTMENTS
 June 30, 2006

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 16,724,750
Restricted assets:	
Cash and investments	<u>79,278</u>
Total assets	<u>\$ 16,804,028</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 79,278
Unrestricted	<u>16,724,750</u>
Total net assets	<u>\$ 16,804,028</u>

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

AVON COMMUNITY SCHOOL CORPORATION
STATEMENT OF CASH ACTIVITIES
For the Year Ended June 30, 2005

Functions/Programs	Disbursements	Program Receipts		Net (Disbursement) Receipts
		Charges for Services	Operating Grants and Contributions	Total
Governmental activities:				
Instruction	\$ 18,551,309	\$ -	\$ 208,288	\$ (18,343,021)
Support services	31,654,124	2,188,439	348,218	(29,117,467)
Community services	332,548	-	-	(332,548)
Nonprogrammed charges	2,676,547	-	-	(2,676,547)
Debt service	32,769,314	-	-	(32,769,314)
Total governmental activities	\$ 85,983,842	\$ 2,188,439	\$ 556,506	(83,238,897)
General receipts:				
Property taxes				42,891,940
Other local sources				8,013,710
State aid				22,304,187
Grants and contributions not restricted				1,420,984
Bonds and loans				11,135,255
Sale of property, adjustments, and refunds				179,029
Investment earnings				277,214
Intergovernmental transfers				2,146,019
				Total general receipts and intergovernmental transfers
				88,368,338
				Change in cash and investments
				5,129,441
				Net assets - beginning
				7,930,357
				Net assets - ending
				\$ 13,059,798

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

AVON COMMUNITY SCHOOL CORPORATION
STATEMENT OF CASH ACTIVITIES
For the Year Ended June 30, 2006

Functions/Programs	Disbursements	Program Receipts		Net (Disbursement) Receipts
		Charges for Services	Operating Grants and Contributions	Total
Governmental activities:				
Instruction	\$ 20,159,448	\$ -	\$ 171,337	\$ (19,988,111)
Support services	31,610,304	2,308,859	521,361	(28,780,084)
Community services	373,731	-	-	(373,731)
Nonprogrammed charges	6,305,707	-	-	(6,305,707)
Debt service	<u>13,558,505</u>	<u>-</u>	<u>-</u>	<u>(13,558,505)</u>
Total governmental activities	<u>\$ 72,007,695</u>	<u>\$ 2,308,859</u>	<u>\$ 692,698</u>	<u>(69,006,138)</u>
General receipts:				
Property taxes				34,319,907
Other local sources				6,222,214
State aid				23,726,289
Grants and contributions not restricted				1,486,637
Bonds and loans				720,889
Sale of property, adjustments, and refunds				408,024
Investment earnings				505,796
Intergovernmental transfers				<u>5,360,612</u>
				Total general receipts and intergovernmental transfers <u>72,750,368</u>
				Change in cash and investments 3,744,230
				Net assets - beginning <u>13,059,798</u>
				Net assets - ending <u>\$ 16,804,028</u>

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

AVON COMMUNITY SCHOOL CORPORATION
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
GOVERNMENTAL FUNDS
For The Year Ended June 30, 2005

	General	Transportation Operating	Rainy Day	Debt Service	Capital Projects	School Bus Replacement	Other	Totals
Receipts:								
Local sources	\$ 19,124,343	\$ 4,922,030	\$ -	\$ 16,082,082	\$ 7,068,789	\$ 2,425,139	\$ 3,328,534	\$ 52,950,917
Intermediate sources	417,885	-	-	-	-	-	2,494	420,379
State sources	22,488,048	-	-	-	-	-	369,474	22,857,522
Federal sources	-	-	-	-	-	-	1,424,161	1,424,161
Bonds and loans	3,690,232	1,612,201	-	879,466	3,038,164	557,965	1,357,227	11,135,255
Sale of property, adjustments and refunds	109,115	69,761	-	-	-	-	154	179,030
Intergovernmental transfers	409,311	300,000	400,000	-	1,000,000	-	36,708	2,146,019
Total receipts	46,238,934	6,903,992	400,000	16,961,548	11,106,953	2,983,104	6,518,752	91,113,283
Disbursements:								
Current:								
Instruction	17,355,240	-	-	-	-	-	1,196,069	18,551,309
Support services	16,118,444	3,498,591	-	-	5,965,383	1,715,449	4,356,257	31,654,124
Community services	332,216	-	-	-	-	-	332	332,548
Nonprogrammed charges	1,530,528	-	-	700,000	-	-	446,019	2,676,547
Debt services	3,690,232	3,780,479	-	16,340,245	5,945,257	2,441,479	571,622	32,769,314
Total disbursements	39,026,660	7,279,070	-	17,040,245	11,910,640	4,156,928	6,570,299	85,983,842
Excess (deficiency) of total receipts over (under) total disbursements	7,212,274	(375,078)	400,000	(78,697)	(803,687)	(1,173,824)	(51,547)	5,129,441
Cash and investments - beginning	217,453	1,242,070	500,000	1,579,569	1,580,253	2,041,201	769,811	7,930,357
Cash and investments - ending	<u>\$ 7,429,727</u>	<u>\$ 866,992</u>	<u>\$ 900,000</u>	<u>\$ 1,500,872</u>	<u>\$ 776,566</u>	<u>\$ 867,377</u>	<u>\$ 718,264</u>	<u>\$ 13,059,798</u>

