

Mary Taylor, CPA
Auditor of State

**PERKINS LOCAL SCHOOL DISTRICT
ERIE COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Perkins Local School District
Erie County
1210 East Bogart Road
Sandusky, Ohio 44870-6400

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Perkins Local School District, Erie 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 major fund, and the aggregate remaining fund information of the Perkins Local School District, Erie County, Ohio, as of June 30, 2006, and the respective changes in financial position, 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 May 24, 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.

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Management's 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 expenditure 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 also not a required part of the basic financial statements. We subjected the federal awards 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 black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

May 24, 2007

**PERKINS LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

The management's discussion and analysis of the Perkins Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the 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 District's financial performance.

Financial Highlights

Key financial highlights for 2006 are as follows:

- In total, net assets of governmental activities increased \$730,341 which represents a 15.00% increase from 2005.
- General revenues accounted for \$19,868,289 in revenue or 91.56% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,832,542 or 8.44% of total revenues of \$21,700,831.
- The District had \$20,970,490 in expenses related to governmental activities; only \$1,832,542 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$19,868,289 were adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$19,419,778 in revenues and other financing sources and \$18,912,763 in expenditures and other financing uses. During fiscal 2006, the general fund's fund balance increased \$520,699 from a balance of \$1,746,305 to a balance of \$2,267,004.

Using the Basic Financial Statements

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

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

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

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

**PERKINS LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

These two statements report the District's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the *financial position* of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the 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 Governmental Activities include the District's programs and services, including instruction, support services, operation and maintenance, pupil transportation central, operation of non-instructional services, extracurricular activities, and food service operations and interest and fiscal charges.

Reporting the District's Most Significant Funds

Fund Financial Statements

Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's only major governmental fund is the general fund.

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* basis of accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements.

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals. These activities are reported in an agency fund. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**PERKINS LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

The District as a Whole

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

The table below provides a summary of the District's net assets for 2006 and 2005.

	Net Assets	
	Governmental Activities 2006	Governmental Activities 2005
<u>Assets</u>		
Current and other assets	\$ 18,672,733	\$ 18,403,086
Capital assets, net	<u>2,354,979</u>	<u>2,134,923</u>
Total assets	<u>21,027,712</u>	<u>20,538,009</u>
<u>Liabilities</u>		
Current liabilities	14,340,612	14,560,619
Long-term liabilities	<u>1,087,411</u>	<u>1,108,042</u>
Total liabilities	<u>15,428,023</u>	<u>15,668,661</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	2,114,979	1,994,923
Restricted	1,153,167	1,159,996
Unrestricted	<u>2,331,543</u>	<u>1,714,429</u>
Total net assets	<u>\$ 5,599,689</u>	<u>\$ 4,869,348</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the District's assets exceeded liabilities by \$5,599,689.

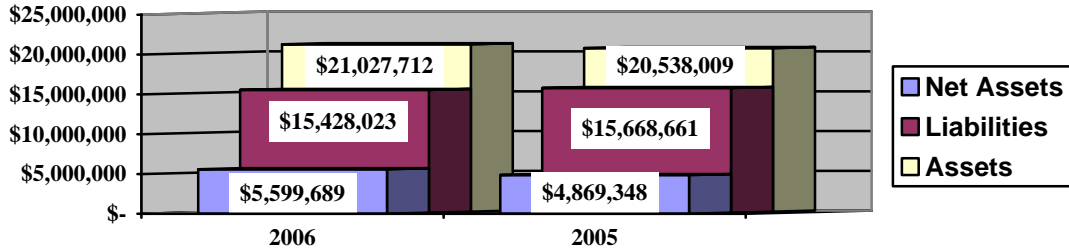
At fiscal year-end, capital assets represented 11.20% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2006, were \$2,114,979. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$1,153,167, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$2,331,543 may be used to meet the District's ongoing obligations to the students and creditors.

**PERKINS LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

Governmental Activities



The table below shows the change in net assets for fiscal years 2006 and 2005.

	Change in Net Assets	
	Governmental Activities 2006	Governmental Activities 2005
<u>Revenues</u>	<u>2006</u>	<u>2005</u>
Program revenues:		
Charges for services and sales	\$ 1,038,609	\$ 1,155,488
Operating grants and contributions	793,933	1,060,031
Capital grants and contributions		20,685
General revenues:		
Property taxes	13,990,761	14,157,581
Grants and entitlements	5,612,531	5,617,844
Investment earnings	235,668	85,548
Other	29,329	17,127
Total revenues	<u>21,700,831</u>	<u>22,114,304</u>

**PERKINS LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

	Change in Net Assets	
	Governmental Activities <u>2006</u>	Governmental Activities <u>2005</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 9,014,226	\$ 8,350,443
Special	2,242,582	2,135,782
Vocational	190,169	193,551
Other	254,496	251,922
Support services:		
Pupil	1,453,670	1,366,892
Instructional staff	941,714	754,814
Board of education	56,444	53,263
Administration	1,646,527	1,401,652
Fiscal	600,818	508,591
Business	34,051	20,533
Operations and maintenance	1,840,656	1,813,229
Pupil transportation	961,475	778,687
Central	41,866	35,756
Operations of non-instructional services	57,357	52,468
Extracurricular activities	731,582	598,289
Food service operations	900,083	821,198
Interest and fiscal charges	<u>2,774</u>	<u>10,474</u>
Total expenses	<u>20,970,490</u>	<u>19,147,544</u>
Change in net assets	730,341	2,966,760
Net assets at beginning of year	<u>4,869,348</u>	<u>1,902,588</u>
Net assets at end of year	<u>\$ 5,599,689</u>	<u>\$ 4,869,348</u>

Governmental Activities

Net assets of the District's governmental activities increased \$730,341. Total governmental expenses of \$20,970,490 were offset by program revenues of \$1,832,542 and general revenues of \$19,868,289. Program revenues supported 8.74% of the total governmental expenses. Overall, the increase in net assets is due to decreasing revenues still outpacing increased expenses. Increases in expenses are related to increases in salaries, severance payments for retired employees, and purchase of capital assets. The decrease in revenues is due to decreased property taxes and operating grants.

The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These two revenue sources represent 90.33% of total governmental revenue.

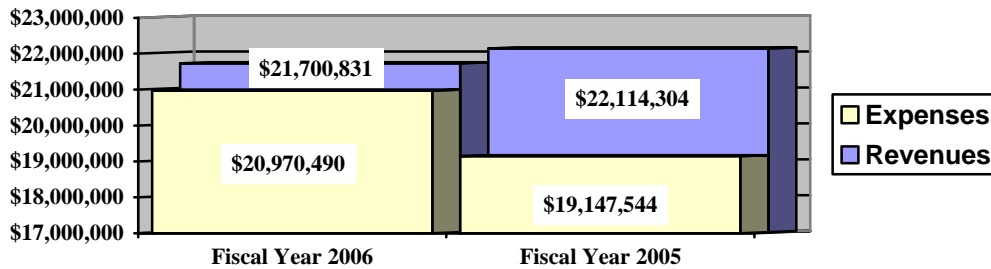
**PERKINS LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

The largest expense of the District is for instructional programs. Instruction expenses totaled \$11,701,473 or 55.80% of total governmental expenses for fiscal 2006.

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2006 and 2005.

Governmental Activities - Revenues and Expenses



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table 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 grants and entitlements.

