



**Mary Taylor, CPA**  
Auditor of State



**AKRON CITY SCHOOL DISTRICT  
SUMMIT COUNTY**

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SUMMIT COUNTY**

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# Mary Taylor, CPA

## Auditor of State

### INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Akron City School District, Summit County, Ohio, (the District) as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Akron City School District, Summit County, Ohio, as of June 30, 2007, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 22, 2008, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

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

**Mary Taylor, CPA**  
Auditor of State

February 22, 2008

**Akron City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2007*  
*Unaudited*

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The discussion and analysis of the Akron City School District's (the "School District") financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

**Financial Highlights**

Key financial highlights for the fiscal year ended June 30, 2007 are as follows:

- Total net assets increased \$23.1 million. This is a 10.6 percent increase from fiscal year 2006.
- Total revenues decreased to \$361.3 million from \$388.1 million. This is a decrease of \$26.8 million or 6.9 percent.
- Total program expenses were \$338.2 million. Total program expenses decreased from \$344.5 million from fiscal year 2006. This is a decrease of \$6.3 million or 1.8 percent.
- The fund balance in the general fund increased \$13.8 million. This is an 82.1 percent increase from fiscal year 2006.

**Using this Annual Report**

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

The Statement of Net Assets and the Statement of Activities provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, the fund financial statements tell how services were financed in the short-term and what remains for future spending. Also, the fund financial statements look at the School District's most significant funds with all other nonmajor funds presented in total in one column. The School District has three major funds. They are the general fund, the permanent improvement capital projects fund and the classroom facilities capital projects fund.

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

While the basic financial statements contain the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2007?" The Statement of Net Assets and the Statement of Activities answer this question. These two statements include all assets and liabilities using the accrual basis of accounting similar to the basis of accounting used by most companies in the private sector. This basis of accounting takes into account all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

**Akron City School District**  
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These two statements report the School District's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Nonfinancial factors include the School District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

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

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

The analysis of the School District's major funds begins on page 11. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions; however, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the general fund, the permanent improvement capital projects fund and the classroom facilities capital projects fund.

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

**The School District as a Whole**

Recall that the Statement of Net Assets provides the perspective of the School District as a whole.

Table 1 provides a summary of the School District's net assets for fiscal year 2007 compared to fiscal year 2006 as follows:

**Akron City School District**  
*Management's Discussion and Analysis*  
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*Unaudited*

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

	Governmental Activities	
	2007	Restated 2006
<b>Assets</b>		
Current and Other Assets	\$490.3	\$435.9
Capital Assets, Net	107.6	80.1
<i>Total Assets</i>	<i>597.9</i>	<i>516.0</i>
<b>Liabilities</b>		
Current and Other Liabilities	331.6	272.3
Long-Term Liabilities		
Due Within One Year	1.6	1.8
Due in More than One Year	24.3	24.5
<i>Total Liabilities</i>	<i>357.5</i>	<i>298.6</i>
<b>Net Assets</b>		
Invested in Capital Assets, Net of Related Debt	107.6	79.8
Restricted:		
Capital Projects	103.9	128.0
Other Purposes	8.6	7.1
Unrestricted	20.3	2.4
<i>Total Net Assets</i>	<i>\$240.4</i>	<i>\$217.3</i>

Total assets increased \$81.9 million.

Cash and cash equivalents and investments increased \$69.9 million with the majority of the increase in the general fund (\$24.9 million), the locally funded initiatives capital projects fund (\$9.9 million), and the classroom facilities capital projects fund (\$28.9 million).