AVON COMMUNITY SCHOOL CORPORATION
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
GOVERNMENTAL FUNDS
For The Year Ended June 30, 2006

	General	Transportation Operating	Rainy Day	Debt Service	Capital Projects	School Bus Replacement	Other	Totals
Receipts:								
Local sources	\$ 16,229,623	\$ 4,179,351	\$ -	\$ 12,575,667	\$ 5,707,503	\$ 1,267,030	\$ 3,120,526	\$ 43,079,700
Intermediate sources	270,320	-	-	-	-	-	6,756	277,076
State sources	23,872,196	-	-	-	-	-	370,294	24,242,490
Federal sources	-	-	-	-	-	-	1,663,134	1,663,134
Bonds and loans	-	-	-	-	-	-	720,889	720,889
Sale of property, adjustments and refunds	247,508	105,329	-	-	4,247	50,000	940	408,024
Intergovernmental transfers	1,045,988	139,213	1,000,000	-	2,000,000	-	1,175,411	5,360,612
Total receipts	41,665,635	4,423,893	1,000,000	12,575,667	7,711,750	1,317,030	7,057,950	75,751,925
Disbursements:								
Current:								
Instruction	18,900,316	-	-	-	-	-	1,259,132	20,159,448
Support services	17,325,206	4,270,239	-	-	5,368,567	1,330,406	3,315,886	31,610,304
Community services	373,149	-	-	-	-	-	582	373,731
Nonprogrammed charges	4,058,962	11,735	-	1,198,282	1,016,337	5,039	15,352	6,305,707
Debt services	-	-	-	12,800,314	-	-	758,191	13,558,505
Total disbursements	40,657,633	4,281,974	-	13,998,596	6,384,904	1,335,445	5,349,143	72,007,695
Excess (deficiency) of total receipts over (under) total disbursements	1,008,002	141,919	1,000,000	(1,422,929)	1,326,846	(18,415)	1,708,807	3,744,230
Cash and investments - beginning	7,429,727	866,992	900,000	1,500,872	776,566	867,377	718,264	13,059,798
Cash and investments - ending	<u>\$ 8,437,729</u>	<u>\$ 1,008,911</u>	<u>\$ 1,900,000</u>	<u>\$ 77,943</u>	<u>\$ 2,103,412</u>	<u>\$ 848,962</u>	<u>\$ 2,427,071</u>	<u>\$ 16,804,028</u>

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

AVON COMMUNITY SCHOOL CORPORATION
 STATEMENT OF RECEIPTS, DISBURSEMENTS,
 AND CHANGES IN CASH AND INVESTMENTS
 FIDUCIARY FUNDS
 For The Year Ended June 30, 2005

	<u>Pension Trust Funds</u>	<u>Private-Purpose Trust Funds</u>
Additions:		
Local sources	\$ 745	\$ 13,139
Deductions:		
Instruction	-	3,523
Support services	2,787,461	2,456
Nonprogrammed charges	-	2,000
Total deductions	<u>2,787,461</u>	<u>7,979</u>
Excess (deficiency) of total additions over (under) total deductions	(2,786,716)	5,160
Cash and investments - beginning	<u>2,833,777</u>	<u>16,135</u>
Cash and investments - ending	<u>\$ 47,061</u>	<u>\$ 21,295</u>

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

AVON COMMUNITY SCHOOL CORPORATION
STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH AND INVESTMENTS
FIDUCIARY FUNDS
For The Year Ended June 30, 2006

	<u>Pension Trust Funds</u>	<u>Private-Purpose Trust Funds</u>
Additions:		
Local sources	\$ 11,317	\$ 1,869
Intermediate sources	-	1,489
Bonds and loans	<u>4,199,800</u>	<u>-</u>
Total additions	<u>4,211,117</u>	<u>3,358</u>
Deductions:		
Instruction	-	7,782
Support services	<u>2,577,389</u>	<u>651</u>
Total deductions	<u>2,577,389</u>	<u>8,433</u>
Excess (deficiency) of total additions over (under) total deductions	1,633,728	(5,075)
Cash and investments - beginning	<u>47,061</u>	<u>21,295</u>
Cash and investments - ending	<u>\$ 1,680,789</u>	<u>\$ 16,220</u>

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

AVON COMMUNITY SCHOOL CORPORATION
 STATEMENT OF CASH AND INVESTMENTS
 FIDUCIARY FUNDS
 June 30, 2005

<u>Assets</u>	<u>Pension Trust Funds</u>	<u>Private-Purpose Trust Funds</u>	<u>Agency Funds</u>
Cash and investments	\$ 47,061	\$ 21,295	\$ 239,791
<u>Net Assets</u>			
Held in trust for employee benefits and other purposes	\$ 47,061	\$ 21,295	

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

AVON COMMUNITY SCHOOL CORPORATION
 STATEMENT OF CASH AND INVESTMENTS
 FIDUCIARY FUNDS
 June 30, 2006

<u>Assets</u>	<u>Pension Trust Funds</u>	<u>Private-Purpose Trust Funds</u>	<u>Agency Funds</u>
Cash and investments	\$ 1,680,789	\$ 16,220	\$ 112,404
<u>Net Assets</u>			
Held in trust for employee benefits and other purposes	\$ 1,680,789	\$ 16,220	

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

AVON COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

School Corporation, as used herein, shall include, but is not limited to, school townships, school towns, school cities, consolidated school corporations, joint schools, metropolitan school districts, township school districts, county schools, united schools, school districts, cooperatives, educational service centers, community schools, community school corporations, and charter schools.