**PERKINS LOCAL SCHOOL DISTRICT
ERIE COUNTY**

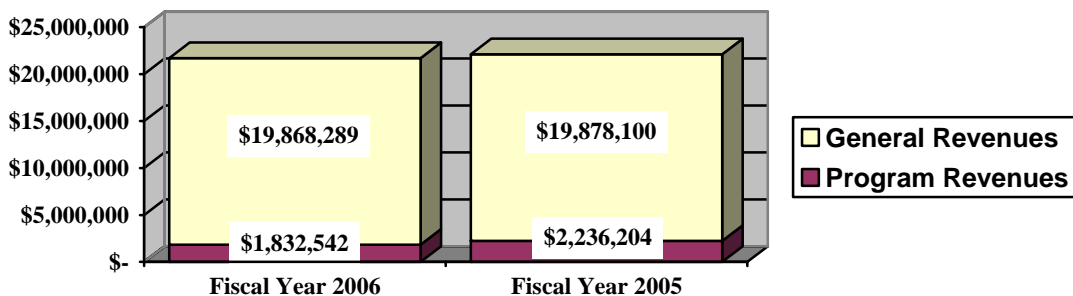
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

Governmental Activities

	Total Cost of Services 2006	Net Cost of Services 2006	Total Cost of Services 2005	Net Cost of Services 2005
Program expenses				
Instruction:				
Regular	\$ 9,014,226	\$ 8,835,220	\$ 8,350,443	\$ 7,912,693
Special	2,242,582	1,906,456	2,135,782	1,555,018
Vocational	190,169	190,169	193,551	193,551
Other	254,496	254,496	251,922	251,922
Support services:				
Pupil	1,453,670	1,401,012	1,366,892	1,295,034
Instructional staff	941,714	931,173	754,814	738,712
Board of education	56,444	56,444	53,263	53,263
Administration	1,646,527	1,605,606	1,401,652	1,391,820
Fiscal	600,818	600,818	508,591	508,591
Business	34,051	34,051	20,533	20,533
Operations and maintenance	1,840,656	1,840,656	1,813,229	1,810,876
Pupil transportation	961,475	929,671	778,687	763,062
Central	41,866	19,839	35,756	10,821
Operations of non-instructional services	57,357	12,836	52,468	(1,784)
Food service operations	731,582	479,202	821,198	(20,111)
Extracurricular activities	900,083	37,525	598,289	416,865
Interest and fiscal charges	2,774	2,774	10,474	10,474
Total expenses	\$ 20,970,490	\$ 19,137,948	\$ 19,147,544	\$ 16,911,340

The graph below presents the District's governmental activities revenue for fiscal years 2006 and 2005.

Governmental Activities - General and Program Revenues



**PERKINS LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

The District's Funds

The District's governmental funds reported a combined fund balance of \$3,656,655, which is greater than last year's balance of \$3,197,065. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2006 and 2005.

	<u>Fund Balance June 30, 2006</u>	<u>Fund Balance June 30, 2005</u>	<u>Increase (Decrease)</u>
General	\$ 2,267,004	\$ 1,746,305	\$ 520,699
Other Governmental	<u>1,389,651</u>	<u>1,450,760</u>	<u>(61,109)</u>
Total	<u>\$ 3,656,655</u>	<u>\$ 3,197,065</u>	<u>\$ 459,590</u>

General Fund

The District's general fund balance increased \$520,699. This increase is due to decreasing revenues still outpacing increased expenditures. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	<u>2006 Amount</u>	<u>2005 Amount</u>	<u>Percentage Change</u>
<u>Revenues</u>			
Taxes	\$ 13,168,030	\$ 13,863,897	(5.02) %
Tuition	30,655	223,337	(86.27) %
Earnings on investments	232,768	81,015	187.31 %
Intergovernmental	5,537,050	5,534,854	0.04 %
Other revenues	<u>211,275</u>	<u>149,378</u>	41.44 %
Total	<u>\$ 19,179,778</u>	<u>\$ 19,852,481</u>	(3.39) %
<u>Expenditures</u>			
Instruction	\$ 11,096,467	\$ 10,325,827	7.46 %
Support services	7,041,242	6,361,430	10.69 %
Extracurricular activities	457,128	420,069	8.82 %
Facilities acquisition and construction	<u>245,493</u>	<u>1,506</u>	16,201.00 %
Total	<u>\$ 18,840,330</u>	<u>\$ 17,108,832</u>	10.12 %

The decrease in tuition for the District is due mostly to students coming back to the District from other surrounding Districts. The increase in earnings on investments is due to the District's new investment and rising interest rates. Expenditures were higher than in fiscal year 2005 due to the increases for health care cost, salaries from step increases, severance packages, and the purchase of land for future expansion.

**PERKINS LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

General Fund Budgeting Highlights

The 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 2006, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$18,320,390 and final budgeted revenues and other financing sources were also \$18,720,390. Actual revenues and other financing sources for fiscal 2006 was \$19,479,085. This represents a \$758,695 increase from final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$18,756,545 were increased to \$19,603,004 in the final appropriations. The actual budget basis expenditures for fiscal year 2006 totaled \$19,161,215, which was \$441,789 less than the final budget appropriations.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2006, the District had \$2,354,979 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2006 balances compared to 2005:

Capital Assets at June 30 (Net of Depreciation)		
	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
Land	\$ 647,925	\$ 316,850
Land improvements	6,700	6,924
Building and improvements	1,291,775	1,445,383
Furniture and equipment	332,371	344,613
Vehicles	<u>76,208</u>	<u>21,153</u>
Total	<u>\$ 2,354,979</u>	<u>\$ 2,134,923</u>

The overall increase in capital assets of \$220,056 is due to \$556,780 in additions exceeding depreciation expense of \$286,790 primarily due to the purchase of land, and disposals of \$49,934 (net of accumulated depreciation) for fiscal 2006.

See Note 8 to the basic financial statements for additional information on the District's capital assets.

Debt Administration

At June 30, 2006, the District had \$240,000 in land purchase notes outstanding. \$60,000 of this total is due within one year. The following table summarizes the notes outstanding.

**PERKINS LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

Outstanding Debt, at Year End

	Activities 2006	Activities 2005
Energy conservation		\$ 140,000
Land purchase note	\$ 240,000	
Total	\$ 240,000	\$ 140,000

The land purchase notes are scheduled to mature in fiscal year 2010. Payment of principal and interest on the note is being made from general fund monies transferred to the debt service fund.

At June 30, 2006, the District's overall legal debt margin was \$32,925,078 with an unvoted debt margin of \$365,834.

See Note 9 to the basic financial statements for additional information on the District's debt administration.

Current Financial Related Activity

The financial future of the Perkins Local School District is not without its challenges. These challenges are internal and external in nature. The internal challenges will continue to exist as the District must rely on local property taxes to fund its operations. External challenges continue to evolve as the State of Ohio determines the amount of funding they will allocate to education through each of their biennium budgets. In addition, legislation passed in recent years has had the effect of further eroding tax revenue by the decrease in assessment rate upon both the inventory component of personal property tax valuation and the public utility tangible property.

The District has considerable concern with the possibility of Delphi Automotive and Automotive Components closing their facilities. If said facilities are closed, the biggest concern is the loss of jobs to our area residents. This will have a domino effect for our local economy. If the facilities do close, the possibility of the value of those real properties decreasing is high, and we will continue ongoing discussion with the County Auditor regarding possible tax valuation decreases. We are cautiously optimistic that the facilities will be sold and not have a negative impact on our economy.

Challenges such as those noted require management to carefully and prudently plan to provide the resources to meet student needs over the next five years and to increase its dependence upon local tax revenue. The Board is considering placing a levy on the ballot in calendar year 2007.

In conclusion, Perkins Local School District has committed itself to providing the best available financial information. In addition, the District's systems of budgeting and internal controls are well regarded. This commitment and attention to control mechanisms will serve to meet the challenges of the future.

Contacting the District's Financial Management

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Lisa Crescimano, Treasurer, Perkins Local School District, 1210 East Bogart Road, Sandusky, Ohio 44870.

