



Mary Taylor, CPA
Auditor of State

**AKRON CITY SCHOOL DISTRICT
SUMMIT COUNTY**

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Mary Taylor, CPA

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INDEPENDENT ACCOUNTANTS' REPORT

Akron City School District
Summit County
70 North Broadway Street
Akron, Ohio 44308

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Akron City School District, Summit County, Ohio, (the District) 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 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 our audit provides a reasonable basis for our opinions.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2007, 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*. You should read it in conjunction with this report in assessing the results of our audit.

Managements Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

January 29, 2007

Akron City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

The discussion and analysis of the Akron City School District's (the "School District") 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 basic financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for the fiscal year ended June 30, 2006 are as follows:

- Total net assets increased \$43.6 million. This is a 25.4 percent increase from fiscal year 2005.
- Total revenues increased to \$388.1 million from \$349.3 million. This is an increase of \$38.8 million or 11.1 percent.
- Total program expenses were \$344.5 million. Total program expenses increased from \$331.7 million from fiscal year 2005. This is an increase of \$12.8 million or 3.8 percent.
- The fund balance in the general fund decreased \$7.8 million. This is a 31.6 percent decrease from fiscal year 2005.

Using this Annual Report

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

The Statement of Net Assets and the 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, the fund financial statements tell how services were financed in the short-term and what remains for future spending. Also, the fund financial statements look at the School District's most significant funds with all other nonmajor funds presented in total in one column. The School District has three major funds. They are the general fund, the permanent improvement capital projects fund and the classroom facilities capital projects fund.

Reporting the School District as a Whole – Statement of Net Assets and Statement of Activities

While the basic financial statements contain the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2006?" The Statement of Net Assets and the Statement of Activities answer this question. These two statements include all assets and liabilities using the accrual basis of accounting similar to the basis of accounting used by most companies in the private sector. This basis of accounting takes into account all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

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Management's Discussion and Analysis
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Unaudited

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. The causes of this change may be the result of many factors, some financial, some not. Nonfinancial factors include the School District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the Statement of Net Assets and the Statement of Activities, the activities of the School District's programs and services are accounted for as governmental activities. Thus, all of the School District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities and food service operations.

Reporting the School District's Most Significant Funds – Fund Financial Statements

The analysis of the School District's major funds begins on page 9. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions; however, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the general fund, the permanent improvement capital projects fund and the classroom facilities capital projects fund.

Most of the School District's activities are reported in the governmental funds, which focus on how money flows into and out of those funds and the balances left at fiscal year end available for spending in future fiscal years. These funds are reported using a basis of accounting method called the modified accrual basis of accounting, which measures cash and all other financial assets that can be readily converted to cash. The governmental fund financial 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 a reader determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationships (or differences) between governmental *activities* (reported in the Statement of Net Assets and Statement of Activities) and governmental *funds* are reconciled in the basic financial statements.

The School District as a Whole

Recall that 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 fiscal year 2006 compared to fiscal year 2005 as follows:

Akron City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

Table 1
Net Assets at June 30,
(In Millions)

	Governmental Activities	
	2006	Restated 2005
Assets		
Current and Other Assets	\$435.9	\$402.4
Capital Assets, Net	78.1	66.7
<i>Total Assets</i>	<u>514.0</u>	<u>469.1</u>
Liabilities		
Current and Other Liabilities	272.3	270.9
Long-Term Liabilities		
Due Within One Year	1.8	1.7
Due in More than One Year	24.5	24.8
<i>Total Liabilities</i>	<u>298.6</u>	<u>297.4</u>
Net Assets		
Invested in Capital Assets, Net of Debt	77.8	66.2
Restricted:		
Capital Projects	128.0	86.3
Other Purposes	7.1	5.4
Unrestricted	2.4	13.8
<i>Total Net Assets</i>	<u>\$215.3</u>	<u>\$171.7</u>

Total assets increased \$44.9 million.

Intergovernmental receivable increased \$39.3 million. The increase in intergovernmental receivable is mostly attributed to the Ohio Schools Facilities Commission ("OSFC") receivable. As of June 30, 2005, the State had appropriated only segment 1 funds of the OSFC construction project but as of June 30, 2006, the State has appropriated segment 1 funds and segment 2A funds. The School District records an intergovernmental receivable in the amount the State has appropriated less any funds received from OSFC as of the fiscal year end.

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In addition, deferred expense decreased \$3.0 million in fiscal year 2006 from fiscal year 2005. In accordance with an agreement between the School District and the City of Akron (the City), the City issued securities to assist in the School District's funding of its share of basic project costs and any locally funded initiatives for rebuilding and renovating all of the School District's school buildings into community learning centers. The securities were issued with a maturity life of 30 years. While the securities are outstanding, the School District will contribute \$3.0 million each year to the City for the purpose of paying debt charges on those securities and other project costs. Payments due to the City for periods beyond June 30, 2006 are recorded as deferred expense. The School District contributed \$3.0 million to the City during fiscal year 2006 concerning these securities.

The increase in intergovernmental receivable and the decrease in deferred expense were offset by an increase of \$11.4 million in capital assets. The increase in capital assets is mainly due to the School District incurring more costs related to the OSFC construction project in fiscal year 2006 than in fiscal year 2005. The change in capital assets will be discussed in greater detail later.

Total liabilities increased \$1.2 million. The increase in liabilities was not significant.

The net impact of the assets decrease and the liabilities decrease was an increase of net assets of \$43.6 million.

Recall that the Statement of Activities also provides the viewpoint of the School District as a whole.

Table 2 shows the changes in net assets for fiscal years 2006 and 2005 for governmental activities as follows:

Table 2
Change in Net Assets for Governmental Activities
(In Millions)

	<u>2006</u>	<u>2005</u>
Revenues		
<i>Program Revenues:</i>		
Charges for Services and Sales	\$8.5	\$8.1
Operating Grants, Contributions and Interest	65.4	68.5
Capital Grants and Contributions	54.5	10.5
Total Program Revenues	128.4	87.1

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Management's Discussion and Analysis
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Unaudited

<i>General Revenues:</i>		
Property Taxes	102.7	106.0
Grants and Entitlements	146.0	147.9
Investment Earnings	5.2	2.9
JEDD	0.4	1.0
Miscellaneous	<u>5.4</u>	<u>4.4</u>
<i>Total General Revenues</i>	<u>259.7</u>	<u>262.2</u>
Total Revenues	<u>388.1</u>	<u>349.3</u>
Program Expenses		
Instruction	204.3	199.1
Support Services:		
Pupil and Instructional Staff	40.4	37.8
Board of Education, Administration, Fiscal and Business	28.4	28.9
Operation and Maintenance of Plant	38.6	35.0
Pupil Transportation	8.6	7.2
Central	6.2	6.0
Operation of Non-Instructional Services	3.6	3.9
Extracurricular Activities	3.8	3.7
Food Service Operations	10.6	10.0
Interest and Fiscal Charges	<u>0.0</u>	<u>0.1</u>
Total Program Expenses	<u>344.5</u>	<u>331.7</u>
Increase in Net Assets	<u>\$43.6</u>	<u>\$17.6</u>

While program revenues increased for governmental activities from \$87.1 million to \$128.4 million, the vast majority of revenues supporting governmental activities are general revenues. General revenues decreased from \$262.2 million in fiscal year 2005 to \$259.7 million in fiscal year 2006. General revenues comprised 66.9 percent of revenues supporting governmental activities. The primary source of the decrease in general revenues was a decrease in property taxes revenue in the amount of \$3.3 million. The decrease in property taxes revenue is mainly due to a decrease in the amount of unpaid but billed delinquent real estate property taxes as of June 30, 2006 from the amount of unpaid but billed delinquent real estate property taxes as of June 30, 2005. The amount of unpaid but billed delinquent real estate property taxes at June 30 are reported as revenue at fiscal year end since there is an enforceable legal claim as of June 30.

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The large increase in program revenues is due to the School District recognizing \$48.4 million of revenue associated with the OSFC construction project in fiscal year 2006. In fiscal year 2005, the School District recognized \$10.5 million in revenue associated with the OSFC construction project. The reason for this large increase is because the State had appropriated only segment 1 funds of the OSFC construction project as of June 30, 2005, but as of June 30, 2006, the State has appropriated segment 1 funds and segment 2A funds, as previously discussed. The School District recognizes revenue in the amount the State has appropriated less any funds received from OSFC as of the fiscal year end.

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenue generated by the levy will not increase solely as a result of inflation. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home was reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners), the effective tax rate would become 0.5 mills and the owner would still pay \$35.00. Thus, school districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to the voters to maintain a constant level of service. Property taxes made up 26.5 percent of total revenues for governmental activities for the Akron City School District in fiscal year 2006.

Program expenses increased from \$331.7 million in fiscal year 2005 to \$344.5 million, a 3.8 percent increase.

While expense increases were consistent with budget expectations, the increase in program revenues, the decrease in tax revenues and the decrease in unrestricted State entitlements resulted in a rise of net assets of \$43.6 million.

The Statement of Activities shows the cost of program services and the charges of services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

Akron City School District
Management's Discussion and Analysis
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Table 3
(In Millions)

	<u>2006</u>		<u>2005</u>	
	<u>Total Cost of Service</u>	<u>Net Cost of Service</u>	<u>Total Cost of Service</u>	<u>Net Cost of Service</u>
Program Expenses				
Instruction	\$204.3	\$162.0	\$199.1	\$154.1
Support Services:				
Pupil and Instructional Staff	40.4	28.6	37.8	27.1
Board of Education, Administration, Fiscal and Business	28.4	25.5	28.9	25.6
Operation and Maintenance of Plant	38.6	(17.2)	35.0	21.9
Pupil Transportation	8.6	8.1	7.2	6.9
Central	6.2	5.1	6.0	5.5
Operation of Non-Instructional Services	3.6	0.4	3.9	0.5
Extracurricular Activities	3.8	2.9	3.7	2.8
Food Service Operations	10.6	0.7	10.0	0.1
Interest and Fiscal Charges	0.0	0.0	0.1	0.1
Total	<u>\$344.5</u>	<u>\$216.1</u>	<u>\$331.7</u>	<u>\$244.6</u>

The dependence upon general revenues for governmental activities is apparent. Over 62.7 percent of governmental activities are supported through taxes and other general revenues; such revenues are 66.9 percent of total governmental revenues. The community, as a whole, is by far the primary support for the Akron City School District students.

The School District's Funds

Information about the School District's major funds begins on page 16. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$354.7 million and expenditures of \$352.5 million. The net change in fund balances for the fiscal year was an increase of \$2.2 million for all governmental funds with the most significant increase in the classroom facilities capital projects fund. The classroom facilities capital projects fund's net change in fund balance for fiscal year 2006 was an increase of \$7.6 million. Intergovernmental revenue in the classroom facilities capital projects fund increased \$9.1 million or 113.4 percent from fiscal year 2005 to fiscal year 2006. This is due to the OSFC construction project as previously discussed. The classroom facilities capital projects fund recognized \$17.1 million revenue from the State related to this project in fiscal year 2006. Also, classroom facilities capital projects fund expenditures increased \$9.8 million or 548.9 percent from fiscal year 2005 to fiscal year 2006. As previously discussed, this is attributed to the expenditures associated with the OSFC construction project. Additional projects were started during fiscal year 2006.

Akron City School District
Management's Discussion and Analysis
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Unaudited

The permanent improvement capital projects fund's net change in fund balance for fiscal year 2006 was an increase of \$0.9 million. Expenditures in the permanent improvement capital projects fund decreased \$1.7 million or 33.4 percent from fiscal year 2005 to fiscal year 2006. These expenditures decreased because the salaries and fringe benefits of the School District's internal architects and their clerical staff and office support were paid from the general fund in fiscal year 2006. These salaries and fringe benefits were paid by the permanent improvement capital projects fund in fiscal year 2005. In addition, during the current fiscal year, the permanent improvement capital projects fund transferred \$1.4 million to the classroom facilities maintenance capital projects fund, a nonmajor fund, in accordance with State statute to satisfy its local maintenance requirement by earmarking from the proceeds of its existing permanent improvement tax. Also, during the current fiscal year, the permanent improvement capital projects funds received a transfer in from the school building assistance limited capital projects fund, a nonmajor fund, in the amount of \$0.5 million as a result of a reduction in the percentage of local contributions required by OSFC to receive state funding for the facilities project. These projects are completed and the amount of monies left in the school building assistance limited capital projects fund is the result of the School District originally transferring more than what was required to meet the School District's local obligation. These played a significant part in causing the unreserved fund balance in the permanent improvement capital projects fund to increase from \$0.9 million in fiscal year 2005 to \$1.6 million in fiscal year 2006.