The School Corporation was established under the laws of the State of Indiana. The School Corporation operates under a Board of School Trustees form of government and provides educational services.

The School Corporation's financial reporting entity is composed of the Primary Government.

In determining the financial reporting entity, the School Corporation complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*.

Joint Venture

The School Corporation is a participant with Metropolitan School District of Wayne Township, Brownsburg Community School Corporation, Monroe-Gregg School District, Eagle-Union School Corporation, Danville Community School Corporation, Mooresville Consolidated Schools, Plainfield Community School Corporation, School Town of Speedway, and Metropolitan School District of Pike Township in a joint venture to operate West Central Joint Services (Co-op), which was created to provide instruction for handicapped children. The School Corporation is obligated by contract to remit their share of the cost of the Co-op based on the number of students in the Co-op. The Co-op uses any surplus resources to undertake special projects for the School Corporation. The Co-op's continued existence depends on continued funding by the School Corporation. Complete financial statements for the Co-op can be obtained from Metropolitan School District of Wayne Township.

The School Corporation is a participant with Metropolitan School District of Wayne Township, Brownsburg Community School Corporation, Monroe-Gregg School District, Metropolitan School District of Decatur Township, Northwest Hendricks Community School Corporation, Danville Community School Corporation, Mooresville Consolidated Schools, Plainfield Community School Corporation, School Town of Speedway, and Metropolitan School District of Pike Township in a joint venture to operate Area Vocational Education (Co-op), which was created to provide vocational education. The School Corporation is obligated by contract to remit their share of the cost of the Co-op based on the number of students in the Co-op. The Co-op uses any surplus resources to undertake special projects for the School Corporation. The Co-op's continued existence depends on continued funding by the School Corporation. Complete financial statements for the Co-op can be obtained from Metropolitan School District of Wayne Township.

Related Organization

The School Corporation's officials are also responsible for appointing the members of the boards of other organizations, but the School Corporation's accountability for these organizations does not extend beyond making the appointments. The School Corporation appoints one board member of the Avon-Washington Township Public Library.

AVON COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Activities and Net Assets – Cash and Investment Basis displays information about the reporting government as a whole. It includes all funds of the reporting entity except for fiduciary funds. The statement distinguishes between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. However, there are no business-type activities to report at this time.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, receipts, and disbursements. Separate financial statements are provided for governmental funds, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. However, at this time, the School Corporation has not established any enterprise funds.

The School Corporation reports the following major governmental funds:

The general fund is the primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The transportation operating fund accounts for financial resources for the transportation of school children to and from school.

The rainy day fund is to account for transfers of unused and unencumbered funds in accordance with Indiana Code 36-1-8-5 and a locally adopted resolution. The fund is subject to the same appropriation process as funds that receive tax money.

The debt service fund accounts for debt from funds borrowed or advanced for the purchase or lease of school buildings, school buses, judgments against the corporation, equipment or capital construction, and interest on emergency and temporary loans.

The capital projects fund accounts for planned construction, repair, replacement or remodeling; and the purchase, lease, upgrade, maintenance, or repair of computer equipment.

The school bus replacement fund is used to account for receipts and disbursements concerning the acquisition and disposal of school buses.

Additionally, the School Corporation reports the following fund types:

The pension trust funds account for the activities of the pension trust fund which accumulate resources for pension benefit payments.

The private-purpose trust fund reports a trust arrangement under which principal and income benefit the students of the school corporation.

AVON COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

Agency funds account for assets held by the School Corporation as an agent for payroll withholdings and serve as control of accounts for certain cash transactions during the time they are a liability to the School Corporation.

C. Measurement Focus and Basis of Accounting

The government-wide, governmental fund, proprietary fund and fiduciary fund financial statements are reported using the basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The cash and investment basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash rather than when earned and disbursements are recognized when paid rather than when a liability is incurred. Investment transactions are not presented on the financial statements.

If the School Corporation utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the enterprise fund statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The School Corporation has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities are provided to people outside the government (enterprise funds) or other departments or agencies primarily within the government (internal service funds). The School Corporation does not have any enterprise funds or internal service funds.

When both restricted and unrestricted resources are available for use, the School Corporation's policy is to use restricted resources first, then unrestricted resources as they are needed.

D. Assets and Cash and Investment Balances

1. Cash and Investments

Investments are stated at cost. Any changes in fair value of the investments are reported as interest receipts in the year of the sale of the investment.

2. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the School Corporation in June and in December. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15.

AVON COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which become delinquent if not paid by May 10 and November 10, respectively. All property taxes collected by the County Treasurer and available for distribution were distributed to the School Corporation on or prior to December 31 of the year collected.

3. Compensated Absences

a. Sick Leave

School Corporation certified employees earn sick leave at the rate of 10 days per year. Noncertified employees earn sick leave at the rate of 7 days per year. Unused sick leave may be accumulated to a maximum of 180 days and 80 days for certified and noncertified employees, respectively. Accumulated sick leave is not paid to employees.

b. Vacation Leave

Nonteaching or administrative and noncertified School Corporation employees earn vacation leave at rates from 10 days to 20 days per year based upon the number of years of service. Vacation leave does not accumulate from year to year. Accumulated vacation leave is not paid to employees.

c. Personal Leave

School Corporation employees earn personal leave at rates from 1 to 4 days per year. Unused personal leave converts to sick leave at the end of the year.