**PERKINS LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2006**

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 4,935,970
Cash with fiscal agent.	1,770
Receivables:	
Taxes.	13,538,304
Accounts.	12,536
Intergovernmental	43,281
Accrued interest	1,361
Prepayments	44,104
Materials and supplies inventory.	95,407
Capital assets:	
Land	647,925
Depreciable capital assets, net	1,707,054
Total capital assets, net	2,354,979
 Total assets	 21,027,712
Liabilities:	
Accounts payable.	21,602
Accrued wages and benefits	1,989,567
Pension obligation payable.	452,376
Intergovernmental payable	110,797
Deferred revenue	11,764,500
Matured bonds payable	1,770
Long-term liabilities:	
Due within one year.	101,572
Due within more than one year	985,839
 Total liabilities	 15,428,023
Net Assets:	
Invested in capital assets, net of related debt.	2,114,979
Restricted for:	
Capital projects	901,561
Locally funded programs	470
State funded programs.	35,363
Federally funded programs	321
Student activities	215,452
Unrestricted.	2,331,543
 Total net assets	 \$ 5,599,689

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**PERKINS LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	Expenses	Program Revenues		Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Revenue and Changes in Net Assets
				Governmental Activities
Governmental activities:				
Instruction:				
Regular	\$ 9,014,226	\$ 136,474	\$ 42,532	\$ (8,835,220)
Special	2,242,582		336,126	(1,906,456)
Vocational	190,169			(190,169)
Other	254,496			(254,496)
Support services:				
Pupil	1,453,670	30	52,628	(1,401,012)
Instructional staff	941,714		10,541	(931,173)
Board of education	56,444			(56,444)
Administration	1,646,527	20,897	20,024	(1,605,606)
Fiscal	600,818			(600,818)
Business	34,051			(34,051)
Operations and maintenance	1,840,656			(1,840,656)
Pupil transportation	961,475	31,804		(929,671)
Central	41,866		22,027	(19,839)
Operation of				
non-instructional services	57,357		44,521	(12,836)
Extracurricular activities	731,582	213,594	38,786	(479,202)
Food service operations	900,083	635,810	226,748	(37,525)
Interest and fiscal charges	2,774			(2,774)
Total governmental activities	\$ 20,970,490	\$ 1,038,609	\$ 793,933	(19,137,948)

General Revenues:

Property taxes levied for:	
General purposes	13,317,674
Capital projects	673,087
Grants and entitlements not restricted to specific programs	5,612,531
Investment earnings	235,668
Miscellaneous	29,329
Total general revenues	19,868,289
Change in net assets	730,341
Net assets at beginning of year	4,869,348
Net assets at end of year	\$ 5,599,689

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**PERKINS LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash and cash equivalents	\$ 3,452,370	\$ 1,483,600	\$ 4,935,970
Cash with fiscal agent.		1,770	1,770
Receivables:			
Taxes.	12,861,327	676,977	13,538,304
Accounts	9,135	3,401	12,536
Intergovernmental.		43,281	43,281
Interfund loans	55,117		55,117
Accrued interest.	1,361		1,361
Prepayments	44,104		44,104
Materials and supplies inventory.	70,547	24,860	95,407
Total assets	\$ 16,493,961	\$ 2,233,889	\$ 18,727,850
Liabilities:			
Accounts payable	\$ 17,675	\$ 3,927	\$ 21,602
Accrued wages and benefits	1,887,118	102,449	1,989,567
Pension obligation payable	416,146	36,230	452,376
Intergovernmental payable	105,943	4,854	110,797
Interfund loan payable		55,117	55,117
Matured bonds payable.		1,770	1,770
Deferred revenue	11,800,075	639,891	12,439,966
Total liabilities	14,226,957	844,238	15,071,195
Fund Balances:			
Reserved for encumbrances.	350,222	201,725	551,947
Reserved for materials and supplies inventory	70,547	24,860	95,407
Reserved for property tax unavailable for appropriation.	1,062,613	60,914	1,123,527
Reserved for prepayments.	44,104		44,104
Unreserved, undesignated, reported in:			
General fund.	739,518		739,518
Special revenue funds		463,554	463,554
Capital projects funds		638,598	638,598
Total fund balances.	2,267,004	1,389,651	3,656,655
Total liabilities and fund balances	\$ 16,493,961	\$ 2,233,889	\$ 18,727,850

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

PERKINS LOCAL SCHOOL DISTRICT
ERIE COUNTY

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2006

Total governmental fund balances		\$	3,656,655
<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.			2,354,979
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	651,638	
Intergovernmental revenue		<u>23,828</u>	
Total			675,466
Long-term liabilities, including notes payable, are not due and payable in the current period and therefore are not reported in the funds.			
Land purchase note		240,000	
Compensated absences		<u>847,411</u>	
Total			<u>(1,087,411)</u>
Net assets of governmental activities		\$	<u><u>5,599,689</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**PERKINS LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Taxes	\$ 13,168,030	\$ 663,747	\$ 13,831,777
Tuition	30,655		30,655
Transportation fees	31,804		31,804
Earnings on investments	232,768	2,900	235,668
Charges for services		624,328	624,328
Extracurricular	44,323	190,198	234,521
Classroom materials and fees	88,389		88,389
Other local revenues	46,759	121,983	168,742
Intergovernmental - State	5,537,050	106,440	5,643,490
Intergovernmental - Federal		705,830	705,830
Total revenue	<u>19,179,778</u>	<u>2,415,426</u>	<u>21,595,204</u>
Expenditures:			
Current:			
Instruction:			
Regular	8,867,851	94,794	8,962,645
Special	1,789,225	446,187	2,235,412
Vocational	184,895		184,895
Other	254,496		254,496
Support Services:			
Pupil	1,271,442	170,007	1,441,449
Instructional staff	915,332	14,526	929,858
Board of education	54,612		54,612
Administration	1,514,674	106,153	1,620,827
Fiscal	588,990	14,995	603,985
Business	33,706		33,706
Operations and maintenance	1,818,206	9,227	1,827,433
Pupil transportation	826,602	80,172	906,774
Central	17,678	24,188	41,866
Food service operations		875,809	875,809
Operation of non-instructional services		55,090	55,090
Extracurricular activities	457,128	225,793	682,921
Facilities acquisition and construction	245,493	292,475	537,968
Debt service:			
Principal retirement		140,000	140,000
Interest and fiscal charges		3,850	3,850
Total expenditures	<u>18,840,330</u>	<u>2,553,266</u>	<u>21,393,596</u>
Excess of revenues over (under) expenditures	<u>339,448</u>	<u>(137,840)</u>	<u>201,608</u>
Other financing sources (uses):			
Transfers in		208,493	208,493
Transfers (out)	(72,433)	(136,060)	(208,493)
Sale of notes	240,000		240,000
Total other financing sources (uses)	<u>167,567</u>	<u>72,433</u>	<u>240,000</u>
Net change in fund balances	507,015	(65,407)	441,608
Fund balance at beginning of year	1,746,305	1,450,760	3,197,065
Increase in reserve for inventory	13,684	4,298	17,982
Fund balances at end of year	<u>\$ 2,267,004</u>	<u>\$ 1,389,651</u>	<u>\$ 3,656,655</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**PERKINS LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**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	\$	441,608
<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. Capital outlays exceeds depreciation expense in the current period.		
Capital asset additions	\$ 556,780	
Current year depreciation	<u>(286,790)</u>	269,990
The net effect of various miscellaneous transactions involving capital assets is to decrease net assets.		(49,934)
Governmental funds report expenditures for inventory when purchased, however, in the statement of activities they are reported as an expense when consumed.		17,982
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Delinquent property taxes	158,984	
Intergovernmental	<u>(53,357)</u>	105,627
Repayment of note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.		140,000
Proceeds of notes are recorded as revenue in funds, however, on the statement of activities they are not reported as revenues as they increase liabilities on the statement of net assets.		(240,000)
In the statement of activities, interest is accrued on outstanding notes, whereas in governmental funds, an interest expenditure is reported when due.		1,076
Some expenses reported in the statement of activities, such as compensated absences do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		<u>43,992</u>
Change in net assets of governmental activities	\$	<u>730,341</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**PERKINS LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>Budgeted Amounts</u>			<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 12,534,500	\$ 12,808,173	\$ 13,327,259	\$ 519,086
Tuition.	28,832	29,461	30,655	1,194
Transportation fees	26,766	27,350	28,459	1,109
Earnings on investments.	222,988	227,857	237,091	9,234
Extracurricular.	41,249	42,149	43,858	1,709
Classroom materials and fees	82,287	84,084	87,491	3,407
Other local revenues	29,290	29,930	31,143	1,213
Intergovernmental - State	5,207,684	5,321,386	5,537,050	215,664
Total revenue	<u>18,173,596</u>	<u>18,570,390</u>	<u>19,323,006</u>	<u>752,616</u>
Expenditures:				
Current:				
Instruction:				
Regular	9,005,864	9,068,817	9,018,520	50,297
Special.	1,797,307	1,912,747	1,854,880	57,867
Vocational.	264,411	258,896	190,083	68,813
Other.	261,175	261,175	250,697	10,478
Support Services:				
Pupil.	1,306,491	1,500,496	1,415,909	84,587
Instructional staff	876,364	959,155	876,794	82,361
Board of education	47,980	55,930	46,667	9,263
Administration.	1,453,686	1,537,282	1,521,643	15,639
Fiscal	565,505	615,770	604,763	11,007
Business	34,643	38,451	36,035	2,416
Operations and maintenance.	1,777,434	1,878,821	1,876,176	2,645
Pupil transportation	803,283	834,983	830,680	4,303
Central.	4,420	26,420	26,178	242
Operation of non-instructional services		50	1	49
Extracurricular activities.	472,732	496,782	475,105	21,677
Facilities acquisition and construction.		5,500	5,493	7
Total expenditures	<u>18,671,295</u>	<u>19,451,275</u>	<u>19,029,624</u>	<u>421,651</u>
Excess of revenues over (under) expenditures.	<u>(497,699)</u>	<u>(880,885)</u>	<u>293,382</u>	<u>1,174,267</u>
Other financing sources (uses):				
Refund of prior year expenditure	10,321	10,547	10,974	427
Transfers in	4,150	4,241	4,413	172
Transfers (out)	(60,000)	(95,615)	(76,474)	19,141
Advances in.	130,297	133,142	138,538	5,396
Advances (out)	(25,250)	(56,114)	(55,117)	997
Sale of capital assets	2,026	2,070	2,154	84
Total other financing sources (uses).	<u>61,544</u>	<u>(1,729)</u>	<u>24,488</u>	<u>26,217</u>
Net change in fund balance	(436,155)	(882,614)	317,870	1,200,484
Fund balance at beginning of year	2,689,782	2,689,782	2,689,782	
Prior year encumbrances appropriated	86,895	86,895	86,895	
Fund balance at end of year	<u>\$ 2,340,522</u>	<u>\$ 1,894,063</u>	<u>\$ 3,094,547</u>	<u>\$ 1,200,484</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**PERKINS LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2006**