The general fund's net change in fund balance for fiscal year 2006 was a decrease of \$7.8 million. Expenditures increased \$8.5 million from fiscal year 2005 to fiscal year 2006. The increase in expenditures can be attributed to a general increase in salaries and wages, an increase in natural gas utility costs, and an increase in special education tuition and excess cost payments.

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 numerous times; however, none of these amendments were significant. The School District uses a modified site-based budgeting system designed to tightly control total site budgets but provide flexibility for site management.

Total actual expenditures on the budget basis (cash outlays plus encumbrances) were \$267.3 million, \$10.3 million more than actual revenues. This difference is attributed to a \$10.3 million increase in expenditures. As previously discussed, the increase in expenditures can be attributed to a general increase in salaries and wages, an increase in natural gas utility costs, and an increase in special education tuition and excess cost payments.

Akron City School District
Management's Discussion and Analysis
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The School District's ending unobligated cash balance was \$2.9 million above the final budgeted amount. This is attributed to the School District spending \$2.9 million less in expenditures than what was budgeted. The \$2.9 million variance in expenditures was mostly the result of the School District spending \$1.3 million less in operation and maintenance of plant support services expenditures, \$0.5 million less in pupils support services expenditures, \$0.4 million less in central support services expenditures and \$0.3 million less in extracurricular activities expenditures than what was budgeted.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2006, the School District had \$78.1 million invested in capital assets. Table 4 shows fiscal year 2006 balances compared to fiscal year 2005 as follows:

Table 4
 Capital Assets at June 30,
 (Net of Depreciation, in Millions)

	Governmental Activities	
	2006	2005 (Restated)
Land	\$6.2	\$5.3
Construction In Progress	9.4	12.3
Land Improvements	0.1	0.1
Buildings and Improvements	55.1	40.9
Furniture and Equipment	5.3	5.8
Vehicles	2.0	2.3
 Totals	 <u>\$78.1</u>	 <u>\$66.7</u>

Capital assets increased \$11.4 million from fiscal year 2006 to fiscal year 2005. The increase is due to buildings and improvements increasing by \$14.2 million in fiscal year 2006 from fiscal year 2005 because of the renovation completion of the Central Learning Center on 400 West Market Street. The increase in buildings and improvements is offset by a decrease related to recognizing \$2.9 million in depreciation expense in fiscal year 2006. For further information on capital assets, see Note 10 of the notes to the basic financial statements.

As of June 30, 2006, the School District had contractual commitments for construction projects with contractors in the amount of \$31.1 million.

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Management's Discussion and Analysis
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Unaudited

Debt Administration

At June 30, 2006, the School District had \$267,310 in debt outstanding, \$263,379 due within one year.

On March 11, 2002, the School District entered into a five-year capital lease agreement for 109 copiers. These copiers have been originally capitalized in the amount of \$2,398,000. The amount outstanding as of June 30, 2006 was \$255,516. The lease agreement matures during fiscal year 2007.

On March 1, 1988, the School District obtained a loan in the amount of \$141,533 for the purpose of providing asbestos removal for the School District. The amount outstanding as of June 30, 2006 was \$11,794. The loan was issued for a 20 fiscal year period with final maturity during fiscal year 2008.

At June 30, 2006, the School District's overall legal debt margin was \$275.6 million with an unvoted debt margin of \$3.1 million. The debt is well within permissible limits. For further information on debt obligations, see Note 16 of the notes to the basic financial statements.

For the Future

As the preceding information shows, the School District heavily depends on its property taxpayers. Financially, the future is not without challenges.

A large number of students withdrew from the School District to attend community schools during fiscal year 2006. If this trend continues, the future looks bleak.

Management must diligently plan expenses, staying carefully within the School District's five-year plan.

Additional revenues must not be treated as a windfall to expand programs but as an opportunity to extend the time horizon of the five-year plan.

The Ohio Supreme Court found the State of Ohio in March of 1997 to be operating an unconstitutional educational system, one that was neither "adequate" nor "equitable". Since 1997, the State has directed its tax revenue growth toward school districts with little property tax wealth. 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 decision 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 School District does not anticipate any meaningful growth in State revenue. The concern is that, to meet the requirements of the Court, the State may require redistribution of commercial and industrial property tax. With \$60 of every \$100 paid in taxes for the School District coming from business or industry, this could have a significant impact on the School District's residential taxpayers.

Akron City School District management must plan carefully and prudently to provide the resources to meet student needs over the next several fiscal years.

Akron City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

Contacting the School District's Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Jack Pierson, Treasurer, at Akron City School District, 70 North Broadway, Akron, Ohio 44308-1999 or email at jpierson@akron.k12.oh.us.

Akron City School District

Statement of Net Assets

June 30, 2006

	Primary Government	Component Unit
	Governmental Activities	Akron Digital Academy
Assets		
Equity in Pooled Cash and Cash Equivalents	\$37,012,233	\$1,230,844
Cash and Cash Equivalents In Segregated Accounts	9,731,518	0
Investments in Segregated Accounts	74,444,895	0
Accrued Interest Receivable	81,199	0
Accounts Receivable	181,027	0
Intergovernmental Receivable	124,798,408	0
Prepaid Items	0	6,887
Inventory Held for Resale	432,383	0
Materials and Supplies Inventory	501,001	0
Taxes Receivable	107,705,531	0
Deferred Expense	81,000,000	0
Nondepreciable Capital Assets	15,622,073	0
Depreciable Capital Assets, Net	62,448,857	16,702
<i>Total Assets</i>	513,959,125	1,254,433
Liabilities		
Accounts Payable	5,721,821	6,568
Compensated Absences Payable	1,394,359	0
Deferred Revenue	97,094,108	0
Intergovernmental Payable	87,550,422	123,991
Premium Payable	741,435	0
Claims Payable	6,272,100	0
Due to City of Akron	73,531,972	0
Long-Term Liabilities:		
Due Within One Year	1,808,322	0
Due In More Than One Year	24,502,691	0
<i>Total Liabilities</i>	298,617,230	130,559
Net Assets		
Invested in Capital Assets, Net of Related Debt	77,803,620	16,702
Restricted for:		
Capital Projects	128,000,304	0
Debt Service	13,007	0
Other Purposes	7,076,016	0
Unrestricted	2,448,948	1,107,172
<i>Total Net Assets</i>	\$215,341,895	\$1,123,874

See accompanying notes to the basic financial statements

Akron City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2006

	Expenses	Program Revenues			Net (Expenses) Revenues and Change in Net Assets	
		Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants and Contributions	Primary	Component
					Governmental Activities	Unit Akron Digital Academy
Governmental Activities						
Instruction:						
Regular	\$150,227,185	\$3,393,792	\$25,355,017	\$0	(\$121,478,376)	\$0
Special	36,203,255	413,520	8,475,987	0	(27,313,748)	0
Vocational	13,548,351	326,908	436,889	0	(12,784,554)	0
Adult/Continuing	1,993,736	982,721	935,863	0	(75,152)	0
Other	2,362,397	0	1,989,110	0	(373,287)	0
Support Services:						
Pupil	16,735,630	25,526	1,573,117	0	(15,136,987)	0
Instructional Staff	23,678,929	42,981	10,215,744	0	(13,420,204)	0
Board of Education	80,415	0	0	0	(80,415)	0
Administration	21,832,079	423,165	2,142,657	0	(19,266,257)	0
Fiscal	3,748,272	437	300,015	0	(3,447,820)	0
Business	2,757,860	107,614	0	0	(2,650,246)	0
Operation and Maintenance of Plant	38,593,620	65,110	1,484,018	54,214,848	17,170,356	0
Pupil Transportation	8,593,445	157,200	327,769	0	(8,108,476)	0
Central	6,151,132	4,268	744,423	280,961	(5,121,480)	0
Operation of Non-Instructional Services	3,584,244	21,662	3,198,650	0	(363,932)	0
Extracurricular Activities	3,798,425	878,220	0	0	(2,920,205)	0
Food Service Operations	10,581,207	1,610,017	8,267,929	0	(703,261)	0
Interest and Fiscal Charges	32,849	0	0	0	(32,849)	0
<i>Total - Primary Government</i>	<u>\$344,503,031</u>	<u>\$8,453,141</u>	<u>\$65,447,188</u>	<u>\$54,495,809</u>	<u>(216,106,893)</u>	<u>0</u>
Component Unit						
Akron Digital Academy	<u>\$3,807,608</u>	<u>\$0</u>	<u>\$130,000</u>	<u>\$0</u>	<u>0</u>	<u>(3,677,608)</u>
		General Revenues				
		Property Taxes Levied for:				
		General Purposes		98,273,496		0
		Debt Service		7,863		0
		Capital Outlay		4,397,558		0
		Grants and Entitlements not Restricted to Specific Programs		146,012,467		3,809,433
		Investment Earnings		5,212,733		50,098
		JEDD		381,916		0
		Miscellaneous		5,451,659		521
		<i>Total General Revenues</i>		<u>259,737,692</u>		<u>3,860,052</u>
		Change in Net Assets		43,630,799		182,444
		<i>Net Assets at Beginning of Fiscal Year (See Note 3)</i>		<u>171,711,096</u>		<u>941,430</u>
		<i>Net Assets at End of Fiscal Year</i>		<u>\$215,341,895</u>		<u>\$1,123,874</u>

See accompanying notes to the basic financial statements

Akron City School District

Balance Sheet

Governmental Funds

June 30, 2006

	General	Permanent Improvement Capital Projects	Classroom Facilities Capital Projects	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$4,588,535	\$1,919,797	\$6,892,100	\$12,365,804	\$25,766,236
Cash and Cash Equivalents In Segregated Accounts	5,942,859	0	2,629,083	1,159,576	9,731,518
Investments In Segregated Accounts	2,988,750	0	49,457,107	21,999,038	74,444,895
Taxes Receivable	103,158,913	4,538,755	0	7,863	107,705,531
Accounts Receivable	141,838	0	0	39,189	181,027
Intergovernmental Receivable	143,544	0	117,749,478	6,905,386	124,798,408
Accrued Interest Receivable	52,779	0	13,360	15,060	81,199
Interfund Receivable	821,471	0	0	0	821,471
Materials and Supplies Inventory	46,795	0	0	0	46,795
Inventory Held for Resale	0	0	0	432,383	432,383
Deferred Expense	0	81,000,000	0	0	81,000,000
<i>Total Assets</i>	<u>\$117,885,484</u>	<u>\$87,458,552</u>	<u>\$176,741,128</u>	<u>\$42,924,299</u>	<u>\$425,009,463</u>
Liabilities and Fund Balances					
Liabilities					
Accounts Payable	\$301,219	\$97,535	\$3,560,020	\$1,741,344	\$5,700,118
Compensated Absences Payable	1,135,572	0	0	258,787	1,394,359
Interfund Payable	0	0	0	821,471	821,471
Intergovernmental Payable	5,239,967	81,000,000	0	1,310,455	87,550,422
Deferred Revenue	94,354,945	4,128,673	107,161,989	5,854,191	211,499,798
Due to City of Akron	0	0	50,816,269	22,715,703	73,531,972
<i>Total Liabilities</i>	<u>101,031,703</u>	<u>85,226,208</u>	<u>161,538,278</u>	<u>32,701,951</u>	<u>380,498,140</u>
Fund Balances					
Reserved for Encumbrances	1,762,495	176,787	34,725,538	5,116,309	41,781,129
Reserved for Property Taxes	8,904,757	410,082	0	0	9,314,839
Undesignated, Reported in:					
General Fund	6,186,529	0	0	0	6,186,529
Special Revenue Funds	0	0	0	5,891,854	5,891,854
Debt Service Funds	0	0	0	13,007	13,007
Capital Projects Funds	0	1,645,475	(19,522,688)	(798,822)	(18,676,035)
<i>Total Fund Balances</i>	<u>16,853,781</u>	<u>2,232,344</u>	<u>15,202,850</u>	<u>10,222,348</u>	<u>44,511,323</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$117,885,484</u>	<u>\$87,458,552</u>	<u>\$176,741,128</u>	<u>\$42,924,299</u>	<u>\$425,009,463</u>

See accompanying notes to the basic financial statements

Akron City School District

Reconciliation of Total Governmental Fund Balances to

Net Assets of Governmental Activities

June 30, 2006

Total Governmental Fund Balances		\$44,511,323
<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.		78,070,930
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Grants	112,951,439	
Delinquent Property Taxes	1,329,739	
Radio Membership Contributions	23,722	
Tuition and Fees	100,481	
Other	309	
Total		114,405,690
Four internal service funds are used by management to charge the costs of insurance and central supplies to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.		4,664,965
Long-term liabilities, including compensated absences, loans payable and capital leases payable, are not due and payable in the current period and therefore are not reported in the funds:		
Compensated Absences	(26,043,703)	
Loans Payable	(11,794)	
Capital Leases Payable	(255,516)	
Total		(26,311,013)
<i>Net Assets of Governmental Activities</i>		<u>\$215,341,895</u>