4. Capital Assets

Capital assets arising from cash transactions acquired for use in governmental or proprietary fund operations are accounted for as capital outlay disbursements of the fund upon acquisition.

5. Long-Term Debt

Long-term debt arising from cash basis transactions of governmental and proprietary funds is not reported as liabilities in the basic financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as disbursements.

6. Equity Classification

Government-Wide Statements

Equity is classified as net assets and displayed in two components:

- a. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation.

AVON COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

b. Unrestricted net assets – All other net assets that do not meet the definition of "restricted."

It is the School Corporation's policy to first use restricted net assets prior to the use of unrestricted net assets when a disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

Fund Financial Statements

Governmental fund equity is classified as fund balance. Proprietary fund equity is classified the same as in the government-wide statements.

E. Receipts and Disbursements

1. Program Receipts

Amounts reported as program receipts include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general receipts rather than as program receipts. Likewise, general receipts include all taxes.

2. Operating Receipts and Disbursements

Operating receipts and disbursements for proprietary funds and the similar discretely presented component unit result from providing services and producing and delivering goods and/or services. They also include all receipts and disbursements not related to capital and related financing, noncapital financing, or investing activities.

F. Internal and Interfund Balances and Activities

In the process of aggregating the financial information for the government-wide Statement of Activities and Net Assets – Cash and Investment Basis, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

Fund Financial Statements

1. Interfund services – Sales or purchases of goods and services between funds are reported as receipts and disbursements.
2. Interfund reimbursements – Repayments from funds responsible for certain disbursements to the funds that initially paid for them are reported as reimbursements.
3. Interfund transfers – Flow of assets from one fund to another where repayment is not expected is reported as transfers in and out.

Government-Wide Financial Statements

Interfund activity and balances, if any, are eliminated or reclassified in the government-wide financial statements as follows:

AVON COMMUNITY SCHOOL CORPORATION
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

1. Internal activities – Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Activities and Net Assets – Cash and Investment Basis except for the net amount of transfers between governmental and business-type activities, which are reported as Transfers – Internal Activities. The effects of interfund services between funds, if any, are not eliminated in the Statement of Activities and Net Assets – Cash and Investment Basis.
2. Primary government and component unit activity and balances – Resource flows between the primary government and the discretely-presented component unit(s) are reported as if they were external transactions and are classified separately from internal balances and activities within the primary government.

II. Stewardship, Compliance and Accountability

A. Budgetary Information

Annual budgets are adopted on the cash basis, which is not consistent with accounting principles generally accepted in the United States of America. All annual appropriations lapse at calendar year end.

Prior to the first required publication, the fiscal officer of the School Corporation submits to the governing board a proposed operating budget for the year commencing the following July 1. Prior to adoption, the budget is advertised and public hearings are conducted by the governing board to obtain taxpayer comments. In September of each year, the governing board, through the passage of a resolution/ordinance, approves the budget for the next year. Copies of the budget resolution/ordinance and the advertisement for funds for which property taxes are levied or highway use taxes are received are sent to the Indiana Department of Local Government Finance. The budget becomes legally enacted after the fiscal officer of the School Corporation receives approval of the Indiana Department of Local Government Finance.

The School Corporation's management cannot transfer budgeted appropriations between object classifications of a budget without approval of the governing board. The Indiana Department of Local Government Finance must approve any revisions to the appropriations for any fund or any department of the General Fund. The legal level of budgetary control is by object and department within the fund for the General Fund and by object within the fund for all other budgeted funds.

B. Disbursements in Excess of Appropriations

For the years ended June 30, 2005 and 2006, disbursements exceeded budgeted appropriations in the following funds by the amounts below:

Fund	2004	2005
Debt Service	\$ 892,707	\$ 344,603

AVON COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

III. Detailed Notes on All Funds

A. Deposits

Deposits, made in accordance with Indiana Code 5-13, with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

B. Interfund Transfers

Interfund transfers for the years ended June 30, 2005 and 2006, were as follows:

<u>Transfer From</u>	<u>Transfer To</u>	<u>2005</u>	<u>2006</u>
Debt Service Fund	Transportation Fund	\$ 300,000	\$ 139,213
	Rainy Day Fund	400,000	1,000,000
	Other governmental	<u>-</u>	<u>21,002</u>
Totals		<u>\$ 700,000</u>	<u>\$ 1,160,215</u>

The School Corporation typically uses transfers for cash flow purposes in accordance with various statutes.

IV. Other Information

A. Risk Management

The School Corporation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

B. Holding Corporation

The School Corporation has entered into a capital lease with Avon Community School Holding Corporation (the lessor). The lessor was organized as a not-for-profit corporation pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the school Corporation.