	<u>Private-Purpose Trust</u>	
	<u>Scholarship</u>	<u>Agency</u>
Assets:		
Equity in pooled cash and cash equivalents	\$ 111,067	\$ 37,980
Receivables:		
Taxes.		253,117
Total assets	<u>111,067</u>	<u>\$ 291,097</u>
Liabilities:		
Accounts payable.		\$ 215
Intergovernmental payable		253,382
Due to students		<u>37,500</u>
Total liabilities		<u>\$ 291,097</u>
Net Assets:		
Held in trust for scholarships	<u>111,067</u>	
Total net assets	<u>\$ 111,067</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**PERKINS LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	Private-Purpose Trust
	Scholarship
Additions:	
Gifts and contributions.	\$ 4,592
Total additions.	4,592
Deductions:	
Scholarships awarded	7,150
Change in net assets	(2,558)
Net assets at beginning of year	113,625
Net assets at end of year	\$ 111,067

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**PERKINS LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Perkins Local School District (the "District") operates under a locally-elected five-member Board form of government and provides educational services mandated by state and/or federal agencies. Located in Erie County, the District serves an area of approximately 72 square miles, including portions of the City of Sandusky and surrounding townships.

The District was established in 1854 through the consolidation of existing land areas and Districts and is organized under Sections 2 and 3, Article VI of the Constitution of the State of Ohio. Under such laws there is no authority for a District to have a charter or adopt local laws. The legislative power of the District is vested in the Board of Education, consisting of five members elected at large for staggered four-year terms.

The District is the 250th largest in the state of Ohio (among 615 public school districts) in terms of enrollment and the 3rd largest in Erie County. It currently operates 2 elementary schools, 1 middle school and 1 comprehensive high school. The District employs 103 non-certificated employees and 142 certificated (including administrative) employees to provide services to approximately 2,192 students and various community groups.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain organizations Are Component Units". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service, preschool and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organizations' government board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organizations resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization.

**PERKINS LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

JOINTLY GOVERNED ORGANIZATIONS

Bay Area Council of Governments

The Bay Area Council of Governments (BACG) is a jointly governed organization. Members of the BACG consist of 26 school districts representing 7 counties (Ottawa, Sandusky, Seneca, Erie, Huron, Wood, and Crawford). The BACG was formed for the purpose of purchasing goods and services at a lower cost. The items currently being purchased through the council of governments are natural gas and insurance. The only cost to the District is an administrative charge if it participates in purchasing through the BACG. The membership of BACG consists of the superintendent of each participating school district. The Board of Directors of the BACG consists of one elected representative of each county, the superintendent of the fiscal agent and two non-voting members (administrator and fiscal agent). During the fiscal year the District paid \$218,797 to BACG. Members of the Board serve staggered two-year terms. Financial information can be obtained by contacting the Erie-Huron-Ottawa ESC, which serves as fiscal agent, at 2900 South Columbus Avenue, Sandusky, Ohio 44870.

Northern Ohio Educational Computer Association

The Northern Ohio Educational Computer Association (NOECA) is a jointly governed organization, which is a computer consortium. NOECA is an association of 41 public school districts formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to administrative and instructional functions among member school districts. The NOECA Board of Directors consists of two representatives from each county in which participating school districts are located, the chairman of each of the operating committees, and a representative from the fiscal agent. During the fiscal year the District paid NOECA \$94,927 for services. Financial information can be obtained from Betty Schwiefert, who serves as Controller, 2900 South Columbus Avenue, Sandusky, Ohio 44870.

PUBLIC ENTITY RISK POOLS

Ohio School Boards Association Workers' Compensation Group Rating Plan

The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan") was established through the Ohio School Boards Association (OSBA) as a group purchasing pool.

The Plan's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the Plan. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the program.

**PERKINS LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Huron-Erie School Employees Insurance Association

The Huron-Erie School Employees Insurance Association (Association) is a public entity risk pool comprised of 14 districts. The Association assembly consists of a superintendent or designated representative from each participating district and the program administrator. The Association is governed by a board of directors chosen from the general membership. The degree of control exercised by any participating district is limited to its representation on the board. Financial information can be obtained by contacting the program administrator at the Huron-Erie School Employees Insurance Association, located at 2900 Columbus Avenue, Sandusky, Ohio 44870.

RELATED ORGANIZATION

Sandusky Public Library - The Library is a private not for profit organization of the State of Ohio governed by a Board of Trustees. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel and does not depend on the District for operational subsidies. The District in 2000 passed a continuing tax replacement on behalf of the Library. The District reports these monies in an agency fund.

B. Fund Accounting

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: 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 balance. The following is the District's major governmental fund:

General Fund - The general fund is used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by trust funds; (b) for food service operations; (c) for the accumulation of resources for, and the repayment of, long-term debt principal, interest and related costs; and (d) for grants and other resources whose use is restricted to a particular purpose.

**PERKINS LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

PROPRIETARY FUNDS

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no proprietary funds.

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's only trust fund is a private-purpose trust which accounts for scholarship programs for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities and the tax levy for the Sandusky Public Library.