See accompanying notes to the basic financial statements

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

	General	Permanent Improvement Capital Projects	Classroom Facilities Capital Projects	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes	\$100,314,035	\$4,483,719	\$0	\$7,863	\$104,805,617
Intergovernmental	147,029,278	586,727	17,131,532	64,340,536	229,088,073
Interest	2,208,287	134,836	2,065,183	911,374	5,319,680
Tuition and Fees	3,470,348	0	0	1,408,566	4,878,914
Extracurricular Activities	0	0	0	1,509,107	1,509,107
Rentals	107,614	0	0	0	107,614
Charges for Services	334,816	0	0	0	334,816
Sales	0	0	0	1,610,016	1,610,016
JEDD	763,832	0	0	0	763,832
Contributions and Donations	854,077	0	0	0	854,077
Miscellaneous	3,794,645	0	0	1,663,577	5,458,222
<i>Total Revenues</i>	<u>258,876,932</u>	<u>5,205,282</u>	<u>19,196,715</u>	<u>71,451,039</u>	<u>354,729,968</u>
Expenditures					
Current:					
Instruction:					
Regular	123,396,368	0	0	25,263,294	148,659,662
Special	29,100,102	0	0	6,900,669	36,000,771
Vocational	12,724,266	0	0	498,603	13,222,869
Adult/Continuing	263,815	0	0	1,716,947	1,980,762
Other	93,711	0	0	2,210,194	2,303,905
Support Services:					
Pupil	14,906,994	0	0	1,648,523	16,555,517
Instructional Staff	13,004,419	0	0	10,511,591	23,516,010
Board of Education	75,625	0	0	0	75,625
Administration	19,282,610	0	0	2,538,378	21,820,988
Fiscal	3,461,485	0	0	271,529	3,733,014
Business	2,536,591	0	0	0	2,536,591
Operation and Maintenance of Plant	30,340,089	0	0	1,115,678	31,455,767
Pupil Transportation	7,840,553	0	0	206,461	8,047,014
Central	5,191,426	0	0	402,286	5,593,712
Operation of Non-Instructional Services	283,922	0	0	3,302,255	3,586,177
Extracurricular Activities	2,775,764	0	0	1,007,865	3,783,629
Food Service Operations	0	0	0	10,506,004	10,506,004
Capital Outlay	989,064	3,326,393	11,624,401	2,939,644	18,879,502
Debt Service:					
Principal Retirement	238,651	0	0	7,863	246,514
Interest and Fiscal Charges	32,849	0	0	0	32,849
<i>Total Expenditures</i>	<u>266,538,304</u>	<u>3,326,393</u>	<u>11,624,401</u>	<u>71,047,784</u>	<u>352,536,882</u>
<i>Excess (Deficiency) of Revenues Over (Under) Expenditures</i>	<u>(7,661,372)</u>	<u>1,878,889</u>	<u>7,572,314</u>	<u>403,255</u>	<u>2,193,086</u>
Other Financing Sources (Uses)					
Transfers In	20,308	488,511	0	1,604,064	2,112,883
Transfers Out	(155,359)	(1,448,705)	0	(508,819)	(2,112,883)
<i>Total Other Financing Sources (Uses)</i>	<u>(135,051)</u>	<u>(960,194)</u>	<u>0</u>	<u>1,095,245</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	<u>(7,796,423)</u>	<u>918,695</u>	<u>7,572,314</u>	<u>1,498,500</u>	<u>2,193,086</u>
<i>Fund Balances at Beginning of Fiscal Year (See Note 3)</i>	<u>24,650,204</u>	<u>1,313,649</u>	<u>7,630,536</u>	<u>8,723,848</u>	<u>42,318,237</u>
<i>Fund Balances at End of Fiscal Year</i>	<u>\$16,853,781</u>	<u>\$2,232,344</u>	<u>\$15,202,850</u>	<u>\$10,222,348</u>	<u>\$44,511,323</u>

See accompanying notes to the basic financial statements

Akron City 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	\$2,193,086
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	
Capital Asset Additions	14,283,776
Current Year Depreciation	(2,898,807)
Total	11,384,969
Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.	
	(14,351)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
Delinquent Property Taxes	(2,126,700)
Grants	32,680,015
Radio Membership Contributions	23,722
Tuition and Fees	14,891
Miscellaneous	(29,986)
Total	30,561,942
Repayment of loan and capital lease principal are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	
	246,514
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.	
Compensated Absences	24,843
The internal service funds used by management to charge the costs of insurance and central supplies to individual funds are not reported in the district-wide statement of activities. Governmental fund expenditures and related internal funds revenues are eliminated. The net revenue (expense) of the internal service funds are allocated among the governmental activities.	
	(766,204)
<i>Change in Net Assets of Governmental Activities</i>	\$43,630,799

See accompanying notes to the basic financial statements

Akron City School District
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$99,717,353	\$99,287,269	\$98,596,483	(\$690,786)
Intergovernmental	148,695,387	148,054,060	147,023,981	(1,030,079)
Interest	2,159,464	2,150,151	2,149,175	(976)
Tuition and Fees	3,548,253	3,537,585	3,512,594	(24,991)
Rentals	113,139	112,651	111,867	(784)
Charges for Services	149,350	354,069	334,816	(19,253)
JEDD	772,515	769,184	763,832	(5,352)
Contributions and Donations	863,786	860,061	854,077	(5,984)
Miscellaneous	1,873,005	1,895,420	3,690,571	1,795,151
<i>Total Revenues</i>	<i>257,892,252</i>	<i>257,020,450</i>	<i>257,037,396</i>	<i>16,946</i>
Expenditures				
Current:				
Instruction:				
Regular	122,675,669	122,441,412	122,875,101	(433,689)
Special	28,362,470	29,090,895	29,316,502	(225,607)
Vocational	12,533,184	12,772,572	12,618,392	154,180
Adult	253,436	253,830	263,773	(9,943)
Other	589,749	589,749	91,761	497,988
Support Services:				
Pupils	15,425,726	15,442,403	14,898,647	543,756
Instructional Staff	12,986,613	12,926,416	12,969,143	(42,727)
Board of Education	115,964	114,591	75,139	39,452
Administration	19,099,652	19,255,628	19,377,049	(121,421)
Fiscal	3,482,851	3,498,942	3,474,621	24,321
Business	3,087,192	3,069,528	2,821,845	247,683
Operation and Maintenance of Plant	31,733,748	31,606,274	30,286,005	1,320,269
Pupil Transportation	8,694,762	9,116,808	8,939,766	177,042
Central	6,862,912	5,664,348	5,276,310	388,038
Operations of Non-Instructional Services	292,331	299,371	285,495	13,876
Extracurricular Activities	2,864,518	3,103,020	2,784,991	318,029
Capital Outlay	994,698	994,698	956,690	38,008
<i>Total Expenditures</i>	<i>270,055,475</i>	<i>270,240,485</i>	<i>267,311,230</i>	<i>2,929,255</i>
<i>Excess of Revenues Over (Under) Expenditures</i>	<i>(12,163,223)</i>	<i>(13,220,035)</i>	<i>(10,273,834)</i>	<i>2,946,201</i>
Other Financing Sources (Uses)				
Transfers In	26,984	24,423	20,308	(4,115)
Transfers Out	(100,000)	(160,000)	(155,359)	4,641
<i>Total Other Financing Sources (Uses)</i>	<i>(73,016)</i>	<i>(135,577)</i>	<i>(135,051)</i>	<i>526</i>
<i>Net Change in Fund Balance</i>	<i>(12,236,239)</i>	<i>(13,355,612)</i>	<i>(10,408,885)</i>	<i>2,946,727</i>
<i>Fund Balance at Beginning of Fiscal Year (See Note 3)</i>	<i>22,411,351</i>	<i>22,411,351</i>	<i>22,411,351</i>	<i>0</i>
Prior Fiscal Year Encumbrances Appropriated	319,512	319,512	319,512	0
<i>Fund Balance at End of Fiscal Year</i>	<i>\$10,494,624</i>	<i>\$9,375,251</i>	<i>\$12,321,978</i>	<i>\$2,946,727</i>

See accompanying notes to the basic financial statements

Akron City School District
Statement of Fund Net Assets
Proprietary Fund
June 30, 2006

	<u>Internal Service Funds</u>
Assets	
Equity in Pooled Cash and Cash	
Equivalents	\$11,245,997
Materials and Supplies Inventory	<u>454,206</u>
<i>Total Assets</i>	<u>11,700,203</u>
Liabilities	
Accounts Payable	21,703
Premium Payable	741,435
Claims Payable	<u>6,272,100</u>
Total Liabilities	<u>7,035,238</u>
Net Assets	
Unrestricted	<u><u>\$4,664,965</u></u>

See accompanying notes to the basic financial statements

Akron City School District
*Statement of Revenues,
Expenses and Changes in Fund Net Assets
Proprietary Fund
For the Fiscal Year Ended June 30, 2006*

	Internal Service Funds
Operating Revenues	
Charges for Services	\$40,006,852
Operating Expenses	
Purchased Services	4,721,420
Materials and Supplies	1,190,068
Claims	34,861,489
Other	79
Total Operating Expenses	40,773,056
<i>Change in Net Assets</i>	(766,204)
<i>Net Assets at Beginning of Fiscal Year (See Note 3)</i>	5,431,169
<i>Net Assets at End of Fiscal Year</i>	\$4,664,965

See accompanying notes to the basic financial statements

Akron City School District
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2006

	Internal Service Funds
<i>Increase (Decrease) in Cash and Cash Equivalents</i>	
Cash Flows from Operating Activities	
Cash Received for Interfund Services	\$40,006,852
Cash Payments for Other Expenses	(3,978,864)
Cash Payments for Goods and Services	(1,183,422)
Cash Payments for Claims	(32,687,521)
<i>Net Cash Provided by Operating Activities</i>	2,157,045
<i>Net Increase in Cash and Cash Equivalents</i>	2,157,045
Cash and Cash Equivalents at Beginning of Fiscal Year (See Note 3)	9,088,952
Cash and Cash Equivalents at End of Fiscal Year	\$11,245,997
 Reconciliation of Operating (Loss) to Net Cash Provided by Operating Activities	
<i>Operating (Loss)</i>	(\$766,204)
Adjustments:	
<i>(Increase) Decrease in Assets:</i>	
Materials and Supplies Inventory	(3,977)
<i>Increase (Decrease) in Liabilities:</i>	
Accounts Payable	11,823
Premium Payable	741,435
Claims Payable	2,173,968
<i>Total Adjustments</i>	2,923,249
<i>Net Cash Provided by Operating Activities</i>	\$2,157,045

See accompanying notes to the basic financial statements

Akron City School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2006

	Private Purpose Trust	
	Scholarship	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$53,703	\$226,036
Cash and Cash Equivalents in Segregated Accounts	155,540	0
Investments in Segregated Accounts	5,000	0
Accrued Interest Receivable	235	0
	<u>214,478</u>	<u>226,036</u>
<i>Total Assets</i>	<u>214,478</u>	<u>226,036</u>
Liabilities		
Undistributed Monies	\$0	\$71,380
Due to Students	0	154,656
	<u>0</u>	<u>154,656</u>
<i>Total Liabilities</i>	<u>0</u>	<u>154,656</u>
Net Assets		
Held in Trust for Scholarships	<u>\$214,478</u>	

See accompanying notes to the basic financial statements

Akron City School District
Statement of Changes in Fiduciary Net Assets
Private Purpose Trust Fund
For the Fiscal Year Ended June 30, 2006

	<u>Scholarship</u>
Additions	
Interest	\$3,389
Deductions	
Miscellaneous	1,239
<i>Change in Net Assets</i>	2,150
<i>Net Assets at Beginning of Fiscal Year</i>	212,328
<i>Net Assets at End of Fiscal Year</i>	\$214,478

See accompanying notes to the basic financial statements

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Akron City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Note 1 – Description of the School District and Reporting Entity

The Akron City School District (the "School District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally elected Board form of government consisting of seven members elected at-large for staggered four-year terms. The School District provides educational services as authorized by State statute and federal guidelines.

The School District was established in 1847 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 54 square miles and is located in Summit County, and is within the City of Akron. The School District is the fifth largest in the State of Ohio (among 903 public school districts and community schools) in terms of enrollment. It is staffed by 939 full-time classified employees, 1,992 full-time certificated personnel, 120 administrative employees, and 777 part-time employees who provide services to 27,258 students and other community members. The School District currently operates 60 instructional buildings, four administrative buildings, two auxiliary buildings and one garage.