AVON COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

C. Postemployment Benefits

In addition to the pension benefits described below, the School Corporation once provided early retirement benefits up to the age of full social security retirement as authorized by Indiana Code 5-10-8, to all administrative employees whom retired from the School Corporation whose age plus their number of years of service added up to 85 or whom were at least 60 years old with 20 years of experience. Participants must also have been age 55 or older. There were additional requirements as well: Teachers must have spent their last 15 years with the School Corporation and administrators must have spent their last 10 years with the School Corporation. The maximum number of years a retiree may have participated in the program was 7 years. Currently, 24 retirees whom originally met these eligibility requirements are still participating in the program. Disbursements for those post-employment benefits are recognized on a pay-as-you-go basis. During the year ended June 30, 2006, disbursements of \$347,733 were recognized for postemployment early retirement benefits. The early retirement benefit program is no longer offered to current employees.

In addition to the pension benefits described below, the School Corporation once provided post-employment health benefits up to age 65, as authorized by Indiana Code 5-10-8, to all administrative employees whom retired from the School Corporation whose age plus their number of years of service add up to 85. Currently, 7 retirees whom originally met these eligibility requirements are still participating in the program. The School Corporation pays 100% of these postemployment benefits for the retiree. The retiree may pay additional amounts to cover his or her family. Disbursements for those postemployment benefits are recognized on a pay-as-you-go basis. During the year ended June 30, 2006, disbursements of \$34,814 were recognized for postemployment health benefits. The health insurance benefit program is no longer offered to current employees.

D. Pension Plans

1. Agent Multiple-Employer Defined Benefit Pension Plan

Public Employees' Retirement Fund

Plan Description

The School Corporation contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in the defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system and give the School Corporation authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. The report may be obtained by contacting:

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Market Street
Indianapolis, IN 46204
Ph. (317) 233-4162

AVON COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for PERF are established by the Board of Trustees of PERF. The School Corporation's annual pension cost and related information, as provided by the actuary, is presented in this note.

Actuarial Information for the Above Plan(s)

	PERF
Annual required contribution	\$ 384,934
Interest on net pension obligation	(31,116)
Adjustment to annual required contribution	35,459
Annual pension cost	389,277
Contributions made	464,198
Decrease in net pension obligation	(74,921)
Net pension obligation, beginning of year	(429,189)
Net pension obligation, end of year	\$ (504,110)
Contribution rates:	
School Corporation	6
Plan members	3%
Actuarial valuation date	07-01-05
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Amortization period	40 years
Amortization period (from date)	07-01-97
Asset valuation method	75% of expected actuarial value plus 25% of market value

Actuarial Assumptions

Investment rate of return	7.25%
Projected future salary increases:	
Total	5%
Attributed to inflation	4%
Attributed to merit/seniority	1%
Cost-of-living adjustments	2%

AVON COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

Three Year Trend Information

	<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
PERF	06-30-03	\$ 348,626	107%	\$ (308,063)
	06-30-04	310,634	139%	(429,189)
	06-30-05	389,277	149%	(504,110)

2. Cost-Sharing Multiple-Employer Defined Benefit Pension Plan(s)

Teachers' Retirement Fund

Plan Description

The School Corporation contributes to the Indiana Teachers' Retirement Fund (TRF), a defined benefit pension plan. TRF is a cost-sharing multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All employees engaged in teaching or in the supervision of teaching in the public schools of the State of Indiana are eligible to participate in TRF. State statute (IC 5-10.2) governs, through the TRF Board, most requirements of the system and gives the School Corporation authority to contribute to the plan. The TRF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The School Corporation may elect to make the contributions on behalf of the member.

TRF issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Teachers' Retirement Fund
150 West Market Street
Indianapolis, IN 46204
Ph. (317) 232-3860

Funding Policy and Annual Pension Costs

The School Corporation contributes the employer's share to TRF for certified employees employed under a federally funded program and all the certified employees hired after July 1, 1995. The School Corporation currently receives partial funding, through the school funding formula, from the State of Indiana for this contribution. The employer's share of contributions for certified personnel who are not employed under a federally funded program and were hired before July 1, 1995, is considered to be an obligation of, and is paid by, the State of Indiana.

The School Corporation is to contribute at an actuarially determined rate. The current rate has been actuarially determined under the entry age normal cost method to be 7% of covered wages. The School Corporation's required contributions to the plan for the fiscal years ended June 30, 2006, 2005, and 2004, were \$1,555,169, \$1,391,972, and \$1,223,680, respectively. The School Corporation actually contributed 100% of the required contribution for each of the fiscal years.

AVON COMMUNITY SCHOOL CORPORATION
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over (Unfunded) AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess (Unfunded) AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-03	\$ 4,044,494	\$ 4,033,292	\$ 11,202	100%	\$ 6,204,337	0%
07-01-04	4,284,003	4,897,751	(613,748)	87%	6,691,612	(9%)
07-01-05	4,653,223	5,820,678	(1,167,455)	80%	7,446,554	(16%)

AVON COMMUNITY SCHOOL CORPORATION
SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS

June 30, 2006

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 3,848,788
Buildings	135,668,144
Improvements other than buildings	3,643,503
Machinery and equipment	<u>25,601,000</u>
Total governmental activities, capital assets not being depreciated	<u>\$ 168,761,435</u>

AVON COMMUNITY SCHOOL CORPORATION
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT

June 30, 2006

The School Corporation has entered into the following debt arrangements:

Description of Debt	Ending Balance	Due Within One Year
Governmental Activities:		
Capital leases:		
1993A Improvements to the H.S. and Pine Tree Elementary	\$ 1,820,000	\$ 640,000
1993B Improvements to the H.S. and Pine Tree Elementary	1,585,000	410,000
2005 Construction of the High School	53,745,000	1,860,000
2005 Construction of Cedar Elementary	48,423,583	-
2003 Construction of Intermediate School West	32,525,000	-
2002 Renovations, improvements and additions to White Oak El. Maple El. and a portion of the High School	15,265,000	675,000
2001 Construction of Hickory Elementary	11,549,333	11,926
1999 Energy Saving Capital improvements to buildings throughout the School District	226,000	226,000
General Obligation Bonds payable:		
Pension bonds:		
2004 Retirement obligations for school corporation employees	5,945,000	125,000
2006 Retirement obligations for school corporation employees	<u>4,095,000</u>	<u>70,000</u>
Total governmental activities long-term debt	<u>\$ 175,178,916</u>	<u>\$ 4,017,926</u>

AVON COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS

APPROPRIATIONS

The records presented for audit indicated the following expenditures in excess of budgeted appropriations:

Fund	Years	Excess Amount Expended
Debt Service Fund	2005	\$ 344,603
Debt Service Fund	2004	892,707

The School Corporation transferred monies from the Debt Service Fund to the Rainy Day Fund but did not charge the Debt Service fund appropriations for the transfer. After the transfers were considered, each year the expenditures from the Debt Service fund exceeded appropriations.

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

Indiana Code 36-1-8-5.1 states in part: ". . . (2) The sources of funding for the rainy day fund, which may include the following: (A) Unused and unencumbered funds under: (i) section 5 of this chapter; . . ."

FUND SOURCES AND USES (Applies to the School Board)

The extra-curricular accounts at each school have a Donations Fund. A significant amount of monies disbursed from these funds were not related to extra-curricular activities. These included expenditures for the promotion of school and staff achievement to include items such as movie tickets and meals for faculty.

The extra-curricular Donations Funds were also used as a clearing account for student and faculty fundraisers.

Indiana Code 20-26-5-4 concerning promotion of school interest, provides a board of school trustees the authority ". . . To appropriate from the general fund an amount, not to exceed the greater of three thousand dollars (\$3,000) per budget year or one dollar (\$1) per pupil, not to exceed twelve thousand five hundred dollars (\$12,500), based upon the school corporation's previous year's ADM to promote the best interests of the school corporation through: (A) the purchase of meals, decorations, memorabilia, or awards; . . ." (The School Administrator and Uniform Compliance Guidelines, June 2005)

Cash donations that are extra-curricular in nature may be accounted for in the extra-curricular account. Any School Corporation donations shall be accounted for in the school corporation records. The acceptance of these donations shall have the prior approval by the Board of School Trustees. Either the School Corporation Treasurer or Extra-Curricular Treasurer will be responsible for the accounting of these funds as applicable. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 1)

Sources and uses of funds should be limited to those authorized by the enabling statute, ordinance, resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Indiana School Corporations, Chapter 8) (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

AVON COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

INTERNAL CONTROLS (Applies to the School Board and Avon High School)

The high school extra-curricular account established a new fund in the 2004-2005 school year titled the Principal's Fund. The Fund was funded by proceeds and commission from a soft drink contract. The method of funding was not approved by the School Board.

The High School Principal's Fund expenditures included equipment purchases, personal expenditures, and staff meals. Additionally, the internal controls over the disbursements for the extra-curricular accounts were insufficient. The Extra-Curricular Account expenditures were not monitored by the School Board.

The Board did not enforce the School Boards written policy which requires a copy credit card statement to be presented to the School Board at each monthly meeting.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

The State Board of Accounts is of the audit position that as long as the Division of School and Community Nutrition policy allows for a choice, that the decision of which fund the vending revenue is to be accounted for in should be in accordance with the following:

1. The proceeds should accrue to that group's extra-curricular fund if a particular student group or organization manages the vending function.
2. The proceeds may go to the athletic fund if the vending in question is located at athletic events and managed by athletes or athletic department individuals.
3. The proceeds should go to the School Lunch Fund or the Extra-Curricular General Fund, Student Activity Fund or Concession Fund for the benefit of all students and spent consistent with the article in "The School Administrator and Uniform Compliance Guidelines" Vol. 153, March 2001, and page 6-2 of the "Accounting and Uniform Compliance Guidelines manual for Extra-Curricular Accounts" if no particular student group manages the vending function. The Board of School Trustees should document their preference in the board minutes.

(The School Administrator and Uniform Compliance Guidelines, Volume 167, September 2004)

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

TEMPORARY LOAN

A temporary loan of \$1,000,000 was made on December 30, 2005, from the General Fund to the Textbook Rental Fund and has not been repaid.

Indiana Code 36-1-8-4 concerning temporary loans states in part:

AVON COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

"(a) . . . (3) Except as provided in subsection (b), the prescribed period must end during the budget year of the year in which the transfer occurs. (4) The amount transferred must be returned to the other fund at the end of the prescribed period . . ."

"(b) If the fiscal body of a political subdivision determines that an emergency exists that requires an extension of the prescribed period of a transfer under this section, the prescribed period may be extended for not more than six (6) months beyond the budget year of the year in which the transfer occurs if the fiscal body does the following: (1) Passes an ordinance or a resolution that contains the following: (A) A statement that the fiscal body has determined that an emergency exists. (B) A brief description of the grounds for the emergency. (C) The date the loan will be repaid that is not more than six (6) months beyond the budget year in which the transfer occurs. (2) Immediately forwards the ordinance or resolution to the state board of accounts and the department of local government finance."