C. Basis of Presentation and Measurement Focus

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the statement of net assets.

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

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

PERKINS LOCAL SCHOOL DISTRICT
ERIE COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

The private-purpose trust fund is reported using the economic resources measurement focus. Agency funds do not report a measurement focus as they do not report operations.

D. Basis of Accounting

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

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 District, available means expected to be received within sixty days of fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 6).

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

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

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.

**PERKINS LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities received during the year is reported in the Statement of Revenues, Expenditures and Changes in Fund Balances as an expenditure with a like amount reported as intergovernmental revenue.

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. Allocation of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Budgets

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The Certificate of Estimated Resources and the Appropriations Resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the fund, function, and object level for all funds. Any budgetary modifications at these levels may only be made by resolution of the Board of Education.

Tax Budget:

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased tax rates). By no later than January 20, the Board-adopted budget is filed with Erie County Budget Commission for rate determination.

Estimated Resources:

By April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources, which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered cash balances from the preceding year. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts in the original and final amended Certificate issued during the fiscal year.

**PERKINS LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Appropriations:

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution is enacted by the Board of Education. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the District. The appropriation resolution must be within the estimated resources as certified by the County Budget Commission and the total of expenditures may not exceed the appropriation totals at any level of control. Any revisions that alter the fund, function, and object level must be approved by the Board of Education.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent Certificate of Estimated Resources. During the year, all supplemental appropriations were legally enacted.

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

Encumbrances:

Encumbrance accounting is utilized with District funds in the normal course of operations, for purchase orders and contract related expenditures. An encumbrance is a reserve on the available spending authority due to commitment for a future expenditure and does not represent a liability. For governmental fund types, encumbrances outstanding at year-end appear as a reserve to the fund balance on a GAAP basis and as the equivalent of expenditures on a non-GAAP budgetary basis in order to demonstrate legal compliance. Note 13 is a reconciliation of the budgetary and GAAP basis of accounting.

F. Cash and Investments

To improve cash management, cash received by the District is pooled in a central bank account. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the basic financial statements.

During fiscal year 2006, investments were limited to investments in the State Treasury Asset Reserve of Ohio (STAR Ohio) and federal agency securities. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices.

**PERKINS LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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

Under existing Ohio statutes all investment earning are assigned to the general fund unless statutorily required to be credited to a specific fund. The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2006 amounted to \$232,768, which includes \$79,659 assigned from other District funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the District's investment account at year-end is provided in Note 4.

G. Inventory

On government-wide and fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method which means that the costs of inventory items are recorded as an expenditure in the governmental funds when consumed.

On the fund financial statements, reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

Inventory consists of expendable supplies held for consumption, donated food and purchased food.

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$2,500. 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.

**PERKINS LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

All reported capital assets except land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Description	Governmental Activities Estimated Lives
Land improvements	5 - 20 years
Buildings and improvements	5 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	5 - 10 years

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental activities column on the statement of net assets.

J. Compensated Absences

Compensated absences of the District consist of vacation leave and sick leave to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

In accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences”, a liability for vacation leave is accrued if a) the employees’ rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, the District has established a policy to include the following employees in their GASB Statement No. 16 accrual:

- All employees aged 50 years with 10 years of service;
- All employees aged 40 years with 15 years of service; and
- All employees aged 55 years with 5 years of service.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at the balance sheet date, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

Certified employees eligible to retire are eligible for a bonus. Teachers retiring between July 1, 2005, and June 30, 2008, will receive \$3,750.

**PERKINS LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide 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 and judgments and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Notes are recognized as a liability on the fund financial statements when due.

L. Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, materials and supplies inventory, prepayments, and property taxes unavailable for appropriation. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute.

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

N. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed. At fiscal year-end, because prepayments are not available to finance future governmental fund expenditures, the fund balance is reserved by an amount equal to the carrying value of the asset on the fund financial statements.

**PERKINS LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

O. Estimates

The preparation of the basic financial statements in conformity with GAAP 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.

P. 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. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements.

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2006.

NOTE 3 – ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles

For fiscal year 2006, the District has implemented GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries," GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation", and GASB Statement No. 47, "Accounting for Termination Benefits".

GASB Statement No. 42 amends GASB Statement No. 34 and establishes accounting and financial reporting standards for impairment of capital assets and accounting requirements for insurance recoveries.

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

GASB Statement No. 47 establishes accounting standards for termination benefits.

The implementation of GASB Statement No. 42, GASB Statement No. 46 and GASB Statement No. 47 did not have an effect on the fund balances/net assets of the District as previously reported at June 30, 2005.

**PERKINS LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 3 – ACCOUNTABILITY AND COMPLIANCE – (Continued)

B. Deficit Fund Balances

Fund balances at June 30, 2006, included the following individual fund deficits:

<u>Nonmajor Funds</u>	<u>Deficit</u>
EMIS	\$ 11,286
Title VI-B	17,685
Title I	22,857
Class Reduction	20,975

The deficit fund balances resulted from adjustments for accrued liabilities at year end.

C. Noncompliance

- 1) The District did not properly limit expenditures to amounts appropriated throughout the fiscal year as required by the Ohio Revised Code section 5705.41(B).
- 2) Several funds had cash basis deficits during the year contrary to Ohio Revised Code section 5705.10 (D).

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

**PERKINS LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)

Interim monies may be deposited or 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;
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 eighty days from the purchase date 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 classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash on Hand

At year-end, the District had \$600 in undeposited cash on hand which is included on the financial statements of the District as part of "Equity in Pooled Cash and Cash Equivalents."

**PERKINS LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)

B. Cash with Fiscal Agent: At fiscal year-end, \$1,770 was on deposit in the District's debt service clearance account and included in the total amount of deposits reported below; however this amount is not part of the internal cash pool reported on the balance sheet and statement of net assets as "Cash with Fiscal Agent."

C. Deposits with Financial Institutions

At June 30, 2006, the carrying amount of all District deposits was \$10,367. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2006, \$51,057 of the District's bank balance of \$179,053, was exposed to custodial risk as discussed below, while \$127,996 was covered by Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities. Such collateral, as permitted by the Ohio revised Code, is held at Federal Reserve Banks in the name of the respective depository bank and pledged as specific collateral in the name of the District. The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

D. Investments

As of June 30, 2006, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities 6 months or less</u>
FHLB	\$ 99,719	\$ 99,719
STAR Ohio	<u>4,974,331</u>	<u>4,974,331</u>
Total	<u>5,074,050</u>	<u>5,074,050</u>

The weighted average maturity of investments is .01 years.

Interest Rate Risk: The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. 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 District's investment policy addresses interest rate risk by requiring the consideration of market conditions and cash flow requirements in determining the term of an investment.

**PERKINS LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)

Credit Risk: The District's FHLB investment was rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. Standard & Poor's has assigned STAR Ohio an AAAM money market rating.

E. Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2006:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 10,367
Investments	5,074,050
Cash with fiscal agent	1,770
Cash on hand	600
Total	<u>\$ 5,086,787</u>

<u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 4,937,740
Private-purpose trust funds	111,067
Agency funds	37,980
Total	<u>\$ 5,086,787</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund balances at June 30, 2006, as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Nonmajor Governmental	<u>\$55,117</u>

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2006 are reported on the statement of net assets.

**PERKINS LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 5 - INTERFUND TRANSACTIONS – (Continued)

- B. Interfund transfers for the year ended June 30, 2006, consisted of the following, as reported on the fund financial statements:

Transfers to Nonmajor Governmental funds from:	
General Fund	\$72,433
Transfers to Nonmajor Governmental funds from:	
Nonmajor Governmental Funds	136,060

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund transfers between governmental funds are eliminated for reporting in the statement of activities.

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 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 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien December 31, 2004, were levied after April 1, 2005, and are collected in 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.