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The increase in cash and cash equivalents and investments in the general fund is partly attributed to the passage of a new levy in November of 2006. Collections from this new 7.9 mill levy, yielding \$23.6 million annually, began in January of 2007. As a result, the School District partially received this new tax revenue in fiscal year 2007. In addition, the increase in cash and cash equivalents and investments in the general fund can be partly attributed to the wages pay cycle for certificated employees changing in fiscal year 2007. This resulted in salaries of \$19.2 million being deferred into fiscal year 2008. This occurs because instead of having salaries paid in the fiscal year it is earned as it was done in fiscal year 2006, each certificated employee received 20 paychecks out of 24 paychecks in fiscal year 2007. Then, each certificated employee will receive 24 paychecks in fiscal year 2008 (4 paychecks from fiscal year 2007 and 20 paychecks from fiscal year 2008).

The increase in cash and cash equivalents and investments in the locally funded initiatives capital projects fund and the classroom facilities capital projects fund is due to the Ohio Schools Facilities Commission ("OSFC") construction project. The School District received \$39.9 million from the State and the City of Akron ("the City") more than it expended in fiscal year 2007 involving this project. Voters in the City passed an ordinance in May of 2003 levying a 0.25 percent additional municipal income tax for the purpose of acquiring, constructing, renovating, and adding to interests in land and the School District's school buildings. This tax will last for 30 years and will raise \$284.2 million in local funds needed to be eligible for \$409.0 million of OSFC monies. Also, this tax will raise \$80.7 million in additional local funds for locally funded initiatives that are not eligible to be paid for with OSFC monies. Combined, these funds will rebuild and renovate all of the School District's school buildings into community learning centers for educating students during school hours while serving as community learning centers for recreation, education, after school and summer school programs, as well as community activities at other times, open to City residents and persons employed in the City.

Also, taxes receivable increased \$18.6 million. As previously discussed, this increase is due to the passage of a new levy in November of 2006.

Plus, capital assets increased \$27.5 million. This increase is mainly due to the School District incurring more costs related to the OSFC construction project in fiscal year 2007 than in fiscal year 2006. The change in capital assets will be discussed in greater detail later.

The increases in cash and cash equivalents, investments, taxes receivable and capital assets were offset by decreases in intergovernmental receivable of \$31.7 million and in deferred expense of \$3 million.

The decrease in intergovernmental receivable is mostly attributed to the OSFC receivable. The School District records an intergovernmental receivable in the amount that OSFC has appropriated less any funds remitted by OSFC to the School District as of the fiscal year end. The amount appropriated by OSFC and not remitted to the School District was \$117.7 million as of June 30, 2006. As of June 30, 2007, the amount appropriated by OSFC and not remitted to the School District was \$82.0 million. This is a difference of \$35.7 million.

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Deferred expense decreased \$3.0 million in fiscal year 2007 from fiscal year 2006. In accordance with an agreement between the School District and the City, the City issued securities to assist in the School District's funding of its share of basic project costs and any locally funded initiatives for rebuilding and renovating all of the School District's school buildings into community learning centers. The securities were issued with a maturity life of 30 years. While the securities are outstanding, the School District will contribute \$3.0 million each year to the City for the purpose of paying debt charges on those securities and other project costs. Payments due to the City for periods beyond June 30, 2007 are recorded as deferred expense. The School District contributed \$3.0 million to the City during fiscal year 2007 concerning these securities.

Total liabilities increased \$58.8 million.

Accrued wages increased \$19.2 million. As of June 30, 2006, the School District did not have any accrued wages, but as of June 30, 2007, the School District had accrued wages amounting to \$19.2 million. This is due to, as previously discussed, the wages pay cycle for certificated employees changing in fiscal year 2007.

Also, deferred revenue increased \$15.8 million. This can be attributed to the passage of a new levy in November of 2006, as previously discussed.

Plus, due to City of Akron increased \$28.4 million. The amount of this liability was determined by reducing the \$150.2 million received in local funds from the City as of June 30, 2007 by the amount of capital expenditures made by the School District using these local funds since the inception of this project. The School District has made a total of \$48.3 million in capital expenditures using these local funds received from the City as of June 30, 2007. Therefore, the balance of due to City of Akron was \$101.9 million as of June 30, 2007. As of June 30, 2006, the School District had received \$94.1 million in local funds from the City and expended \$20.6 million in capital expenditures using these local funds, resulting in a balance of \$73.5 million for due to City of Akron as of June 30, 2006. A liability was recorded for these monies because if the School District does not spend these local funds by the end of this project, these funds would have to be returned to the City in accordance with an agreement between the School District and the City.