ATHLETIC CHANGE FUND (Applies to Avon Middle School)

The Athletic Change Fund was not properly receipted back into the Athletic Fund at the end of each school year. Amounts were carried over at year end 2004 and year end 2005. The amount carried over in the Athletic Change Fund did not match the amount established for the Fund.

A Cash Change Fund may be established in any school corporation with the approval of the governing body (board of school trustees), where any officer or employee of the corporation is charged with the duty of collecting fees or other cash revenues. When authorized by the governing body, such Cash Change Fund shall be established by a check drawn on the General Fund (or other appropriate fund) of the school corporation in an amount to be determined by the governing body. The check is drawn in favor of the officer or employee who has been designated as custodian of the Cash Change Fund. The custodian shall convert same to cash and be held responsible for the safekeeping of such cash and the proper accounting thereof in the same manner as required for other funds of the school corporation. The governing board shall have authority to increase or decrease such fund and shall require the entire Cash Change Fund to be returned to the General Fund if and when it is no longer needed for the purpose established or when a change is made in the custodian of the fund [IC 36-1-8-2]. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 6)

DISBURSEMENT DOCUMENTATION (Applies to Pine Tree Elementary)

Two payments were observed for which the applicable claim Form SA-1 or SA-7 could not be located. Also, one claim was observed without supporting documentation.

Due to the lack of supporting information, the validity and accountability for some monies disbursed could not be established.

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

AVON COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

DISBURSEMENT DOCUMENTATION - LACK OF CANCELLED CHECKS
(Applies to Intermediate East and Intermediate West)

Intermediate East School has not received cancelled checks (or optical images) since the School opened a bank account at National City Bank in August 2005. The bank was able to supply copies of the checks on request.

Intermediate West School has not received cancelled checks (or optical images) since the School opened a bank account at National City Bank in May 2005.

Indiana Code 5-15-6-3(a) concerning optical imaging of checks states in part:

". . . 'original records' includes the optical image of a check or deposit document when:

- (1) the check or deposit document is recorded, copied, or reproduced by an optical imaging process . . . ; and
- (2) the drawer of the check receives an optical image of the check after the check is processed for payment . . ."

Furthermore, Indiana Code 26-2-8-111 states in part:

"(a) If a law requires that certain records be retained, that requirement is met by retaining an electronic record of the information in the record that:

- (1) accurately reflects the information set forth in the record after it was first generated in its final form as an electronic record or otherwise; and
- (2) remains accessible for later reference."

"(e) If a law requires retention of a check, that requirement is satisfied by retention of an electronic record of the information on the front and back of the check in accordance with subsection (a)."

EXTRA-CURRICULAR PURCHASE OF EQUIPMENT (Applies to Avon High School)

A disbursement of \$2,749 was made from the Principal's Fund on January 4, 2006, for equipment. A review of the School Board minutes did not reveal authorization for the purchase.

Indiana Code 20-26-5-4 states in part: "In carrying out the school purposes of a school corporation, the governing body acting on the school corporation's behalf has the . . . specific powers . . . to acquire personal property or an interest in personal property as the governing body considers necessary for school purposes . . ." Therefore, extra-curricular equipment purchases should be approved prior to purchase by the Board of School Trustees.

AVON COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

DONATIONS (Applies to Avon High School)

Avon High School established a new fund (Principal's Fund) at the beginning of the 2004-2005 school year. The receipts for this Fund are moneys received from the marketing agreement with Pepsi Cola General Bottlers of Indiana. The contract provides for an annual payment of \$10,000 and a commission on the sale of products. The Principal's fund received \$5,000 from the annual payment and \$5,000 of commissions from the Athletic commissions for each audit year. The balance of the annual payment and commissions were deposited in the Athletic Fund. Expenditures made from the Fund were at the discretion of the High School Principal.

The Principal of Avon High School and three other individuals, who are not employees of the Avon School Corporation, participated in a golf scramble in August 2005 to benefit the Avon Marching Black and Gold. Also, an additional expenditure was made to the Avon Quarterback Club for a second golf outing. The monies were disbursed from the Principal's Fund.

Governmental funds should not be donated or given to other organizations, individuals, or governmental units unless specifically authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

PERSONAL EXPENDITURES FROM THE EXTRA-CURRICULAR FUNDS (Applies to Avon High School)

Personal expenditures were made from the Principal's Fund at Avon High School. These expenditures included meals for school administrators and their spouses, golf outings, clothing for school administrators, and box seat tickets to the Bands of America contest.

Public funds may not be used to pay for personal items or for expenses which do not relate to the functions and purposes of the governmental unit. Any personal expenses paid by the governmental unit maybe the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

MEALS PROVIDED FROM THE EXTRA-CURRICULAR FUNDS (Applies to Avon High School)

We observed during the review of expenditures from the Principal's Fund that \$5,562 was spent on meeting refreshments and meals for employees not in travel status. Included in the \$5,562 were expenditures for two homecoming cookouts, department head meetings, and a pre-prom dinner.