**PERKINS LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 6 - PROPERTY TAXES – (Continued)

Tangible personal property tax revenue received during calendar 2006 (other than public utility property) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value as of December 31, 2004. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the District due to the phasing out of the tax. In calendar years 2006-2010, the District will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

The District receives property taxes from Erie County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2006, are available to finance fiscal year 2006 operations.

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 real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2006, was \$1,062,613 in the general fund, and \$60,914 in the Permanent Improvement capital projects fund (a nonmajor governmental fund). The amount available as an advance at June 30, 2005, was \$1,221,842 in the general fund, and \$72,070 in the Permanent Improvement capital projects fund (a nonmajor governmental fund).

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

**PERKINS LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 6 - PROPERTY TAXES – (Continued)

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

	2005 Second Half Collections		2006 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 336,789,280	83.01	\$ 356,545,340	84.00
Public utility personal	13,761,190	3.39	12,780,700	3.01
Tangible personal property	<u>55,151,708</u>	<u>13.60</u>	<u>55,157,120</u>	<u>12.99</u>
Total	<u>\$ 405,702,178</u>	<u>100.00</u>	<u>\$ 424,483,160</u>	<u>100.00</u>
 Tax rate per \$1,000 of assessed valuation	 \$ 65.65		 \$ 65.65	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2006, consisted of taxes, accounts (billings for user charged services and student fees), accrued interest and intergovernmental grants and entitlements. 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 year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental Activities	
Taxes	\$ 13,538,304
Accounts	12,536
Accrued interest	1,361
Intergovernmental	<u>43,281</u>
Total	<u>\$ 13,595,482</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within the subsequent year.

**PERKINS LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 8 - CAPITAL ASSETS

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

	<u>Balance 06/30/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 06/30/06</u>
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 316,850	\$ 331,075	\$ -	\$ 647,925
Total capital assets, not being depreciated	<u>316,850</u>	<u>331,075</u>	<u>-</u>	<u>647,925</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	327,181			327,181
Buildings and improvements	10,295,786			10,295,786
Furniture and equipment	1,530,029	80,413	(12,525)	1,597,917
Vehicles	<u>1,658,111</u>	<u>145,292</u>	<u>(56,121)</u>	<u>1,747,282</u>
Total capital assets, being depreciated	<u>13,811,107</u>	<u>225,705</u>	<u>(68,646)</u>	<u>13,968,166</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(320,257)	(224)		(320,481)
Buildings and improvements	(8,850,403)	(153,608)		(9,004,011)
Furniture and equipment	(1,185,416)	(89,709)	9,579	(1,265,546)
Vehicles	<u>(1,636,958)</u>	<u>(43,249)</u>	<u>9,133</u>	<u>(1,671,074)</u>
Total accumulated depreciation	<u>(11,993,034)</u>	<u>(286,790)</u>	<u>18,712</u>	<u>(12,261,112)</u>
Governmental activities capital assets, net	<u>\$ 2,134,923</u>	<u>\$ 269,990</u>	<u>\$ (49,934)</u>	<u>\$ 2,354,979</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 93,126
Special	5,775
Vocational	3,598
<u>Support Services:</u>	
Pupil	28,474
Instructional Staff	9,771
Board of Education	1,832
Administration	10,637
Operations and Maintenance	26,216
Pupil Transportation	36,517
Operation of Non-instructional	2,267
Extracurricular Activities	41,604
Food Service Operation	<u>26,973</u>
Total depreciation expense	<u>\$286,790</u>

**PERKINS LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 9 - LONG-TERM OBLIGATIONS

A. During the fiscal year 2006, the following changes occurred in governmental activities long-term obligations.

	<u>Interest Rate</u>	<u>Balance Outstanding 06/30/05</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance Outstanding 06/30/06</u>	<u>Amounts Due in One Year</u>
Governmental Activities:						
<u>Notes Payable:</u>						
Energy conservation notes	5.5%	\$ 140,000		\$ (140,000)		
Land purchase note	4.87%	-	\$ 240,000	-	\$ 240,000	\$ 60,000
Total notes payable		<u>\$ 140,000</u>	<u>\$ 240,000</u>	<u>\$ (140,000)</u>	<u>\$ 240,000</u>	<u>\$ 60,000</u>
<u>Other Long-Term Obligations:</u>						
Compensated absences		<u>\$ 968,042</u>	<u>\$ 41,572</u>	<u>\$ (162,203)</u>	<u>\$ 847,411</u>	<u>\$ 41,572</u>
Total governmental activities		<u>\$ 1,108,042</u>	<u>\$ 281,572</u>	<u>\$ (302,203)</u>	<u>\$ 1,087,411</u>	<u>\$ 101,572</u>

Compensated Absences: Compensated absences will be paid from the fund from which the employee's salaries are paid.

Energy Conservation Notes: During a prior fiscal year, the District issued unvoted long-term "energy conservation" notes, under authority of H.B. 264. Energy conservation notes outstanding are general obligations of the District, for which the District's full faith and credit are pledged for repayment. Payments of principal and interest relating to these notes are recorded as expenditures in the debt service fund; however, unlike general obligation bonds, Ohio statute allows for the issuance of these notes without voter approval, and the subsequent repayment of the notes from operating revenues. These notes were retired during 2006.

Land Purchase Note: On May 3, 2006, the District issued notes to provide for the purchase of land within the District. Payments of principal and interest relating to these liabilities are recorded as expenditures in the debt service fund. These notes bore an interest rate of 4.87% and mature on May 3, 2010.

**PERKINS LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 9 - LONG-TERM OBLIGATIONS – (Continued)

- B. Principal and interest requirements to retire the long-term obligations outstanding at June 30, 2006, are as follows:

<u>Year Ended</u>	<u>Land Purchase Notes</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 60,000	\$ 2,922	\$ 62,922
2008	60,000	2,922	62,922
2009	60,000	2,922	62,922
2010	<u>60,000</u>	<u>2,922</u>	<u>62,922</u>
Total	<u>\$ 240,000</u>	<u>\$ 11,688</u>	<u>\$ 251,688</u>

C. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. In addition, the code further provides that unvoted indebtedness for energy conservation measures shall not exceed 9/10 of 1% of the property valuation of the District.

The effects of these debt limitations at June 30, 2006, are a voted debt margin of \$32,925,078, and an unvoted debt margin of \$365,834.

NOTE 10 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and state laws. Classified employees earn one to five weeks of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers do not earn vacation time.

Upon retirement, payment is made for forty percent of the total sick leave accumulation, up to a maximum accumulation of forty-six days for classified employees who receive an additional seven days if they notify the District by February 1. Certified employees receive thirty percent, up to a maximum of 40 days, and will receive an additional four days if the District is notified of the intent to retire by March 1. An employee receiving such payment must meet the retirement provisions set by STRS and SERS.

B. Insurance Benefits

The District provides life insurance and accidental death and dismemberment insurance in the amount of \$10,000 to certified employees. For classified employees, group term life insurance is provided in the amount of \$10,000.

**PERKINS LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 10 - OTHER EMPLOYEE BENEFITS – (Continued)

C. Retirement Incentive

The District offers a one-time retirement bonus in the amount of \$3,750 to all certified employees who provide the District with their notice of retirement by March 1 and complete the balance of the school year. The retirement bonus is payable upon completion of service through the last work day of the school year.

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A. Comprehensive

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During fiscal year 2006, the District has contracted with various insurance carriers to provide insurance coverage in the following amounts:

<u>Limits of Coverage</u>	<u>Carrier</u>	<u>Coverage</u>	<u>Deductible</u>
General liability:			
Each occurrence	Ohio School Plan	\$ 1,000,000	\$ -
Aggregate		3,000,000	
Fleet:			
Collision/Comprehensive	Indiana Insurance	1,000,000	1,000/500
Umbrella liability	Ohio School Plan	2,000,000	
Building and contents	Indiana Insurance	49,282,877	10,000

Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant reduction in coverage from the prior year.