The increases in accrued wages, deferred revenue and due to City of Akron were offset by a decrease in intergovernmental payable of \$6.1 million. The decrease in intergovernmental payable is partially attributed to a decrease in the State Teachers Retirement System of Ohio ("STRS Ohio") liability. The School District's contributions to STRS Ohio are deducted from their foundation payments from the State. Those deductions are based on an estimate of total fiscal year payroll for members of STRS Ohio, which is done prior to that fiscal year. STRS Ohio is 2 months in arrears when the School District's contributions are deducted from the foundation payments. As a result, the STRS Ohio liability at fiscal year end is calculated for 2 months of foundation payment deductions plus or minus the difference between the estimate of that fiscal year's payroll for members of STRS Ohio and the actual payroll of that fiscal year's payroll for members of STRS Ohio. The estimate for the fiscal year 2007 payroll for STRS Ohio members was significantly high. This high estimate caused the STRS Ohio liability at June 30, 2007 to be \$3.3 million lower than the STRS Ohio liability at June 30, 2006. In addition, the decrease in intergovernmental payable can be partially attributed to the decrease in deferred expense that was previously discussed. A corresponding intergovernmental payable is recorded for deferred expense. This accounts for a \$3 million decrease in intergovernmental payable.

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The net impact of the assets decrease and the liabilities decrease was an increase of net assets of \$23.1 million.

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

Table 2 shows the changes in net assets for fiscal years 2007 and 2006 for governmental activities as follows:

Table 2 Change in Net Assets for Governmental Activities (In Millions)		
	2007	2006
<b>Revenues</b>		
<i>Program Revenues:</i>		
Charges for Services and Sales	\$7.9	\$8.5
Operating Grants, Contributions and Interest	70.7	65.4
Capital Grants and Contributions	3.8	54.5
<b>Total Program Revenues</b>	<b>82.4</b>	<b>128.4</b>
<i>General Revenues:</i>		
Property Taxes	113.6	102.7
Grants and Entitlements	146.6	146.0
Investment Earnings	9.7	5.2
JEDD	0.4	0.4
Miscellaneous	8.6	5.4
<i>Total General Revenues</i>	<i>278.9</i>	<i>259.7</i>
<b>Total Revenues</b>	<b>361.3</b>	<b>388.1</b>

**Akron City School District**  
*Management's Discussion and Analysis*  
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	<u>2007</u>	<u>2006</u>
<b>Program Expenses</b>		
Instruction	196.1	204.3
Support Services:		
Pupil and Instructional Staff	37.7	40.4
Board of Education, Administration, Fiscal and Business	28.2	28.4
Operation and Maintenance of Plant	41.0	38.6
Pupil Transportation	8.9	8.6
Central	9.4	6.2
Operation of Non-Instructional Services	3.7	3.6
Extracurricular Activities	2.9	3.8
Food Service Operations	10.3	10.6
<b>Total Program Expenses</b>	<u>338.2</u>	<u>344.5</u>
 <b>Increase in Net Assets</b>	<u>\$23.1</u>	<u>\$43.6</u>

While program revenues decreased for governmental activities from \$128.4 million to \$82.4 million, the vast majority of revenues supporting governmental activities are general revenues. General revenues increased from \$259.7 million in fiscal year 2006 to \$278.9 million in fiscal year 2007. General revenues comprised 77.2 percent of revenues supporting governmental activities. The primary sources of the increase in general revenues were increases in property taxes revenue in the amount of \$10.9 million, investment earnings totaling \$4.5 million and miscellaneous revenue in the amount of \$3.2 million. The increase in property taxes revenue is due to the passage of a new levy in November of 2006, as previously discussed. The increase in investment earnings can be attributed to the increase in cash and cash equivalents and investments as previously discussed. There were more monies available to invest in fiscal year 2007 than there were in fiscal year 2006. The increase in miscellaneous revenue is mostly due to the creation of the severance special revenue fund in fiscal year 2007. The severance special revenue was created to account for the monies accumulated for paying termination benefits. In prior fiscal years, these monies were accounted for in an agency fund. These monies are classified as miscellaneous revenue in the severance special revenue fund and totaled \$3.1 million in fiscal year 2007.