Reporting Entity

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

Non-Public Schools - Within the School District boundaries, St. Anthony of Padua School, St. Mary School, St. Matthew School, St. Paul School, St. Sebastian School, St. Vincent DePaul Elementary, North Akron Catholic, Our Lady of Elms Elementary, Our Lady of Elms High School, Archbishop Hoban High School, and St. Vincent - St. Mary High School are operated through the Cleveland Catholic Diocese. Arlington Christian, Emmanuel Christian Academy, Lippman Day School, and Phoenix School are operated as private schools. Current State legislation provides funding to these non-public schools. These monies are received and disbursed on behalf of the non-public schools by the Treasurer of the School District, as directed by the non-public schools. These State transactions are reported as a governmental activity of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes.

Akron City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Discretely Presented Component Unit

The component unit column in the entity-wide financial statements identifies the financial data of the School District's component unit, the Akron Digital Academy (the "Academy"), which is reported separately to emphasize that it is legally separate from the School District.

Akron Digital Academy - The Academy is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 1702 and 3314 to address the needs of students in kindergarten through the twelfth grade. The Academy is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy. The Academy is considered a component unit of the School District for reporting purposes, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14.

The Academy is designed for students who have a desire for, and whose education can be optimized by, a program of online instruction in an independent environment that does not include ancillary components of a more traditional education. Because the focus is on distance learning, the ability of students to learn independently in their own homes using an online educational program is an essential element of the Academy's program.

The Academy was approved for operation under contract with the School District for a period of five years commencing July 1, 2002. The Academy began operations on October 7, 2002. The School District is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The Academy operates under the direction of a seven-member Board of Directors appointed by the School District. The Board consists of a Board President, three members who hold administrative positions with the School District, a public official not employed by the School District, and two individuals representing the interest of parents and students. The Board of Directors is responsible for carrying out provisions of the contract which, include, but are not limited to, State-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers.

The majority of the Academy's personnel services were purchased from the School District during fiscal year 2006. In addition, the Academy was staffed by seven certificated employees and three non-certificated employees, which provided services to 545 students, during fiscal year 2006.

Note 2 – Summary of Significant Accounting Policies

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

Akron City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

A. Basis of Presentation

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

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

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

Fund Financial Statements During the fiscal year, the School District segregates transactions related to certain School 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 School District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The internal service funds are presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by type.

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the School District are divided into three categories: governmental, proprietary and fiduciary.

Governmental Funds Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses 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 balances. The following are the School District's major governmental funds:

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

Akron City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Permanent Improvement Capital Projects Fund The permanent improvement capital projects fund accounts for financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary and trust funds.

Classroom Facilities Capital Projects Fund The classroom facilities improvement capital projects fund accounts for financial resources received and expended in connection with contracts entered into by the School District and the Ohio Schools Facilities Commission for the construction and renovation of school buildings.

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

Proprietary Fund Type Proprietary funds focus on the determination of operating income, changes in net assets, financial position and cash flows and are classified as either enterprise or internal service. The School District only has internal service funds.

Internal Service Funds The internal service funds account for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost-reimbursement basis. The School District's internal service funds account for the operation of the School District's central warehouse that provides goods to other departments and schools in the School District, the operation of the School District's self-insurance program for employee health benefits, a reserve established to pay for liability insurance claims over the School District's self-insured retention, and the operation of the School District's workers' compensation Retrospective Rating Plan.

Fiduciary Fund Types 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 School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The School District has a private purpose trust fund to account for scholarships for further education after graduation. Agency funds are purely custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's only agency fund accounts for student activities.

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 School District are included on the statement of net assets. The statement of activities presents increases (i.e. revenues) and decreases (i.e. expenses) in 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 reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Akron City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

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

The private purpose trust fund is reported using the economic resources measurement focus.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the basic 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 basis of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within 60 days of fiscal year end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 7). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On the 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, interest, tuition, grants, rentals and 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.

Akron City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Expenses/Expenditures 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 Data

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 amount that the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The legal level of control has been established by the Board of Education at the object level for the general fund and at the fund level for all other funds. The School District's Treasurer has been authorized to allocate Board appropriations to the function and object level within each fund, except for the general fund.

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

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

F. Cash, Cash Equivalents and Investments

To improve cash management, all cash received by the School District is pooled. Monies for all funds, including the internal service funds, are maintained in this pool. Individual fund integrity is maintained through School District records. Interest in the pool is presented as "equity in pooled cash and cash equivalents" on the basic financial statements. The general fund provides advances to cover deficit cash balances at the end of the fiscal year. At the end of fiscal year 2006, the general fund advanced monies to several special revenue funds to cover negative cash balances. See Note 17 for additional information.

The School District has segregated bank accounts for monies held separate from the School District's central bank account. These interest bearing depository accounts are presented on the statement of net assets and the balance sheet as "cash and cash equivalents in segregated accounts" and "investments in segregated accounts" since they are not required to be deposited into the School District's treasury.

Akron City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

During fiscal year 2006, investments were limited to overnight repurchase agreements, Federal Home Loan Bank Notes, Federal Home Loan Mortgage Corporation Notes, Federal National Mortgage Association Notes, an Allegiant Treasury Money Market Fund, a First American Treasury Money Market Fund, a Fifth Third Institutional Money Market Fund and certificates of deposit. 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.

Following Ohio statutes, the Board of Education has, by resolution, identified the funds to receive an allocation of interest. Interest revenue credited to the general fund during fiscal year 2006 amounted to \$2,208,287, which includes \$196,782 assigned from other School District funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the basic financial statements as cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are presented on the basic financial statements as investments.

G. Inventory

Inventories are presented at the lower of cost or market on a first-in, first-out basis and are expended/expensed when used.

Inventories consist of donated and purchased food, school supplies held for resale, and materials and supplies held for consumption.

H. Deferred Expense

In accordance with an agreement between the School District and the City of Akron (the "City"), the City issued securities to assist in the School District's funding of its share of basic project costs and any locally funded initiatives for rebuilding and renovating all of the School District's school buildings into community learning centers. The securities were issued with a maturity life of 30 years. While the securities are outstanding, the School District will contribute \$3,000,000 each year from the permanent improvement capital projects fund to the City for the purpose of paying debt charges on those securities and other project costs. Payments due to the City for periods beyond June 30, 2006 are recorded as deferred expense with a corresponding intergovernmental payable.

I. Capital Assets

All capital assets of the School District are classified as general capital assets. These assets generally result from expenditures in the governmental funds. They are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

Akron City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of one thousand dollars for all assets except for assets capitalized in the food service nonmajor special revenue fund, which has a capitalization threshold of five hundred dollars. The School 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.

All reported capital assets except 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	20 years
Buildings and Improvements	70 years
Furniture and Equipment	3 - 20 years
Vehicles	7 - 15 years

J. Interfund Balances

On the fund financial statements, outstanding interfund loans are classified as "interfund receivables/payables". Interfund balances 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 employer 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 termination method. An accrual for earned sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the School District's past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

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. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated leave are paid.

Akron City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

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 internal service funds are reported on the proprietary fund financial 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, compensated absences and capital leases that will be paid from governmental funds are reported as a liability in the governmental fund financial statements only to the extent that they are due for payment during the current fiscal year. Loans payable is recognized as a liability on the governmental fund financial statements when due.

M. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses 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. Repayment from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements.

N. Fund Balance Reserves

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

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

O. 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 borrowing 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 School District or through external restrictions imposed by creditors, grantors or laws and regulations of other governments. Net assets restricted for other purposes include auxiliary services, local grants, State and Federal programs, adult education and student activities.

The School District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Akron City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

P. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the School District, these revenues are charges for services for self-insurance, workers' compensation and central supplies programs. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the funds. All revenues and expenses not meeting these definitions are reported as non-operating.

Q. Estimates

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

Note 3 – Restatement of Beginning Net Assets and Fund Balances

For fiscal year 2006, the School District discovered the misuse and omission of certain facts and reports used in establishing the useful lives of school buses in the prior period. As a result, the School District has increased the estimated useful lives of school buses from five years to fifteen years. This change affected only the government-wide financial statements and amounted to \$1,609,517.

Also, for fiscal year 2006, the School District increased its capitalization threshold for assets capitalized in the food service nonmajor special revenue fund from three hundred dollars to five hundred dollars. This change affected only the government-wide financial statements and amounted to (\$35,613).

The workers' compensation retrospective plan internal service fund was created during fiscal year 2006 to account for the School District's participation in the Ohio Bureau of Workers' Compensation Retrospective Rating Plan. This participation, which began during calendar year 2004, was formerly accounted for in an agency fund improperly. The balance of the portion of the agency fund that was used to account for this plan at June 30, 2005 was \$3,233,658. This balance was reclassified to internal service fund at June 30, 2005.

Net assets in the internal service funds at June 30, 2005 in the statement of revenues, expenses and changes in fund net assets, proprietary fund, were restated from \$1,637,692 to \$5,431,169. The impact on the change in net assets in the internal service funds in the statement of revenues, expenses and changes in fund net assets, proprietary fund, for the fiscal year ended June 30, 2005 would not be material.

Net assets at June 30, 2005 on the statement of activities were restated as follows:

Net Assets at June 30, 2005 as Previously Reported	\$166,903,534
School Buses Estimated Useful Lives Correction	1,609,517
Food Service Nonmajor Special Revenue Fund	
Capitalization Threshold Change	(35,613)
Workers' Compensation Internal Service Fund	<u>3,233,658</u>
Net Assets at June 30, 2005 as Restated	<u><u>\$171,711,096</u></u>

The impact on the change in net assets in the statement of activities for the fiscal year ended June 30, 2005 would not be material.

Akron City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

In addition, for fiscal year 2006, the School District reclassified its warehouse fund from the general fund to an internal service fund. This change affected only the fund financial statements and amounted to \$559,819. The fund balance in the general fund at June 30, 2005 in the statement of revenues, expenditures and changes in fund balances, governmental funds, was restated from \$25,210,023 to \$24,650,204. The impact on the net change in fund balance in the general fund in the statement of revenues, expenditures, and changes in fund balances, governmental funds, for the fiscal year ended June 30, 2005 would not be material.

The fund balance in the general fund at June 30, 2005 in the statement of revenues, expenditures and changes in fund balance – Budget (Non-GAAP Basis) and Actual was restated from \$22,530,817 to \$22,411,351. This change of \$119,466 would not be material.

Note 4 – Accountability and Compliance

A. Accountability

The following nonmajor special revenue funds had deficit fund balances on a GAAP basis at June 30, 2006:

<u>Nonmajor Fund</u>	<u>Amount</u>
Post Secondary	\$3,774
Professional Development	1,188
Public School Preschool	7,700
Ohio Reads	14,280
Career Supplemental Equipment	38,990
Alternative Schools	20,302
Poverty Based Assistance	464,871
Adult Basic Education	65,599
Job Training Partnership Act	7,059
Title VI-B	480,121
Vocational Education	87,018
Title III - Limited English Proficiency	33,219
Refugee Children	146
Title VI	11,129
Preschool Handicapped	10,558
Title II-A	268,786
Miscellaneous Federal Grants	121,667

The fund deficits resulted from adjustments for accrued liabilities. The general fund is liable for any deficit in the funds and provides transfers when cash is required, not when accruals occur.

Akron City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

B. Legal Compliance

Contrary to Section 5705.10 of the Ohio Revised Code, the following funds had deficit cash balances throughout the fiscal year and at fiscal year end:

Fund Type/Fund	Oct.	Jan.	Mar.	June
Special Revenue Funds				
Post Secondary	\$5,152	\$10,299		\$3,774
Public School Preschool	6,728	13,899		145
Ohio Reads				9,663
Career Supplemental Equipment	6,697	23,785	\$12,481	34,837
Alternative Schools	30,421			4,122
Miscellaneous State Grants				10,114
Adult Basic Education	73,237	23,048	45,391	52,726
Job Training Partnership Act	141,792	53,542	23,189	46,696
Title VI-B	141,970	1,119,015	309,333	276,390
Vocational Education	186,962	462,456	19,160	72,746
Head Start	30,000	30,000	30,000	30,000
Title III - Limited English Proficiency		14,039	7,483	24,454
Title I	411,746		2,131,152	
Title VI	3,936		7,382	9,610
Drug-Free Schools	3,376	5	8,780	
Pre-School Handicapped	3,266	43,275	12,211	4,941
Title II-A	678,111	130,119	291,802	201,805
Miscellaneous Federal Grants	118,121	86,272	254,624	79,963
Capital Projects Fund				
School Building Assistance Limited	550,098	550,098		
Agency Fund				
	75,475			

Ohio Rev. Code Section 3315.20 was changed effective May 30, 2007. This allows deficits in special revenue funds if certain conditions are met. The School District believes the majority of the deficits above will be allowed under the new law.