B. Huron-Erie School Employees Insurance Association

The District has contracted with the Huron-Erie School Employees Insurance Association (Association) to provide medical/surgical, dental, vision, and life insurance benefits for its employees and their covered dependents. The Association is a shared risk pool comprised of 14 school districts that provide public education within Erie and Huron Counties. The Districts pay monthly contributions that are placed in a common fund from which eligible claims and expenses are paid for employees of participating school districts and their covered dependents. Claims are paid for all participants regardless of claims flow.

**PERKINS LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 10 - OTHER EMPLOYEE BENEFITS – (Continued)

In the event of withdrawal, the District shall assume and be responsible for payment of all claims of its eligible employees, families, and dependents from the effective date of withdrawal, regardless of when such claims were incurred, processed, or presented to the Association, insurance provider, insurance consultant, or any other appropriate or authorized person or representative; provided further, any such claims, which are paid after the effective date of withdrawal by the Association insurance provider or insurance consultant, or charged to such parties, shall be reimbursed in full by any withdrawing member upon demand of the Association.

C. OSBA Group Workers' Compensation Rating Program

For fiscal year 2006, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP.

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

NOTE 11 - PENSION PLANS

A. School Employees Retirement System

The 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 (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

**PERKINS LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 11 - PENSION PLANS – (Continued)

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 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. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004, were \$276,763, \$252,192, and \$238,198, respectively; 48.24% has been contributed for fiscal year 2006 and 100% for the fiscal years 2005 and 2004. \$143,247 represents the unpaid contribution for fiscal year 2006.

B. State Teachers Retirement System

The 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 stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

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 times an actuarially determined annuity factor. The DC Plan allows members to place all 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 Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. 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.

**PERKINS LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 11 - PENSION PLANS – (Continued)

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The District 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 recommendation 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 District's required contributions for pension obligations to the DB plan for the fiscal years ended June 30, 2006, 2005, and 2004 were \$1,154,795, \$1,130,242, and \$1,216,007, respectively; 83.09% has been contributed for fiscal year 2006 and 100% for the fiscal years 2005 and 2004. \$195,323 represents the unpaid contribution for fiscal year 2006. Contributions to the DC and Combined Plans for fiscal year 2006 were \$1,192 made by the District and \$23,359 made by plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS have an option to choose Social Security or the SERS/ STRS. As of June 30, 2006, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

NOTE 12 - POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and 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 funded on a pay-as-you-go basis.

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$88,830 for fiscal year 2006.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, the balance in the Health Care Stabilization Fund was \$3.5 billion. For the fiscal year ended June 30, 2006, net health care costs paid by STRS were \$282.743 million and STRS had 119,184 eligible benefit recipients.

**PERKINS LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 12 - POSTEMPLOYMENT BENEFITS – (Continued)

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. Premiums may be reduced for retirees whose household income falls below the poverty level.

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 at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2006 fiscal year, the District paid \$125,752 to fund health care benefits, including the surcharge.

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 annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2006, were \$158.751 million. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million, which is about 221 percent of next years projected net health care costs. 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 59,492 participants currently receiving health care benefits.

NOTE 13 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance 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 and disbursements.

The Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

**PERKINS LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 13 - BUDGETARY BASIS OF ACCOUNTING – (Continued)

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

Net Change in Fund Balance	<u>General Fund</u>
Budget basis	\$ 317,870
Net adjustment for revenue accruals	(143,228)
Net adjustment for expenditure accruals	(168,810)
Net adjustment for other sources/uses	143,079
Adjustment for encumbrances	<u>358,104</u>
GAAP basis	<u>\$ 507,015</u>

NOTE 14 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

B. Litigation

A lawsuit has been filed by the Columbia Gas Transmission Corporation arguing that the Corporation's public utility property tax assessment rate should be 25 percent of true value rather than the 88 percent used by the Tax Commissioner. The Board of Tax Appeals has agreed with the Corporation and the case has been appealed by the Tax Commissioner to the Ohio Supreme Court. The School District receives a significant amount of property tax from the Corporation. Should the Corporation prevail in the Supreme Court, the Corporation may be entitled to a refund from the District based on the lower assessment rate beginning from tax year 2001. The amount of the refund is estimated to be approximately \$11,232 per year. A portion of the refund may be recovered from additional State entitlement payments.

NOTE 15 - STATUTORY RESERVES

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2006, the reserve activity was as follows:

**PERKINS LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 15 - STATUTORY RESERVES – (Continued)

	<u>Textbooks/ Instructional Materials</u>	<u>Capital Acquisition</u>
Set-aside cash balance as of June 30, 2005	\$ (1,176,756)	
Current year set-aside requirement	321,111	\$ 321,111
Current year offsets		(674,903)
Qualifying disbursements	<u>(279,068)</u>	<u>(39,666)</u>
Total	<u>\$ (1,134,713)</u>	<u>\$ (393,458)</u>
Balance carried forward to FY 2007	<u>\$ (1,134,713)</u>	<u>\$ -</u>

The District had offsets and qualifying disbursements during the year that reduced the set-aside amounts below zero for the textbooks/instructional materials reserve, this extra amount may be used to reduce the set-aside requirement for future years. The negative amount is therefore presented as being carried forward to the next fiscal year.

Although the District had offsets and qualifying disbursements during the year that reduced the set-aside amounts below zero for the capital acquisition reserve, this extra amount may not be used to reduce the set-aside requirement for future years. The negative amount is therefore not presented as being carried forward to the next fiscal year.

NOTE 16 - DONOR RESTRICTED ENDOWMENTS

The District's private-purpose trust funds consist of donor restricted endowments and realized and unrealized appreciation on investments. Endowments, in the amount of \$108,268, represent the principal portion. The amount of net appreciation in donor restricted investments that is available for expenditures by the District is \$1,142 and is reflected as held in trust for scholarships. State law permits the District to appropriate, for purposes consistent with the endowment's intent, net appreciation, realized and unrealized, unless the endowment terms specify otherwise. The endowment indicates that the interest should be used to provide scholarships each year.

**PERKINS LOCAL SCHOOL DISTRICT
ERIE COUNTY**

SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2006

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Grant Number
U.S. DEPARTMENT OF AGRICULTURE		
<i>Passed Through Ohio Department of Education</i>		
National School Lunch Program	10.555	046813-LLP4-2005 046813-LLP4-2006
<i>Total National School Lunch Program</i>		
Food Distribution Program	10.550	N/A
Total U.S. Department of Agriculture		
U.S. DEPARTMENT OF EDUCATION		
<i>Passed Through Ohio Department of Education</i>		
<u>Special Education Cluster:</u>		
Special Education Grants to States (IDEA Part B)	84.027	046813-6B-SF-2006
<i>Total Special Education Grants to States</i>		
Special Education - Preschool Grant	84.173	046813-PG-S1-2006
<i>Total Special Education Grants to States</i>		
<i>Total Special Education Cluster</i>		
Grants to Local Educational Agencies (ESEA Title I)	84.010	046813-C1-S1-2006 046813-C1-S1-2005
<i>Total Grants to Local Educational Agencies</i>		
Title V, Innovative Programs	84.298	046813-C2-S1-2006 046813-C2-S1-2005
<i>Total Title V, Innovative Programs</i>		
Safe and Drug-Free Schools and Communities State Grant	84.186	046813-DR-S1-2006 046813-DR-S1-2005
<i>Total Safe and Drug-Free Schools and Communities State Grant</i>		
Technology Literacy Challenge Fund	84.318	046813-TJ-S1-2006 046813-TJ-S1-2005
<i>Total Technology Literacy Challenge Fund</i>		
Improving Teacher Quality State Grant	84.367	046813-TR-S1-2006 046813-TR-S1-2005
<i>Total Improving Teacher Quality State Grant</i>		
Total U.S. Department of Education		
Total Federal Financial Assistance		

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS SCHEDULE.

Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
\$ 35,223		\$ 35,233	
90,391		90,391	
<u>125,614</u>		<u>125,624</u>	
	97,158		97,158
<u>125,614</u>	<u>97,158</u>	<u>125,624</u>	<u>97,158</u>
337,377		355,062	
<u>337,377</u>		<u>355,062</u>	
15,717		15,717	
<u>15,717</u>		<u>15,717</u>	
353,094		370,779	
93,136		93,102	
(25,464)		96	
<u>67,672</u>		<u>93,198</u>	
12,357		12,019	
(1,957)			
<u>10,400</u>		<u>12,019</u>	
6,375		7,055	
(255)			
<u>6,120</u>		<u>7,055</u>	
4,259		4,259	
(741)			
<u>3,518</u>		<u>4,259</u>	
60,874		67,017	
(19,235)			
<u>41,639</u>		<u>67,017</u>	
<u>482,443</u>		<u>554,327</u>	
<u>\$ 608,057</u>	<u>\$ 97,158</u>	<u>\$ 679,951</u>	<u>\$ 97,158</u>

**PERKINS LOCAL SCHOOL DISTRICT
ERIE COUNTY**

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

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards 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 - 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 C – 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 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 - CARRYOVER FUNDS

Negative receipts are shown in the Grants to Local Educational Agencies (ESEA Title I), CFDA No. 84.010; Title V, Innovative Education Program Strategies, CFDA No. 84.298; Safe and Drug-Free Schools and Communities State Grant, CFDA No. 84.186; Technology Literacy Challenge Fund Grant, CFDA No. 84.318; and the Improving Teacher Quality State Grant, CFDA No. 84.367. These negative receipts represent monies on the final expenditure report that were unspent after the initial period of availability had ended. In accordance with carryover provisions permitted by the Ohio Department of Education these monies were carried over to the subsequent years' award amounts.



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*

Perkins Local School District
Erie County
1210 East Bogart Road
Sandusky, Ohio 44870-6400

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Perkins Local School District, Erie County (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 May 24, 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 May 24, 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 instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2006-001 to 2006-003. In a separate letter to the District's management dated May 24, 2007, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the audit committee, 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 cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

May 24, 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

Perkins Local School District
Erie County
1210 East Bogart Road
Sandusky, Ohio 44870-6400

To the Board of Education:

Compliance

We have audited the compliance of the Perkins Local School District, Erie County (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 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.

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 Perkins Local School District complied, in all material respects, with the requirements referred to above that apply to its major federal programs for the year ended June 30, 2006.

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.

We intend this report solely for the information and use of the audit committee, 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

May 24, 2007

**PERKINS LOCAL SCHOOL DISTRICT
ERIE COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Special Education Cluster (CFDA Nos. 84.027 and 84.173)
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

FINDING NUMBER 2006-001

Noncompliance Citation

Ohio Revised Code § 5705.41 (B) states that no subdivision shall make any expenditure of money unless it has been lawfully appropriated. The District's legal level of control is the object level for all funds.

Our testing of interim budgetary compliance at month end for April, 2006, and May, 2006, identified the following funds had instances in which expenditures exceeded appropriations at the legal level of control in amounts that ranged from \$1,169 to \$94,169:

- General Fund
- Permanent Improvement Fund
- Food Service Fund
- Expendable Trust Funds
- Public School Support Fund
- Athletic Fund
- Management Information System Fund
- Ohio Reads Fund
- IDEA Title VI-B Grant Fund
- Title I Grant Fund
- Title V Grant Fund
- IDEA Pre-School Grant Fund
- Improving Teacher Quality Grant Fund
- Miscellaneous Federal Grant Fund

Although the Treasurer had the Board modify appropriations to eliminate all variances as of year end, we advised management that the failure to have adequate appropriations in place at the time expenditures are being made could result in expenditures exceeding available resources, further resulting in deficit spending practices.

We recommend the Treasurer not certify the availability of funds and deny payment requests exceeding appropriations. The Treasurer may request the Board to approve increased expenditure levels by increasing appropriations and amending estimated resources during the year, if necessary.

Official's Response:

The Treasurer will ensure that all expenditures are only made against funds with sufficient appropriations.

FINDING NUMBER 2006-002

Ohio Revised Code § 5705.10 (D) requires all revenue derived from a source other than the general property tax and which the law prescribes shall be used for a particular purpose be paid into a special revenue fund for such purpose. Deficit fund balances indicate that monies from one fund are used to pay obligations of another fund.

**FINDING NUMBER 2006-002
 (Continued)**

During our interim budgetary testing prior to June 30, 2006, the following funds had deficit balances as shown:

Fund	Deficit Balance
Special Revenue Funds:	
Management Information Systems Fund	(\$35,922)
Improving Teacher Quality Fund	
IDEA Part B Special Education Grant Fund	(28,792)
Title I Grant Fund	(46,503)
Title V Grant Fund	(4,783)
IDEA Preschool Grant Fund	(8,214)
Miscellaneous Federal Grants Fund	(981)
Drug Free Schools Grant Fund	(935)
 Bond Retirement Fund	 (136,060)

The deficit balances in these funds were associated with expenditures paid from these funds that were subsequently reimbursed through grant monies or by the District's General Fund and all deficits were eliminated by June 30, 2006. We recommend the Treasurer have the Board advance or transfer funds in accordance with the provisions of the Ohio Revised Code to cover these deficits before they occur.

Official's Response

The Treasurer is currently monitoring all funds to ensure that deficit balances do not occur, without obtaining the appropriate transfers or advances upon Board approval.

FINDING NUMBER 2006-003

Ohio Revised Code § 121.22 (C) states in part that all meetings of any public body are to be public meetings and be open to the public at all times. Additionally, the minutes of a regular or special meeting of any public body shall be promptly prepared, filed, and maintained and shall be open to public inspection. The minutes need only reflect the general subject matter of discussion in executive sessions authorized under division (G) or (J) of this section.

Our review of the minutes for meetings held by the Board of Education during fiscal year 2006 and testing performed disclosed the following actions taken by the Board of Education that were not executed in an open public meeting:

1. The Board or Education did not approve fiscal year 2005 and 2006 administrative pay raises of 3% in an open public meeting.
2. Board members compensation was increased January 1, 2004, to coincide with the changes approved by the state legislature for Board members starting new terms on January 1, 2004, or later. The Board was advised during the fiscal year audit of 2005 the need to approve the increase in an open public meeting retroactive to January 1, 2004. There was no evidence in the 2006 Board minutes that action was taken on this matter.

**FINDING NUMBER 2006-003
(Continued)**

3. The Board can enter into executive session to consider the appointment, employment, dismissal, discipline, promotion, demotion, or compensation of a public employee or official, or the investigation of charges or complaints against a public employee, official, licensee, or regulated individual. The 2006 Board minutes indicated various executive sessions held in which the Board listed the reason as “personnel matters” without listing which general type of personnel matter.

Management was advised that the failure to document Board action in the minutes, approve official Board business in an open public meeting, or enter into a proper executive session as defined could result in actions taken by the Board of Education to be declared improper, illegal and void.

We recommend that the Board take the following corrective action:

1. Approve all increases in compensation for administrative and supervisory personnel and note such approval in the minute record.
2. Approve any increase in Board members compensation in accordance with State statutes.
3. Enter into executive sessions in accordance with the Ohio Revised Code and list the type of personal action to be discussed.

The Board of Education did subsequently approve the actions taken above after being notified of the irregularities.

Official's Response:

The Board of Education and Administrative personnel are working to ensure that all transactions of the Board are done in an open public meeting and work sessions are properly advertised as open meetings.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None

**PERKINS LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
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	Revised Code § 121.22 (C), required formal actions of the Board to be done in an open public meeting	No	Repeated as Finding 2006-003 in this audit report.



Mary Taylor, CPA
Auditor of State

PERKINS LOCAL SCHOOL DISTRICT

ERIE 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
JUNE 12, 2007