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The large decrease in program revenues is due to the School District recognizing \$3.3 million of revenue associated with the OSFC construction project in fiscal year 2007. In fiscal year 2006, the School District recognized \$50.2 million in revenue associated with the OSFC construction project. There are 2 reasons for this large decrease. The first reason is associated with the OSFC intergovernmental receivable. As previously discussed, the School District records an intergovernmental receivable in the amount the State has appropriated less any funds received from OSFC as of the fiscal year end. The offset for this intergovernmental receivable is program revenue. As previously discussed, the OSFC receivable decreased, and therefore, program revenues also decreased. Secondly, the large decrease in program revenues can be attributed to the increase in due to City of Akron. As previously discussed, due to City of Akron was determined by reducing the amount of monies received in local funds from the City as of June 30, 2007 by the amount of capital expenditures made by the School District using these local funds since the inception of the OSFC construction project. The offset for due to City of Akron is program revenue. The School District received \$56.1 million more in local funds from the City as of June 30, 2007 than it did as of June 30, 2006. However, the School District expended only \$27.7 million more in capital construction costs using these local funds as of June 30, 2007 than it did as of June 30, 2006. As a result, due to City of Akron increased and program revenues decreased.

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenue generated by the levy will not increase solely as a result of inflation. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home was reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners), the effective tax rate would become 0.5 mills and the owner would still pay \$35.00. Thus, school districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to the voters to maintain a constant level of service. Property taxes made up 31.1 percent of total revenues for governmental activities for the School District in fiscal year 2007.

Program expenses decreased from \$344.5 million in fiscal year 2006 to \$338.2 million, a 1.8 percent decrease.

While expense decreases were consistent with budget expectations, the decrease in program revenues, the increase in tax revenues, the increase in investment earnings and the increase in miscellaneous revenue resulted in a rise of net assets of \$23.1 million.

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

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Table 3  
(In Millions)

	<u>2007</u>		<u>2006</u>	
	<u>Total Cost of Service</u>	<u>Net Cost of Service</u>	<u>Total Cost of Service</u>	<u>Net Cost of Service</u>
<b>Program Expenses</b>				
Instruction	\$196.1	\$150.4	\$204.3	\$162.0
Support Services:				
Pupil and Instructional Staff	37.7	25.6	40.4	28.6
Board of Education, Administration, Fiscal and Business	28.2	25.1	28.4	25.5
Operation and Maintenance of Plant	41.0	35.2	38.6	(17.2)
Pupil Transportation	8.9	8.5	8.6	8.1
Central	9.4	8.6	6.2	5.1
Operation of Non-Instructional Services	3.7	(0.1)	3.6	0.4
Extracurricular Activities	2.9	2.2	3.8	2.9
Food Service Operations	10.3	0.3	10.6	0.7
<b>Total</b>	<u>\$338.2</u>	<u>\$255.8</u>	<u>\$344.5</u>	<u>\$216.1</u>

The dependence upon general revenues for governmental activities is apparent. Over 75.6 percent of governmental activities are supported through taxes and other general revenues; such revenues are 77.2 percent of total governmental revenues. The community, as a whole, is by far the primary support for the School District students.