All claims, invoices, receipts and accounts payable vouchers, including those presented to the governing body for approval in accordance with IC 5-11-10, should contain adequate detailed documentation. All claims, invoices, receipts, and accounts payable vouchers regarding reimbursement for meals and expenses for individuals must have specific detailed information of the names of all individuals for whom amounts are claimed, including the nature, name and purpose of the business meeting, to enable the governing body to authorize payment. Payments which do not have proper itemization showing the business nature of the claim, may be the personal obligation of the responsible official, employee or other person for whom the claim is made. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

Public funds may not be used to pay for personal items or for expenses which do not relate to the functions and purposes of the governmental unit. Any personal expenses paid by the governmental unit maybe the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

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SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TO: THE OFFICIALS OF THE AVON COMMUNITY SCHOOL
CORPORATION, HENDRICKS COUNTY, INDIANA

Compliance

We have audited the compliance of the Avon Community School Corporation (School Corporation) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the years ended June 30, 2005 and 2006. The School Corporation's major federal programs are 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 each of its major federal programs is the responsibility of the School Corporation's management. Our responsibility is to express an opinion on the School Corporation's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; 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 School Corporation'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 School Corporation's compliance with those requirements.

In our opinion, the School Corporation complied in all material respects with the requirements referred to above that are applicable to each of its major federal programs for the years ended June 30, 2005 and 2006.

Internal Control Over Compliance

The management of the School Corporation 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 School Corporation's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
(Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the School Corporation's management 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. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

January 8, 2007

AVON COMMUNITY SCHOOL CORPORATION
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For The Years Ended June 30, 2005 and 2006

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 06-30-05	Total Federal Awards Expended 06-30-06
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
Pass-Through Indiana Department of Education Child Nutrition Cluster National School Lunch Program	10.555			
		FY 04/05 - 3315	\$ 409,588	\$ -
		FY 05/06 - 3315	-	491,243
Total for federal grantor agency			<u>409,588</u>	<u>491,243</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>				
Pass-Through MSD Wayne Township Special Education Cluster Special Education - Grants to States	84.027			
Division Exceptional Learners		14203-063-PN01	13,518	-
Special Ed LD 04/05		14205-063-PN01	710,513	-
FY06 part B IDEA		14206-063-PN01	-	766,315
Pass-Through Indiana Department of Education Special Education - Grants to States Chapter 1 PL 108-446-04/05 ESY Chapter 1 PL 108-446- 05/06 - RTI				
		14204-030-DY01	-	85,000
		14206-004-DN01	-	27,052
Total for program			<u>724,031</u>	<u>878,367</u>
Pass-Through Indiana Department of Education Title 1 Grants to Local Educational Agencies	84.010			
		03-3315	45,000	-
		05-3315	198,048	38,019
		06-3315	-	168,843
Total for program			<u>243,048</u>	<u>206,862</u>
Safe and Drug Free Schools and Communities - State Grants	84.186			
		00-242	450	1,413
		02-112	4,977	-
		03-127	11,292	5,963
		04-043	-	16,122
Total for program			<u>16,719</u>	<u>23,498</u>
Eisenhower Professional Development State Grants Title II part B 01/02 SY 01/02	84.281			
		01-196	-	189
State Grants for Innovative Programs	84.298			
Title V		03-171	33,612	-
Title V		04-244	2,124	32,181
Total for program			<u>35,736</u>	<u>32,181</u>
Education Technology State Grants Enhancing Education Through Technology	84.318			
		SY 02/03	5,906	464
English Language Acquisition Grants Title III Language instruction	84.365			
		SY 05/06	-	9,453
Improving Teacher Quality State Grants	84.367			
		03-110	158,138	74,906
Total for federal grantor agency			<u>1,183,578</u>	<u>1,225,920</u>
Total federal awards expended			<u>\$ 1,593,166</u>	<u>\$ 1,717,163</u>

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

AVON COMMUNITY SCHOOL CORPORATION
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

I. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Avon Community School Corporation (School Corporation) and is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Accordingly, the amount of federal awards expended is based on when the activity related to the award occurs. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Circular A-133 requires an annual audit of nonfederal entities expending a total amount of federal awards equal to or in excess of \$500,000 in any fiscal year unless by constitution or statute a less frequent audit is required. In accordance with the Indiana Code (IC 5-11-1 et seq.), audits of school corporations shall be conducted biennially. Such audits shall include both years within the biennial period.

II. Noncash Assistance

The School Corporation expended the following amount of noncash assistance for the years ending June 30, 2005 and 2006. This noncash assistance is also included in the federal expenditures presented in the schedule.

Program Title	Federal CFDA Number	2005	2006
National School Lunch Program	10.555	<u>\$ 106,394</u>	<u>\$ 94,297</u>

AVON COMMUNITY SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified?	no
Reportable conditions identified that are not considered to be material weaknesses?	none reported

Noncompliance material to financial statements noted? no

Federal Awards:

Internal control over major programs:

Material weaknesses identified?	no
Reportable conditions identified that are not considered to be material weaknesses?	none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? no

Identification of Major Programs:

Name of Federal Program or Cluster

Child Nutrition Cluster
Special Education Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? yes

Section II – Financial Statement Findings

No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

AVON COMMUNITY SCHOOL CORPORATION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

AVON COMMUNITY SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on January 8, 2007, with Dr. Timothy Ogle, Superintendent of Schools; Dr. Joseph Kovall, Assistant Superintendent of Schools; Brenda Stipp, Treasurer; and Gary Brinkman, President of the School Board.