Note 5 - Budgetary Basis of Accounting

While the School 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 Basis) and Actual, 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 are that:

Akron City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

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 balances (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statement on a fund type basis for the general fund:

<u>Net Change In Fund Balance</u>	
GAAP Basis	(\$7,796,423)
Net Adjustment for Revenue Accruals	(1,839,536)
Net Adjustment for Expenditure Accruals	499,701
Adjustment for Encumbrances	<u>(1,272,627)</u>
Budget Basis	<u><u>(\$10,408,885)</u></u>

Note 6 - Deposits and Investments

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

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

Interim monies may be invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, 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;

Akron City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

2. Bonds, notes, debentures, or any other obligations or securities 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 two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and ,
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

Deposits Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, the carrying amount of the School District's deposits was (\$4,347,618) and the bank balance was \$1,112,011. Of the bank balance, \$310,215 was covered by Federal Deposit Insurance Corporation (FDIC), and \$801,796 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the School District's name.

The School District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least 105 percent of the deposits being secured.

Akron City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Investments As of June 30, 2006, the School District had the following investments:

	Carrying Value	Less than 1	1-2	% to Total
Overnight Repurchase Agreements	\$42,004,000	\$42,004,000	\$0	33.34%
Federal Home Loan Bank Notes	16,193,162	4,339,888	11,853,274	12.85
Federal Home Loan Mortgage Corporation Notes	27,437,203	27,437,203	0	21.78
Federal National Mortgage Association Notes	34,351,045	32,361,045	1,990,000	27.27
Fifth Third Institutional Money Market Fund	21,679	21,679	0	.02
Allegiant Treasury Money Market Fund	5,942,859	5,942,859	0	4.72
First American Treasury Money Market Fund	26,595	26,595	0	0.2
Total Investments	<u>\$125,976,543</u>	<u>\$112,133,269</u>	<u>\$13,843,274</u>	<u>100.00%</u>

Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The School District's investment policy addresses interest rate risk by stating the Treasurer shall not make investments which he/she does not reasonably believe can be held until the maturity date or leverage any investment. Also, the School District's investment policy states the purpose of the investments is to maximize the returns on the School District's excess cash balances consistent with safety of those monies and with the desired liquidity of the investments.

The overnight repurchase agreements, Federal Home Loan Bank Notes, Federal Home Loan Mortgage Corporation Notes and Federal National Mortgage Association Notes carry a rating of AAA by Standard and Poor's and Aaa by Moody's Investor Service. The Allegiant Treasury Money Market Fund carries a rating of AAAM by Standard and Poor's. The First American Treasury Money Market Fund and the Fifth Third Institutional Money Market Fund carry a rating of AAAM by Standard and Poor's and Aaa by Moody's Investor Service. The School District has no investment policy dealing with investment credit risk beyond the requirements in state statutes.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the School District's investments are exposed to custodial credit risk as they are uninsured, unregistered, and held by the counterparty's trust department or agent but not in the School District's name. The School District has no investment policy dealing with investment custodial risk beyond the requirements of Ohio Revised Code Section 135.14(M)(2) which states, "Payment for investments shall be made only upon delivery of securities representing such investments to the treasurer, investing authority, or qualified trustee. If the securities transferred are not represented by a certificate, payment shall be made only upon receipt of confirmation of transfer from the custodian by the treasurer, governing board, or qualified trustee."

The School District places no limit on the amount that may be invested in any one issuer.

Note 7 - Property Taxes

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

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

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

Public utility property tax revenue received in calendar year 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006, which became a lien December 31, 2004, were levied after April 1, 2005 and are collected in calendar year 2006 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar year 2006 (other than public utility property) represents the collection of calendar year 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value as of December 31, 2005. Tangible personal property is currently assessed at 18.75 percent of true value. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

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

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2006 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2006 was \$8,904,757 in the general fund and \$410,082 in the permanent improvement capital projects fund. The amount available as an advance at June 30, 2005, was \$7,187,205 in the general fund and \$330,225 in the permanent improvement capital projects fund.

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

Akron City School District
Notes to the Basic Financial Statements
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The assessed values upon which the fiscal year 2006 taxes were collected are:

	2005 Second		2006 First	
	Half Collections		Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$2,516,676,910	86.31%	\$2,752,557,470	89.90%
Public Utility Personal	124,166,640	4.26%	111,881,580	3.65%
Tangible Personal Property	274,843,550	9.43%	197,358,998	6.45%
Total	\$2,915,687,100	100.00%	\$3,061,798,048	100.00%

Tax rate per \$1,000 of assessed valuation	\$63.76	\$63.76
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Note 8 - Contingencies

A. Grants

The School District received financial assistance from federal and State agencies in the form of grants. The disbursements of funds received under these programs generally require compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2006.

B. Litigation

The School District is party to various legal proceedings. The amount of the liability, if any, can not be reasonably estimated at this time. However, in the opinion of management, any such claim or lawsuit will not have a material adverse effect, if any, on the financial condition of the School District.

Note 9 – Receivables

Receivables at June 30, 2006 consisted of taxes, interest, accounts (student transportation fees, radio membership contributions, local grants, fuel sales, mechanics' services and food service sales), interfund and intergovernmental (tuition and grants). All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. All receivables are expected to be collected within one fiscal year.

Akron City School District
Notes to the Basic Financial Statements
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A summary of the items of intergovernmental receivables follows:

<u>Governmental Activities</u>	<u>Amounts</u>
Tuition and Fees	\$120,474
JROTC	23,070
Other Local Grants	37,242
Public School Preschool	17,162
Ohio Reads	22,588
Career Supplemental Equipment	21,456
Alternative Schools	18,910
Miscellaneous State Grants	43,229
Adult Basic Education	80,187
Job Training Partnership Act	46,696
Title VI-B	2,288,984
Vocational Education	105,040
Head Start	30,001
Title III - Limited English Proficiency	45,269
Title I	2,013,538
Title VI	19,390
Drug-Free Schools	59,522
Pre-School Handicapped	25,137
Title II-A	774,027
Miscellaneous Federal Grants	365,927
Food Service	891,081
Classroom Facilities	<u>117,749,478</u>
 Total Intergovernmental Receivables	 <u><u>\$124,798,408</u></u>

Akron City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Note 10 – Capital Assets

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

	Restated Balance 6/30/2005	Additions	Deletions	Balance 6/30/2006
Governmental Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	\$5,263,636	\$927,080	\$0	\$6,190,716
Construction In Progress	12,278,714	8,087,208	(10,934,565)	9,431,357
<i>Total Capital Assets, not being depreciated</i>	<u>17,542,350</u>	<u>9,014,288</u>	<u>(10,934,565)</u>	<u>15,622,073</u>
<i>Capital Assets, being depreciated:</i>				
Land Improvements	102,896	0	0	102,896
Buildings and Improvements	92,229,381	15,426,693	(401,003)	107,255,071
Furniture and Equipment	39,063,509	703,655	(1,599,136)	38,168,028
Vehicles	6,691,704	73,705	(53,598)	6,711,811
<i>Total Capital Assets, being depreciated</i>	<u>138,087,490</u>	<u>16,204,053</u>	<u>(2,053,737)</u>	<u>152,237,806</u>
Less Accumulated Depreciation:				
Land Improvements	(10,719)	(5,145)	0	(15,864)
Buildings and Improvements	(51,264,989)	(1,236,058)	394,662	(52,106,385)
Furniture and Equipment	(33,291,223)	(1,213,420)	1,591,126	(32,913,517)
Vehicles	(4,362,597)	(444,184)	53,598	(4,753,183)
Total Accumulated Depreciation	<u>(88,929,528)</u>	<u>(2,898,807) *</u>	<u>2,039,386</u>	<u>(89,788,949)</u>
Total Capital Assets, being depreciated, net	<u>49,157,962</u>	<u>13,305,246</u>	<u>(14,351)</u>	<u>62,448,857</u>
Governmental Activities Capital Assets, Net	<u>\$66,700,312</u>	<u>\$22,319,534</u>	<u>(\$10,948,916)</u>	<u>\$78,070,930</u>

Akron City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$1,345,272
Special	49,289
Vocational	270,058
Adult/Continuing	10,286
Support Services:	
Pupil	153,099
Instructional Staff	144,251
Board of Education	475
Administration	28,577
Fiscal	563
Business	79,878
Operation and Maintenance of Plant	176,549
Pupil Transportation	274,589
Central	169,752
Operation of Non-Instructional Services	11,758
Extracurricular Activities	15,577
Food Service Operations	<u>168,834</u>
Total Depreciation Expense	<u><u>\$2,898,807</u></u>

Note 11 - Risk Management

The School 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 2006, the School District contracted for property and fleet insurance, crime coverage, liability insurance, and inland marine coverage. Coverage provided is as follows:

Akron City School District
Notes to the Basic Financial Statements
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Type of Coverage	Coverage Amount
Building and Contents (\$50,000 deductible)	\$588,826,490
Property Loss Limit (\$50,000 deductible)	1,000,000
Property Flood and Earthquake (\$50,000 deductible)	2,000,000
Inland Marine (\$5,000 deductible)	250,000
Crime (\$5,000 deductible)	200,000
General Liability (\$25,000 deductible)	
Each occurrence	2,000,000
Aggregate per year	3,000,000
Employee Benefits Liability (\$1,000 deductible)	1,000,000
Ohio Stop Gap Liability (\$25,000 deductible)	1,000,000
Educator's Legal Liability (\$25,000 deductible)	2,000,000
Employment Practice Liability	1,000,000
Automobile (\$10,000 deductible)	4,000,000

Settled claims have not exceeded commercial coverage in any of the past three fiscal years, and there has not been a significant reduction in coverage from the prior fiscal year.

The School District began participating in the Ohio Bureau of Workers' Compensation Retrospective Rating Plan (the "Plan") for calendar year 2004. This Plan involves the payment of: (1) a minimum premium to cover safety and hygiene costs, surplus costs, premium payment security costs, and the costs of losses exceeding the per claim and the maximum premium limitations; (2) a premium based on covered claims for up to ten years; and, (3) a premium based on reserves for evaluated claims at the end of the tenth year.

The Plan is funded by charging each fund a percentage of payroll during the period. The Plan bills the School District based on a calendar year rather than a fiscal year. Changes in the premium and claims liabilities amount follow for the last two fiscal years:

Fiscal Year	Beginning Balance	Current Fiscal Year Premium/ Claims	Premium/ Claims Payments	Ending Balance
2005	\$1,499,771	\$1,101,829	\$1,146,105	\$1,455,495
2006	1,455,495	2,300,948	1,697,408	2,059,035

Medical/surgical insurance is offered to employees on a self-insured basis. The School District has various third-party administrators for the self-insurance activity. The claims liability of \$4,954,500 reported in the self-insurance internal service fund at June 30, 2006 is based on an estimate provided by the third party administrator and the requirements of GASB Statement No. 30, which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in the fund's claims liability amount follow for the last two fiscal years:

Akron City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

	Balance at Beginning of Fiscal Year	Current Fiscal Year Claims	Claims Payments	Balance at End of Fiscal Year
2005	\$4,100,728	\$33,671,260	\$33,673,856	\$4,098,132
2006	4,098,132	33,543,889	32,687,521	4,954,500

Note 12 – Defined Benefit Pension Plans

A. School Employees Retirement System

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

Plan members are required to contribute 10 percent of their annual covered salary, and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contributions is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005 and 2004 were \$4,035,873, \$4,008,556 and \$3,426,010, respectively; 68.41 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004.

B. State Teachers Retirement System

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a publicly-available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio website at www.strsoh.org.

Akron City School District
Notes to the Basic Financial Statements
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New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all of their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the DB Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001 were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2006, 2005, and 2004 were \$19,360,383, \$18,903,013, and \$19,070,211, respectively; 86.20 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. Contributions to the DC and Combined Plans for fiscal year 2006 were \$120,065 made by the School District and \$299,412 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement/State Teachers Retirement System of Ohio. As of June 30, 2006, two members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

Akron City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Note 13 - Post Employment Benefits

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the 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. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$1,489,260 for fiscal year 2006.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005 (the latest information available), the balance in the Fund was \$3.3 billion. For the year ended June 30, 2005, net health care costs paid by STRS Ohio were \$254,780,000 and STRS Ohio had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established as \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$1,878,401.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. Net expenses for health care for the fiscal year ended June 30, 2005 (the latest information available), were \$178,221,113. At June 30, 2005, the value of the health care fund was \$267.5 million, which is about 168% of next fiscal year's projected net health care costs of \$158,776,151. 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. SERS has 58,123 participants eligible to receive health care benefits.