**The School District's Funds**

Information about the School District's major funds begins on page 18. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$422.3 million and expenditures of \$369.6 million. The net change in fund balances for the fiscal year was an increase of \$52.7 million for all governmental funds with the most significant increases in the general fund and the classroom facilities capital projects fund. The general fund's net change in fund balance for fiscal year 2007 was an increase of \$13.8 million. Taxes revenue in the general fund increased \$7.8 million or 7.8 percent from fiscal year 2006 to fiscal year 2007. This is due to the passage of a new levy in November of 2006, as previously discussed. Intergovernmental revenue increased \$2.3 million in the general fund. The majority of this increase is due to a Community Alternative Funding System Medicaid receivable at June 30, 2007 in the amount of \$1.7 million. Interest revenue in the general fund increased \$1.5 million or 70.2 percent from fiscal year 2006 to fiscal year 2007. As previously discussed, this is attributed to the increase in cash and cash equivalents and investments. There were more monies available to invest in fiscal year 2007 than there were in fiscal year 2006. In addition, expenditures in the general fund decreased \$10.4 million or 3.9 percent from fiscal year 2006 to fiscal year 2007. This is mainly because of the wages pay cycle for certificated employees changing in fiscal year 2007 as previously discussed.

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The classroom facilities capital projects fund's net change in fund balance for fiscal year 2007 was an increase of \$37.0 million. Intergovernmental revenue in the classroom facilities capital projects fund increased \$47.0 million or 274.2 percent from fiscal year 2006 to fiscal year 2007. This is due to the OSFC construction project as previously discussed. The classroom facilities capital projects fund recognized \$64.1 million in revenue related to this project in fiscal year 2007. Also, classroom facilities capital projects fund expenditures increased \$19.6 million or 168.7 percent from fiscal year 2006 to fiscal year 2007. As previously discussed, this is attributed to the expenditures associated with the OSFC construction project. Additional projects were started during fiscal year 2007.

The permanent improvement capital projects fund's net change in fund balance for fiscal year 2007 was a decrease of \$0.1 million. Expenditures in the permanent improvement capital projects fund increased \$0.5 million or 14.4 percent from fiscal year 2006 to fiscal year 2007. These expenditures increased because more expensive projects were performed in fiscal year 2007 than in fiscal year 2006. In addition, during the current fiscal year, the permanent improvement capital projects fund transferred \$1.4 million to the classroom facilities maintenance capital projects fund, a nonmajor fund, in accordance with State statute to satisfy its local maintenance requirement by earmarking from the proceeds of its existing permanent improvement tax.

**General Fund Budgeting Highlights**

The School District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the general fund.

During the course of fiscal year 2007, the School District amended its general fund budget numerous times; however, none of these amendments were significant. The School District uses a modified site-based budgeting system designed to tightly control total site budgets but provide flexibility for site management.

Total actual expenditures on the budget basis (cash outlays plus encumbrances) were \$240.6 million, \$26.4 million less than actual revenues. This difference is attributed to a \$26.7 million decrease in expenditures, a \$7.9 million increase in taxes revenue, and a \$1.6 million increase in interest revenue. As previously discussed, the decrease in expenditures can be attributed to mostly the wages pay cycle for certificated employees changing in fiscal year 2007 as previously discussed. As previously discussed, the increase in taxes revenue is attributed to the passage of a new levy in November of 2006. And the increase in interest revenue is due to the increase in cash and cash equivalents and investments, as previously discussed. There were more monies available to invest in fiscal year 2007 than there were in fiscal year 2006.

The School District's ending unobligated cash balance was \$5.3 million above the final budgeted amount. This is mostly attributed to the School District spending \$6.2 million less in expenditures than what was budgeted. The \$6.2 million variance in expenditures was mostly the result of the School District spending \$3.0 million less in regular instruction expenditures, \$0.8 million less in operation and maintenance of plant support services expenditures, \$0.7 million less in pupils support services expenditures, \$0.6 million less in pupil transportation support services expenditures, \$0.4 million less in central support services expenditures, \$0.4 million less in extracurricular activities expenditures and \$0.3 million less in administration support services expenditures than what was budgeted.

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The \$6.2 million variance in expenditures was offset by the School District receiving \$1.0 million less in revenues than what was budgeted. The \$1.0 million variance in revenues was mostly the result of the School District receiving \$0.5 million less in intergovernmental revenue and \$0.5 million less in miscellaneous revenue.

**Capital Assets and Debt Administration**

*Capital Assets*

At the end of fiscal year 2007, the School District had \$107.6 million invested in capital assets. Table 4 shows fiscal year 2007 balances compared to fiscal year 2006 as follows:

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

	Governmental Activities	
	2007	2006 (Restated)
Land	\$6.2	\$6.2
Construction In Progress	29.3	9.4
Land Improvements	0.1	0.1
Buildings and Improvements	61.8	55.1
Furniture and Equipment	7.6	7.3
Vehicles	2.6	2.0
Totals	\$107.6	\$80.1

Capital assets increased \$27.5 million from fiscal year 2007 to fiscal year 2006. The increase is mostly due to construction in progress increasing by \$19.9 million in fiscal year 2007 from fiscal year 2006 because of the School District incurring more costs related to the OSFC construction project in fiscal year 2007 than in fiscal year 2006. In addition, the increase in capital assets is partly due to building and improvements increasing by \$6.7 million in fiscal year 2007 from fiscal year 2006. The construction of Judith Resnik Elementary School and Voris Elementary School was completed during the current fiscal year. The increase in construction in progress and the increase in buildings and improvements are offset by a decrease related to recognizing \$3.1 million in depreciation expense in fiscal year 2007. For further information on capital assets, see Note 10 of the notes to the basic financial statements.

As of June 30, 2007, the School District had contractual commitments for construction projects with contractors in the amount of \$42.7 million. For further information, see Note 19 of the notes to the basic financial statements.

**Akron City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2007*  
*Unaudited*

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*Debt Administration*

At June 30, 2007, the School District had \$3,931 in debt outstanding, all due within one year.

On March 1, 1988, the School District obtained a loan in the amount of \$141,533 for the purpose of providing asbestos removal for the School District. The amount outstanding as of June 30, 2007 was \$3,931. The loan was issued for a 20 fiscal year period with final maturity during fiscal year 2008.

At June 30, 2007, the School District's overall legal debt margin was \$269.2 million with an unvoted debt margin of \$3.0 million. The debt is well within permissible limits. For further information on debt obligations, see Note 15 of the notes to the basic financial statements.

**For the Future**

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

A large number of students withdrew from the School District to attend community schools during fiscal year 2007. If this trend continues, the future looks bleak.

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

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

The Ohio Supreme Court found the State of Ohio in March of 1997 to be operating an unconstitutional educational system, one that was neither "adequate" nor "equitable". Since 1997, the State has directed its tax revenue growth toward school districts with little property tax wealth. On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding decision is unconstitutional. The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..."

The School District does not anticipate any meaningful growth in State revenue. The concern is that, to meet the requirements of the Court, the State may require redistribution of commercial and industrial property tax. With \$60 of every \$100 paid in taxes for the School District coming from business or industry, this could have a significant impact on the School District's residential taxpayers.

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

**Akron City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2007*  
*Unaudited*

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**Contacting the School District's Management**