Akron City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Note 14 - Other Employee Benefits

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Employees working 52 weeks per year earn 1 day to 25 days of vacation per year, depending upon length of service. Accumulated, unused vacation time is paid upon termination of employment. Employees working less than 52 weeks per year do not earn vacation. Employees earn sick leave at the rate of one and one-fourth days per month or the equivalent in hours per month. Sick leave may be accumulated up to a maximum of 415 days for all staff. Upon retirement, payment is made for one-fourth of the total sick leave accumulation. Employees receive 1) two additional days for each year of perfect attendance commencing July 1, 1976 through June 30, 1981; and 2) one additional day for each year of perfect attendance commencing July 1, 1981.

B. Insurance Benefits

The School District provides life insurance and accidental death and dismemberment insurance to most employees through Medical Life Insurance Company.

Note 15 – Capital Leases

Capital lease obligations relate to copiers for the School District. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, “Accounting for Leases.” Capital lease payments have been reclassified and are reflected as debt service expenditures in the basic financial statements. These expenditures are reflected as program/function expenditures on a budgetary basis. Capital assets acquired by lease have been originally capitalized in the amount of \$2,398,000.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2006:

Fiscal Year Ending June 30,	Governmental Activities
2007	<u>\$267,270</u>
Less: Amount Representing Interest	<u>(11,754)</u>
Present Value of Net Minimum Lease Payments	<u><u>\$255,516</u></u>

Akron City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Note 16 - Long-Term Obligations

The changes in the School District's long-term obligations during the fiscal year consist of the following:

Governmental Activities:	Principal Outstanding 6/30/2005	Additions	Reductions	Principal Outstanding 6/30/2006	Amount Due in One Year
1988 \$141,533 0% Asbestos Loan	\$19,657	\$0	(\$7,863)	\$11,794	\$7,863
Capital Leases	494,167	0	(238,651)	255,516	255,516
Compensated Absences	26,068,546	2,242,699	(2,267,542)	26,043,703	1,544,943
Total Governmental Activities Long-Term Liabilities	<u>\$26,582,370</u>	<u>\$2,242,699</u>	<u>(\$2,514,056)</u>	<u>\$26,311,013</u>	<u>\$1,808,322</u>

Asbestos Loan - On March 1, 1988, the School District obtained a loan in the amount of \$141,533 for the purpose of providing asbestos removal for the School District. The loan was issued for a 20-year period with final maturity during fiscal year 2008. The loan is being retired from the debt service fund.

Principal requirements to retire the asbestos loan outstanding at June 30, 2006 are as follows:

	<u>Principal</u>
2007	7,863
2008	<u>3,931</u>
Total	<u>\$11,794</u>

Capital leases will be paid from the general fund. Compensated absences will be paid from the fund from which the employee is paid, which includes the following: general, other local grants, auxiliary services, public school preschool, alternative schools, poverty based assistance, miscellaneous state grants, adult basic education, title VI-B, vocational education, title III-limited english proficiency, title I, title VI, drug-free schools, pre-school handicapped, title II-A, miscellaneous federal grants, food service and adult education.

Note 17 – Interfund Transfers and Balances

A. Transfers

Transfers are primarily from the general fund to various funds within the School District. Transfers from the general fund totaling \$155,359 were made to move unrestricted balances to support programs and projects accounted for in nonmajor funds.

The special trust special revenue fund transferred \$8,874 of unclaimed monies to the general fund. These monies were unclaimed for five years, and in accordance with State law, can be transferred to the general fund to be spent for general operating purposes.

Akron City School District
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The school building assistance limited capital projects fund transferred \$488,511 to the permanent improvement capital projects fund as a result of a reduction in the percentage of local contributions required by the Ohio School Facilities Commission to receive state funding for the facilities project. These projects are completed and the amount of monies left in the school building assistance limited capital projects fund is the result of the School District originally transferring more than what was required to meet the School District's local obligation.

The major permanent improvement capital projects fund transferred \$1,448,705 to the classroom facilities maintenance capital projects fund in accordance with State statute to satisfy its local maintenance requirement by earmarking from the proceeds of its existing permanent improvement tax.

In addition, the district managed activities special revenue fund transferred the unexpended balances of the following activities to the general fund due to the termination of the activities: the Class of 2005 at Kenmore High School amounting to \$6,413, Poly Tech at East High School totaling \$1,969, Santa Gram at Hotchkiss Elementary School equaling \$328, Science at Ellet High School amounting to \$1,907 and D.C. Training at Ellet High School totaling \$817.

Transfers made during the fiscal year ended June 30, 2006 were as follows:

	General Fund	Permanent Improvement Capital Projects Fund	Nonmajor Funds	Total
<u>Transfers To</u>				
General Fund	\$0	\$0	\$20,308	\$20,308
Permanent Improvement Capital Projects Fund	0		488,511	488,511
Nonmajor Funds	155,359	1,448,705	0	1,604,064
Total	\$155,359	\$1,448,705	\$508,819	\$2,112,883

Akron City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

B. Balances

The general fund advanced funds to various special revenue funds to cover negative cash balances at the end of fiscal year 2006 on the GAAP basis.

Advanced To	Nonmajor Funds
Post Secondary	\$3,774
Ohio Reads	8,296
Summer Intervention	10
Career Supplemental Equipment	34,789
Alternative Schools	3,904
Miscellaneous State Grants	9,838
Adult Basic Education	50,115
Job Training Partnership Act	45,542
Title VI-B	251,040
Vocational Education	70,543
Head Start	29,999
Title III - Limited English Proficiency	24,285
Title VI	9,531
Preschool Handicapped	3,430
Title II - A	198,805
Miscellaneous Federal Grants	77,570
Total	\$821,471

Note 18 – Jointly Governed Organization

The Ohio Schools Council (“the Council”) is a jointly governed organization among many school districts. The jointly governed organization was formed to purchase quality products and services at the lowest possible cost to member districts. The Council’s Board consists of seven superintendents of the participating districts whose terms rotate every year. The degree of control exercised by any school district is limited to its representation on the Board. Financial information for the Council can be obtained by contacting the Executive Secretary of the Council at 6133 Rockside Road, Suite 10, Independence, Ohio 44131.

In fiscal year 2006, the District participated in the Council’s electric energy program. This program allows school districts to purchase electricity at reduced rates. The participants make monthly payments based on estimated usage. At the end of the fiscal year, these estimated monthly payments are compared to their actual usage and any necessary adjustments are made.

Akron City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Note 19 – Set Asides

The School 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 fiscal year end or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year end and carried forward to be used for the same purposes in future fiscal years.

The following cash basis information describes the change in the fiscal year end set-aside amounts for textbooks and instructional materials and capital improvements. Disclosure of this information is required by State statute.

	Textbooks & Instructional Materials Reserve	Capital Improvements Reserve
Set-aside Reserve Balances as of June 30, 2005	(\$2,299,009)	\$0
Current Fiscal Year Set-aside Requirements	4,302,510	4,302,510
Qualifying Disbursements	(3,688,047)	0
Permanent Improvement Levy Offset	<u>0</u>	<u>(4,403,862)</u>
Totals	<u>(\$1,684,546)</u>	<u>(\$101,352)</u>
Set-aside Balances Carried Forward to Future Fiscal Years	<u>(\$1,684,546)</u>	<u>\$0</u>

The School District had qualifying disbursements during the fiscal year that reduced the textbooks and instructional materials and capital improvements set-aside amounts below zero. This extra amount may be used to reduce the set-aside requirement of future fiscal years for the textbooks and instructional materials set aside. Although the School District had restricted resources, a permanent improvement levy, during the fiscal year that reduced the set-aside amount to below zero for the capital improvements set aside, this amount may not be used to reduce the set-aside requirement for future fiscal years. This negative balance is therefore not presented as being carried forward to future fiscal years.

Note 20 – State School Funding Decision

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 decision 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...”.

Akron City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

Note 21 – Construction Commitments

The School District has active construction projects as of June 30, 2006. At fiscal year end, the School District's commitments with contractors are as follows:

Project	Spent-to-Date	Remaining Commitment
Kenmore High School Cooling Tower Replacement	\$30,050	\$35,669
Barrett Elementary School Emergency Egress Lighting	0	15,857
Miller South School Dance Floor Replacement	0	29,788
Voris Elementary School Boiler Replacement	0	152,753
Administration Building Main Steam Supply Modification	0	10,170
Distribution Center Lighting Upgrade	0	30,735
Central Learning Center Construction	11,778,151	351,160
Betty Jane Elementary School Construction	18,500	146,873
Crouse Elementary School Construction	0	32,673
Judith Resnik Elementary School Construction	5,333,152	2,259,316
Forest Hill Elementary School Construction	0	71,673
Glover Elementary School Construction	0	32,673
Sam Salem Elementary School Construction	0	71,578
David Hill Elementary School Construction	1,587,925	6,789,131
Helen Arnold Elementary School Construction	1,117,706	6,713,559
Mason Elementary School Construction	199,008	44,119
Ritzman Elementary School Construction	0	32,673
Robinson Elementary School Construction	0	32,673
Voris Elementary School Construction	4,059,129	3,047,730
Jennings Middle School Construction	2,437,473	11,196,092
	<u>\$26,561,094</u>	<u>\$31,096,895</u>

The commitments involving the construction of school buildings are being financed entirely with Ohio School Facilities Commission monies and proceeds from a municipal income tax levied by the City. The commitments not involving the construction of school buildings are being financed entirely with property taxes, interest, and homestead/rollback taxes.

Akron City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Note 22 – Ohio Schools Facilities Commission Construction Project

Voters in the City passed an ordinance in May of 2003 levying a 0.25 percent additional municipal income tax for the purpose of acquiring, constructing, renovating, and adding to interests in land and the School District's school buildings. This tax will last for 30 years and will raise \$284,208,394 in local funds needed to be eligible for \$408,982,810 of Ohio School Facilities Commission ("OSFC") monies. Also, this tax will raise \$80,706,348 in additional local funds for locally funded initiatives that are not eligible to be paid for with OSFC monies. Combined, these funds will rebuild and renovate all of the School District's school buildings into community learning centers for educating students during school hours while serving as community learning centers for recreation, education, after school and summer school programs, as well as community activities at other times, open to City residents and persons employed in the City.

The tax took effect January 1, 2004. As of June 30, 2006, the School District has received \$94,148,973 in local funds from the City by way of this tax to date. A liability, "due to City of Akron", was recorded in the amount of \$73,531,972 as of June 30, 2006. The amount of this liability was determined by reducing the \$94,148,973 received as of June 30, 2006 by the amount of capital expenditures made by the School District using these local funds received from the City since the inception of this project. The School District has made a total of \$20,617,001 in capital expenditures using these local funds received from the City as of June 30, 2006. A liability was recorded for these monies because if the School District does not spend these local funds by the end of this project, these funds would have to be returned to the City in accordance with an agreement between the School District and the City.

The School District and the City will be sharing ownership of the new community learning centers equally; therefore, the School District recorded 50 percent of the capital expenditures as construction in progress capital assets. This has totaled \$9,431,357 since the inception of the construction.

The School District has received \$15,171,177 in OSFC monies to date as of June 30, 2006. The State has currently appropriated the entire portion of segment 1 and segment 2A funds to be remitted to the School District in the amount of \$132,920,655 for this construction project. As a result, \$117,749,478 was recorded as an intergovernmental receivable as of June 30, 2006. On the accrual basis, the entire \$117,749,478 was recorded as revenue because all of the eligibility requirements were satisfied for this nonexchange transaction. On the modified accrual basis, only the amount available to pay the liabilities of the 2006 fiscal year was recorded as revenue. This amounted to \$10,587,489 for fiscal year 2006. The remaining portion was recorded as deferred revenue.

Note 23 – Subsequent Event

On November 7, 2006, the School District's voters passed an additional tax for the purpose of current expenses at a rate not exceeding 7.9 mills for each one dollar of valuation, for a continuing period of time, commencing in 2006, first due in calendar year 2007. This additional general tax levy will generate \$23,622,839 annually during the life of the levy for current expenses.

Akron City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Note 24 – Akron Digital Academy

A. Summary of Significant Accounting Policies

The basic financial statements of the Academy have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Academy also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its proprietary activities, provided they do not conflict with or contradict GASB pronouncements. The Academy has the option to also apply FASB Statements and Interpretations issued after November 30, 1989 to its proprietary activities, subject to the same limitation. The Academy has elected not to apply these FASB Statements and Interpretations. The more significant of the Academy's accounting policies are described below.

Basis of Presentation

The Academy's basic financial statements consist of a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows.

Enterprise reporting focuses on the determination of the change in net assets, financial position and cash flows.

Measurement Focus

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities are included on the statement of net assets. The statement of revenues, expenses and changes in 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 Academy finances and meets the cash flow needs of its enterprise activities.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the basic financial statements. The Academy's basic financial statements are prepared using the accrual basis of accounting.