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

**Akron City School District**

*Statement of Net Assets*

*June 30, 2007*

	Primary Government	Component Unit
	Governmental Activities	Akron Digital Academy
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$72,681,045	\$1,693,293
Cash and Cash Equivalents In Segregated Accounts	10,166,259	0
Investments in Segregated Accounts	108,214,056	0
Accrued Interest Receivable	554,103	0
Accounts Receivable	452,281	0
Intergovernmental Receivable	93,089,259	0
Prepaid Items	0	12,253
Inventory Held for Resale	450,233	0
Materials and Supplies Inventory	426,751	0
Taxes Receivable	126,259,562	0
Deferred Expense	78,000,000	0
Nondepreciable Capital Assets	35,469,266	0
Depreciable Capital Assets, Net	72,139,803	36,339
<i>Total Assets</i>	<u>597,902,618</u>	<u>1,741,885</u>
<b>Liabilities</b>		
Accounts Payable	6,891,193	13,460
Accrued Wages	19,209,058	0
Compensated Absences Payable	1,415,570	0
Deferred Revenue	112,866,448	0
Intergovernmental Payable	81,476,118	12,970
Premium Payable	617,938	0
Claims Payable	7,203,979	0
Due to City of Akron	101,886,459	0
Long-Term Liabilities:		
Due Within One Year	1,563,251	4,758
Due In More Than One Year	24,328,230	17,049
<i>Total Liabilities</i>	<u>357,458,244</u>	<u>48,237</u>
<b>Net Assets</b>		
Invested in Capital Assets, Net of Related Debt	107,605,138	14,532
Restricted for:		
Capital Projects	103,889,531	0
Debt Service	13,007	0
Other Purposes	8,640,594	0
Unrestricted	20,296,104	1,679,116
<i>Total Net Assets</i>	<u>\$240,444,374</u>	<u>\$1,693,648</u>

See accompanying notes to the basic financial statements



**Akron City School District**

*Balance Sheet*

*Governmental Funds*

*June 30, 2007*

	General	Permanent Improvement Capital Projects	Classroom Facilities Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Equity in Pooled Cash and Cash Equivalents	\$29,030,737	\$1,816,925	\$11,992,943	\$14,291,576	\$57,132,181
Cash and Cash Equivalents In Segregated Accounts	9,364,673	0	559,253	242,333	10,166,259
Investments In Segregated Accounts	0	0	75,360,750	32,853,306	108,214,056
Taxes Receivable	121,982,624	4,273,006	0	3,932	126,259,562
Accounts Receivable	39,072	0	0	413,209	452,281
Intergovernmental Receivable	1,814,933	0	81,987,753	9,286,573	93,089,259
Accrued Interest Receivable	34,614	0	361,833	157,656	554,103
Interfund Receivable	591,235	0	0	0	591,235
Materials and Supplies Inventory	30,123	0	0	0	30,123
Inventory Held for Resale	0	0	0	450,233	450,233
Deferred Expense	0	78,000,000	0	0	78,000,000
<i>Total Assets</i>	<u>\$162,888,011</u>	<u>\$84,089,931</u>	<u>\$170,262,532</u>	<u>\$57,698,818</u>	<u>\$474,939,292</u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts Payable	\$385,077	\$35,171	\$4,947,239	\$1,486,708	\$6,854,195
Accrued Wages	16,200,145	0	0	3,008,913	19,209,058
Compensated Absences Payable	1,301,323	0	0	114,247	1,415,570
Interfund Payable	0	0	0	591,235	591,235
Intergovernmental Payable	2,787,220	78,000,000	0	688,898	81,476,118
Deferred Revenue	111,523,065	3,897,341	42,596,178	8,325,163	166,341,747
Due to City of Akron	0	0	70,564,268	31,322,191	101,886,459
<i>Total Liabilities</i>	<u>132,196,830</u>	<u>81,932,512</u>	<u>118,107,685</u>	<u>45,537,355</u>	<u>377,774,382</u>
<b>Fund Balances</b>					
Reserved for Encumbrances	1,303,808	224,236	42,874,493	6,779,816	51,182,353
Reserved for Property Taxes	10,477,372	375,665	0	0	10,853,037
Undesignated, Reported in:					
General Fund	18,910,001	0	0	0	18,910,001
Special Revenue Funds	0	0	0	4,034,251	4,034,251
Debt Service Funds	0	0	0	13,007	13,007
Capital Projects Funds	0	1,557,518	9,280,354	1,334,389	12,172,261
<i>Total Fund Balances</i>	<u>30,691,181</u>	<u>2,157,419</u>	<u>52,154,847</u>	<u>12,161,463</u>	<u>97,164,910</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$162,888,011</u>	<u>\$84,089,931</u>	<u>\$170,262,532</u>	<u>\$57,698,818</u>	<u>\$474,939,292</u>