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.

Non-exchange transactions, in which the Academy receives value without directly giving equal value in return, include grants, entitlements and donations. 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 fiscal year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

Akron City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses are recognized at the time they are incurred.

Budgetary Process

Unlike traditional public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in the Ohio Revised Code Chapter 5705, unless specifically provided in the contract between the Academy and its sponsor, except for Ohio Revised Code Section 5705.391 as it relates to five-year forecasts. The contract between the Academy and the School District does not prescribe a budgetary process for the Academy; therefore, no budgetary information is presented in the basic financial statements.

Cash and Cash Equivalents

During fiscal year 2006, investments were limited to overnight Eurodollars. Investments with an original maturity of three months or less at the time they are purchased by the Academy are presented on the basic financial statements as cash equivalents

Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2006 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the fiscal year in which the services are consumed.

Capital Assets

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The Academy maintains a capitalization threshold of one thousand dollars. The Academy 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.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over three to five years for furniture and equipment.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, consist of capital assets, net of accumulated depreciation.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities. For the Academy, these revenues are payments from the State Foundation Program. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activities of the Academy. All revenues and expenses not meeting these definitions are reported as non-operating.

Akron City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Intergovernmental Revenues

The Academy currently participates in the State Foundation Program. Revenues received from this program are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

The Academy also participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, the Academy was awarded \$150,000 during the fiscal year ended June 30, 2005 to offset start-up costs of the Academy. The Academy received \$125,000 of this award amount in fiscal year 2006. In addition, the Academy participates in the State Education Management Information System (“EMIS”) through the Ohio Department of Education. Under this program, the Academy was awarded \$5,000 during the fiscal year ended June 30, 2006 to offset costs for EMIS reporting. Revenues received from these programs are recognized as non-operating revenue in the accounting period in which all eligibility requirements have been met.

Amounts received under these programs for the 2006 fiscal year totaled \$3,939,433.

Estimates

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

B. Deposits and Investments

Deposits Custodial credit risk for deposits is the risk that in the event of bank failure, the Academy will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, the carrying amount of the Academy’s deposits was \$6,798 and the bank balance was \$536,000. Of the bank balance, \$100,000 was covered by Federal Deposit Insurance Corporation and \$436,000 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution’s trust department or agent, but not in the Academy’s name.

The Academy has no deposit policy for custodial risk.

Investments As of June 30, 2006, the Academy had the following investment:

	<u>Carrying Value</u>	<u>Maturity</u>
Overnight Eurodollars	\$1,224,046	July 5, 2006

Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The Academy has no investment policy that addresses interest rate risk.

The overnight Eurodollars carry a rating of A+ by Standard and Poor’s and Aa3 by Moody’s Investor Service. The Academy has no investment policy dealing with investment credit risk.

Akron City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Academy will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The overnight Eurodollars are exposed to custodial credit risk as they are uninsured, unregistered, and held by the counterparty's trust department or agent but not in the Academy's name. The Academy has no investment policy dealing with investment custodial risk.

C. Capital Assets

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

	Balance 6/30/2005	Additions	Deletions	Balance 6/30/2006
<i>Capital Assets, being depreciated:</i>				
Furniture and Equipment	\$27,029	\$2,381	\$0	\$29,410
Less Accumulated Depreciation:				
Furniture and Equipment	(5,288)	(7,420)	0	(12,708)
Total Capital Assets, being depreciated, net	\$21,741	(\$5,039)	\$0	\$16,702

D. Risk Management

The Academy 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 2006, the Academy was covered under the School District's insurance for property, liability, and inland marine coverage.

Settled claims of the School District have not exceeded commercial coverage in any of the past three fiscal years, and there has not been a significant reduction in coverage from the prior fiscal year.

E. State School Funding Decision

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 decision 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 Academy is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

F. Agreement with the Akron City School District

A service contract for fiscal year 2006 between the Academy and the School District was previously approved. This service contract commenced on July 1, 2005 and ends on June 30, 2007 and may be renewed by mutual agreement.

Akron City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

In agreement with the current service contract, the Academy purchased the following services from the School District: personnel to administer and oversee the instruction and governance of the Academy, hourly personnel to provide instructional services to the Academy, and hourly staff to provide support services to the Academy. The Academy is responsible for reimbursement of 100 percent of all costs incurred by the School District related to these services. The Academy reimbursed the School District \$1,882,589 during fiscal year 2006 for these services.

In addition, in accordance with this current service contract, the Academy will remit an amount not to exceed \$2,000 per pupil enrolled in the Academy during the respective academic years for the following management services: marketing support, insurance coverage, human resource services, payroll processing, use of the School District's name and goodwill, printing services, professional consulting related to curriculum, instruction, special education, finances, employee relations, legal issues, professional development and training and instructional materials. The Academy paid the School District \$800,525 during fiscal year 2006 for these services.

All personnel providing services to the Academy on behalf of the School District under the service contract are considered employees of the School District. The majority of the Academy's personnel services were provided by the Sponsor during the 2006 fiscal year.

For the fiscal year ended June 30, 2006, the Academy paid the School District the following expenses:

<u>Purchased Services Expenses</u>	<u>Amounts</u>
Professional and technical services	\$2,694,059
Communications	570
Utilities	4,616
Contracted craft or trade services	525
Tuition	5,531
Total Purchased Services Expenses	<u>\$2,705,301</u>

G. Defined Benefit Pension Plans

The Sponsor, under a purchased services basis with the Academy, provided employee services and paid those employees. However, these purchased services did not relieve the Academy of the obligation for remitting pension contributions. The retirement systems considered the Academy as the Employer-of-Record and the Academy ultimately responsible for remitting contributions to each of the systems noted below.

School Employees Retirement System

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

Akron City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Plan members are required to contribute 10 percent of their annual covered salary, and the Academy is required to contribute at an actuarially determined rate. The current Academy rate is 14 percent of annual covered payroll. A portion of the Academy's contributions is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Academy's required contributions for pension obligations to SERS for the 10 employees paid directly by the Academy during the fiscal year ended June 30, 2006 was \$4,799; 100 percent has been contributed for fiscal year 2006.

State Teachers Retirement System

The Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a publicly-available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (614) 227-4090 or by visiting the STRS Ohio website at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all of their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the DB Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001 were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

Akron City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

The Academy's required contributions for pension obligations to the DB Plan for the 10 employees paid directly by the Academy during the fiscal year ended June 30, 2006 was \$7,399; 63.08 percent has been contributed for fiscal year 2006. There were no contributions to the DC and Combined Plans for fiscal year 2006 made by the Academy or made by the plan members.

H. Post Employment Benefits

The Academy provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the 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. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the Academy, this amount equaled \$569 for fiscal year 2006.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005 (the latest information available), the balance in the Fund was \$3.3 billion. For the year ended June 30, 2005, net health care costs paid by STRS Ohio were \$254,780,000 and STRS Ohio had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll. For the Academy, the amount contributed to fund health care benefits during the 2006 fiscal year equaled \$1,551.

The unallocated portion of the 14 percent employer contribution rate provides for maintenance of the asset target level for the health care fund. The target level for the health care fund is 150 percent of the projected claims less premium contributions for the next fiscal year. Net health care costs for the fiscal year ended June 30, 2005 (the latest information available) were \$178,221,113. As of June 30, 2005, the value of the health care fund was \$267.5 million, which is about 168 percent of next fiscal year's projected net health care costs of \$158,776,151. 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 percent of estimated annual net claim costs. SERS has 58,123 participants currently receiving health care benefits.

Akron City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

I. Operating Leases

The Academy leases facilities space and copiers under noncancelable operating leases. Total costs for such leases were \$81,391 for the fiscal year ended June 30, 2006. The future minimum lease payments for these leases are as follows:

Fiscal Year Ending June 30,	Amount
2007	\$88,606
2008	16,501
2009	9,946
2010	4,463
Total	<u>\$119,516</u>

J. Contingencies

Grants

The Academy received financial assistance from federal and State agencies in the form of grants. The disbursements of funds received under these programs generally require compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, any disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2006.

Litigation

A suit was filed in the U.S. District Court, Southern District of Ohio, Western Division on October 6, 2004, which challenges the funding of charter schools under Equal Protection, Due Process and claims violation of a right to vote on the bodies administering public schools. The case is still pending. The effect of this suit, if any, on the Academy is not presently determinable.

State Foundation Funding

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which State foundation funding is calculated. The conclusion of this review resulted in a payable of \$7,857 due to the State.

K. Federal Tax-Exempt Status

The Academy is a nonprofit corporation that has been determined by the Internal Revenue Service to be exempt from federal income taxes as a public charity under Section 501(c)(3) of the Internal Revenue Code.

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**AKRON CITY SCHOOL DISTRICT
SUMMIT COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2006**

FEDERAL GRANTOR/ Pass-Through Grantor/ Program Title	FEDERAL CFDA NUMBER	PASS-THROUGH GRANTOR'S NUMBER	RECEIPTS	NON-CASH RECEIPTS	EXPENDITURES	NON-CASH EXPENDITURES
U.S. DEPARTMENT OF EDUCATION						
<i>(Direct)</i>						
Student Financial Assistance Cluster:						
Federal Family Education Loan	84.032	N/A	\$314,206		\$314,206	
Federal Pell Grant Program	84.063	N/A	204,939		204,939	
		N/A	97,948		97,948	
		N/A	117,196		117,196	
Federal Pell Grant Program - Administrative Allowance			545		545	
Total Federal Pell Grant Program			<u>420,628</u>		<u>420,628</u>	
Total Student Financial Assistance Cluster			734,834		734,834	
Federal Crisis Grant	84.184E	N/A	196,635		196,261	
Impact Aid	84.041	N/A	28,824		28,824	
Fund for the Improvement of Education	84.215X	N/A	101,595		125,647	
<i>(Passed-through Ohio Department of Education)</i>						
Adult Education - State Grant Program	84.002	043489-AB-S1-2005C	18,457		18,457	
		043489-AB-S1-2006	556,047		608,773	
		043489-AB-S1-2005	80,920		5,520	
Total Adult Education-State Grant Program			<u>655,424</u>		<u>632,750</u>	
Special Education Cluster:						
Special Education Grants to States	84.027	043489-6B-SF-2006	5,790,648		6,019,419	
		043489-6B-SD-2006	39,788		44,536	
		043489-6B-SF-2006	45,949		49,568	
		043489-6B-SF-2006	19,198		14,954	
		043489-6B-SA-2006	37,470		34,330	
		043489-6B-SF-2006	34,487		35,196	
		043489-6B-SF-2006	33,239		33,171	
		043489-6B-PB-2006	13,337		24,712	
		043489-6B-PB-2006	21,599		22,520	
		043489-6B-SF-2005	1,464,603		157,325	
		043489-6B-SD-2005	1,805			
		043489-6B-SD-2005	1,835		28	
		043489-6B-SD-2005	9,734		60	
		043489-6B-SA-2005	19,890		4,772	
		043489-6B-SD-2005	12,602		569	
		043489-6B-SD-2005	13,892			
		043489-6B-PB-2005	5,656		1,281	
		043489-6B-S3-05	70,969		70,969	
		C1680-ELAA-07-03			6,964	
Total Special Education Grants to States			<u>7,636,701</u>		<u>6,520,374</u>	
Special Education Preschool Grants	84.173	043489-PG-S1-2006	191,081		196,022	
		043489-PG-S1-2005	37,489		7,126	
Total Special Education Preschool Grants			<u>228,570</u>		<u>203,148</u>	
Total Special Educational Cluster			7,865,271		6,723,522	
Javits Gifted and Talented Students Education Grant	84.206	043489-JG-S1-06	7,777		3,957	
Vocational Education-Basic Grants to State	84.048	043489-20-C1-2006	801,737		874,484	
		043489-20-C2-2006	122,675		122,675	
		043489-20-C1-2005	191,778		106,599	
		043489-20-C2-2005	1,638		3,471	
Total Vocational Education-Basic Grants to State			<u>1,117,828</u>		<u>1,107,229</u>	
Title I Grants to Local Educational Agencies	84.010	043489-C1-S1-2006	12,239,223		11,811,273	
Title I Grants to Local Educational Agencies		043489-C1-SD-2006	20,119			
Title I Grants to Local Educational Agencies		043489-C1-S1-2005	17,406		941,223	
School Improvement Title I		043489-C1-SK-06	247,378		187,425	
School Improvement Title I		043489-C1-SK-05	356,436		450,263	
Total Title I Grants			<u>12,880,562</u>		<u>13,390,184</u>	
Twenty First Century Community Learning Centers	84.287	043489-T1-S1-2006	296,142		296,853	
		043489-T1-S1-2006	348,097		344,570	
		043489-T1-S1-05	51,827		409	
		043489-T1-S1-05	68,624		1,291	
Total Twenty-First Century Community Learning Centers			<u>764,690</u>		<u>643,123</u>	

**AKRON CITY SCHOOL DISTRICT
SUMMIT COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2006**

FEDERAL GRANTOR/ Pass-Through Grantor/ Program Title	FEDERAL CFDA NUMBER	PASS-THROUGH GRANTOR'S NUMBER	RECEIPTS	NON-CASH RECEIPTS	EXPENDITURES	NON-CASH EXPENDITURES
Comprehensive School Reform Demonstration	84.332	043489-RF-CC-2006	256,316		252,761	
		043489-RF-K3-2005	36,237		39,082	
		043489-RF-CC-2005	34,532		82,850	
		043489-RF-K2-2004	19,713		17,982	
		043489-RF-K1-2003	2,831			
Total Comprehensive School Reform Demonstration			349,629		392,675	
Education for Homeless Children and Youth	84.196	043489-HC-S1-2006	116,341		111,383	
		043489-HC-S1-2005	35,507		23,832	
Total Education for Homeless Children and Youth			151,848		135,215	
State Grants for Innovative Programs	84.298	043489-C2-S1-2006	110,118		119,998	
		043489-C2-S1-2005			269	
Total State Grants for Innovative Programs			110,118		120,267	
English Language Acquisition Grant:						
Title III LEP	84.365	043489-T3-S1-2006	76,286		110,217	
Title III LEP		043489-T3-S1-2005	35,817		6,753	
Title III Immigrant		043489-T3-S2-2006	23,382		13,905	
Title III Immigrant		043489-T3-S2-2005	2,026		34	
Total English Language Acquisition Grant			137,511		130,909	
Refugee and Entrant Assistance Discretionary Grants	93.576	043489-RI-S1-2005			6,300	
		N/A			6,591	
		N/A			1,592	
Total Refugee Entrant Assistance Discretionary Grants			0		14,483	
Improving Teacher Quality State Grants	84.367	043489-TR-S1-2006	2,807,093		3,008,898	
		043489-TR-S1-2005	611,932		87,035	
Total Improving Teacher Quality State Grants			3,419,025		3,095,933	
Safe and Drug Free School Community Service Grant	84.184C	043489-T4-S1-05P-102	10,820		12,070	
Safe and Drug-Free Schools and Communities--State Grants	84.186	043489-DR-S1-2006	255,024		245,872	
		043489-DR-S1-05	38,780		12,735	
Total Safe and Drug-Free Schools and Communities - State Grants			293,804		258,607	
Education Technology State Grant	84.318	043489-TJ-S1-06	278,882		284,670	
		043489-TJ-S1-05	4,955		525	
Total Education Technology State Grant			283,837		285,195	
Reading First State Grants	84.357	043489-RS-S1-2006	499,957		540,277	
		043489-RS-S1-05	102,095		13,097	
Total Reading First State Grants			602,052		553,374	
Hurricane Education Recovery	84.938	043489-HR01-2006	82,500		82,500	
TOTAL U.S. DEPARTMENT OF EDUCATION			29,794,584		28,667,559	
U.S. DEPARTMENT OF LABOR <i>(Passed through County of Summit)</i>						
WIA Youth Activities	17.259	N/A	241,663		270,604	
		N/A	54,522		72,277	
		N/A	55,559		10,260	
Total WIA Youth Activities			351,744		353,141	
TOTAL U.S. DEPARTMENT OF LABOR			351,744		353,141	
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES <i>(Passed through the Ohio Department of Mental Retardation & Developmental Disabilities)</i>						
Medical Assistance Program	93.778	N/A	1,162,666		1,162,666	
<i>(Passed through Ohio Department of Education)</i>						
State Children's Health Insurance Program	93.767	N/A	98,566		98,566	
<i>(Passed through the County of Summit)</i>						
Adult Education - State Grant Program	84.002	N/A	305,024		305,024	
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			1,566,256		1,566,256	

**AKRON CITY SCHOOL DISTRICT
SUMMIT COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2006**

FEDERAL GRANTOR/ Pass-Through Grantor/ Program Title	FEDERAL CFDA NUMBER	PASS-THROUGH GRANTOR'S NUMBER	RECEIPTS	NON-CASH RECEIPTS	EXPENDITURES	NON-CASH EXPENDITURES
U.S. DEPARTMENT OF JUSTICE <i>(Passed through the University of Akron)</i>						
Juvenile Justice and Delinquency Prevention - Allocation to States	16.540	2004-JJ-CP1-0062			16,276	
TOTAL U.S. DEPARTMENT OF JUSTICE			<u>0</u>		<u>16,276</u>	
U.S. DEPARTMENT OF AGRICULTURE <i>(Passed through the Ohio Department of Education)</i>						
Food Donation	10.550	N/A		\$718,270		\$719,847
Team Nutrition Grants	10.574	N/A	490		490	
Child Nutrition Cluster:						
School Breakfast Program	10.553	N/A	1,392,013		1,392,013	
National School Lunch Program	10.555	N/A	4,896,222		4,896,222	
Total Child Nutrition Cluster			<u>6,288,235</u>	<u>0</u>	<u>6,288,235</u>	<u>0</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>6,288,725</u>	<u>718,270</u>	<u>6,288,725</u>	<u>719,847</u>
U.S. DEPARTMENT OF DEFENSE <i>(Direct)</i>						
Air Force R.O.T.C. Grant	12.XXX		48,806		48,806	
Army R.O.T.C. Grant	12.XXX		61,889		61,889	
Marines R.O.T.C. Grant	12.XXX		45,630		45,630	
Navy R.O.T.C. Grant	12.XXX		40,929		40,929	
Total R.O.T.C Grants			<u>197,254</u>		<u>197,254</u>	
TOTAL U.S. DEPARTMENT OF DEFENSE			<u>197,254</u>		<u>197,254</u>	
TOTALS			<u>\$38,198,563</u>	<u>\$718,270</u>	<u>\$37,089,211</u>	<u>\$719,847</u>

The accompanying notes to this schedule are an integral part of this schedule.

**AKRON CITY SCHOOL DISTRICT
SUMMIT COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2006**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Receipts and Expenditures Schedule (the Schedule) summarizes activity of the District's federal award programs. The Schedule has been prepared on the cash basis of accounting.

NOTE B – FOOD DONATION PROGRAM

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

NOTE C - CHILD NUTRITION CLUSTER

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

NOTE D - MATCHING REQUIREMENTS

Certain Federal programs require that the District contribute non-Federal funds (matching funds) to support the Federally-funded programs. The District has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.

NOTE E – EPA ASBESTOS LOAN

On March 1, 1998, the District obtained a loan from the Environmental Protection Agency in the amount of \$141,533 for the purpose of providing asbestos removal in District buildings. The loan will be completely repaid during fiscal year 2008. The loan has no continuing compliance requirements and is not reflected on the Schedule.

NOTE F – MEDICAL ASSISTANCE PROGRAM

Cash receipts from the U.S. Department of Health and Human Services for the Medical Assistance Program are commingled with local funds. It is assumed federal monies are expended first.



Mary Taylor, CPA

Auditor of State

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

Akron City School District
Summit County
70 North Broadway Street
Akron, Ohio 44308

To the Board of Education:

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Akron City School District, Summit County, Ohio, (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 January 29, 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting 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 material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated January 29, 2007, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter that we must report under *Government Auditing Standards* which is described in the accompanying Schedule of Findings as item 2006-001. In a separate letter to the District's management dated January 29, 2007, we reported other matters related to noncompliance we deemed immaterial.

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Akron City School District
Summit County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of management, the Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

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

Mary Taylor, CPA
Auditor of State

January 29, 2007



Mary Taylor, CPA

Auditor of State

INDEPENDENT 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

Akron City School District
Summit County
70 North Broadway Street
Akron, Ohio 44308

To the Board of Education:

Compliance

We have audited the compliance of Akron City School District, Summit County, Ohio, (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to each of its major federal programs for the year ended June 30, 2006. The summary of auditor's results section of the accompanying Schedule of Findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

The District's basic financial statements include the operations of Akron Digital Academy, which received \$125,000 in federal awards which is not included in the Federal Awards Receipts and Expenditures Schedule for the year ended June 30, 2006. Our audit of Federal awards, described below, did not include the operations of Akron Digital Academy because the component unit expended less than \$500,000 of Federal awards for the year ended June 30, 2006 and was not subject to OMB Circular A-133 audit requirements.

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 reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2006. In a separate letter to the District's management dated January 29, 2007, we reported other matters related to federal noncompliance not requiring inclusion in this report.

Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could directly and materially affect a major federal program 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, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

However, we noted matters involving the internal control over federal compliance not requiring inclusion in this report, that we reported to the District's management in a separate letter dated January 29, 2007.

We intend this report solely for the information and use of management, the Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Mary Taylor, CPA
Auditor of State

January 29, 2007

**AKRON CITY SCHOOL DISTRICT
SUMMIT COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2006**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Student Financial Aid Cluster: Federal Pell Grant Program (CFDA 84.063); Federal Family Education Loan Program (CFDA 84.032); Child Nutrition Cluster (CFDA 10.555, 10.553); Improving Teacher Quality (CFDA 84.367)
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$1,134,272 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

FINDING NUMBER 2006-001

Ohio Rev. Code Section 5705.10 requires that money that is paid into a fund must be used only for the purposes for which such fund has been established. A negative fund balance indicates that money from one fund was used to cover the expenses of another fund.

Throughout fiscal year 2006, certain funds incurred negative cash fund balances as follows:

Fund	October 2005	January 2006	March 2006	June 2006
District Agency (Fund 022)	(\$75,475)	n/a	n/a	n/a
Post Secondary Voc Ed (Fund 413)	(5,152)	(\$10,299)	n/a	(\$3,774)
Public School Preschool (Fund 439)	(6,728)	(13,899)	n/a	(145)
Ohio Reads (Fund 459)	n/a	n/a	n/a	(9,663)
Career Supplemental Equipment (Fund 461)	(6,697)	(23,785)	(\$12,481)	(34,837)
Alternative School (Fund 463)	(30,421)	n/a	n/a	(4,122)
School Building Assistance Limited (Fund 496)	(550,098)	(550,098)	n/a	n/a
Miscellaneous State Grants (Fund 499)	n/a	n/a	n/a	(10,114)
Adult Basic Education (Fund 501)	(73,237)	(23,048)	(45,391)	(52,726)
JTPA (Fund 502)	(141,792)	(53,542)	(23,189)	(46,696)
Title VI-B (Fund 516)	(141,970)	(1,119,015)	(309,333)	(276,390)
Vocational Education (Fund 524)	(186,962)	(462,456)	(19,160)	(72,746)
Headstart (Fund 525)	(30,000)	(30,000)	(30,000)	(30,000)
Title III LEP (Fund 551)	n/a	(14,039)	(7,483)	(24,454)
Title I (Fund 572)	(411,746)	n/a	(2,131,152)	n/a
Title VI (Fund 573)	(3,936)	n/a	(7,382)	(9,610)
Drug Free School (Fund 584)	(3,376)	(5)	(8,780)	n/a
Preschool Handicapped (Fund 587)	(3,266)	(43,275)	(12,211)	(4,941)
Title II-A (Fund 590)	(678,111)	(130,119)	(291,802)	(201,805)
Miscellaneous Federal Grants (Fund 599)	(118,121)	(86,272)	(254,624)	(79,963)

The District should monitor receipts and disbursements on a regular basis to ensure a sufficient fund balance exists before authorizing the expenditure of funds. In those cases where additional funds are required, the resources should either be transferred or advanced to the fund from the General Fund.

Officials' Response: Ohio Rev. Code Section 3315.20 was changed effective May 30, 2007. This will allow deficits in special revenue funds if certain conditions are met. We believe the majority of the deficits above will be allowed when the new law becomes effective.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

**AKRON CITY SCHOOL DISTRICT
SUMMIT COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2005-001	One of the District's Service Organizations did not obtain a Type II SAS 70 report.	Yes	
2005-002	Ohio Rev. Code Section 5705.10 – Negative Fund Balances	No	Repeated as item 2006-001
2005-003	34 CFR 682.204 – receipt of excess Title IV funds	Yes	
2005-004	34 CFR 200.62 through 200.67 – failure to consult with private schools	Yes	
2005-005	Ohio Department of Education 21 st Century Community Learning Center Application Guide – failure to meet minimum hour requirements	Yes	The District received a waiver for this requirement from the Ohio Department of Education.



Mary Taylor, CPA
Auditor of State

AKRON CITY SCHOOL DISTRICT

SUMMIT 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 22, 2007**