See accompanying notes to the basic financial statements

**Akron City School District**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Assets of Governmental Activities  
 June 30, 2007*

<b>Total Governmental Fund Balances</b>	\$97,164,910
 <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.	107,609,069
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:	
Grants	50,876,083
Delinquent Property Taxes	2,571,936
Tuition and Fees	17,813
Radio Membership Contributions	9,156
Other	232
Food Services Sales	79
<b>Total</b>	53,475,299
Four internal service funds are used by management to charge the costs of insurance, central supplies and workers' compensation to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	8,086,577
Long-term liabilities, including compensated absences and loans payable are not due and payable in the current period and therefore are not reported in the funds:	
Compensated Absences	(25,887,550)
Loans Payable	(3,931)
<b>Total</b>	(25,891,481)
 <i>Net Assets of Governmental Activities</i>	 \$240,444,374

See accompanying notes to the basic financial statements

**Akron City School District**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2007*

	General	Permanent Improvement Capital Projects	Classroom Facilities Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Taxes	\$108,117,744	\$4,202,269	\$0	\$7,863	\$112,327,876
Intergovernmental	149,309,757	716,435	64,102,224	68,602,921	282,731,337
Interest	3,757,586	259,822	4,085,074	1,674,265	9,776,747
Tuition and Fees	3,694,157	0	0	1,157,088	4,851,245
Extracurricular Activities	0	0	0	1,300,776	1,300,776
Rentals	98,337	0	0	0	98,337
Charges for Services	359,448	0	0	0	359,448
Sales	0	0	0	1,321,357	1,321,357
JEDD	820,255	0	0	0	820,255
Contributions and Donations	439,260	0	0	0	439,260
Miscellaneous	3,618,885	0	0	4,646,910	8,265,795
<i>Total Revenues</i>	<u>270,215,429</u>	<u>5,178,526</u>	<u>68,187,298</u>	<u>78,711,180</u>	<u>422,292,433</u>
<b>Expenditures</b>					
Current:					
Instruction:					
Regular	114,451,356	0	0	26,519,110	140,970,466
Special	30,361,237	0	0	7,546,584	37,907,821
Vocational	12,255,808	0	0	199,609	12,455,417
Adult/Continuing	268,465	0	0	1,809,100	2,077,565
Other	26,480	0	0	3,161,508	3,187,988
Support Services:					
Pupil	13,796,847	0	0	2,391,356	16,188,203
Instructional Staff	12,410,311	0	0	9,497,083	21,907,394
Board of Education	91,683	0	0	0	91,683
Administration	18,887,222	0	0	2,764,378	21,651,600
Fiscal	3,622,465	0	0	329,226	3,951,691
Business	2,718,416	0	0	0	2,718,416
Operation and Maintenance of Plant	29,678,918	0	0	1,543,918	31,222,836
Pupil Transportation	9,067,954	0	0	224,881	9,292,835
Central	5,019,652	0	0	4,077,128	9,096,780
Operation of Non-Instructional Services	241,859	0	0	3,486,172	3,728,031
Extracurricular Activities	2,092,288	0	0	832,440	2,924,728
Food Service Operations	0	0	0	10,368,411	10,368,411
Capital Outlay	897,739	3,804,746	31,235,301	3,684,062	39,621,848
Debt Service:					
Principal Retirement	255,516	0	0	7,863	263,379
Interest and Fiscal Charges	11,754	0	0	0	11,754
<i>Total Expenditures</i>	<u>256,155,970</u>	<u>3,804,746</u>	<u>31,235,301</u>	<u>78,442,829</u>	<u>369,638,846</u>
<i>Excess of Revenues Over Expenditures</i>	<u>14,059,459</u>	<u>1,373,780</u>	<u>36,951,997</u>	<u>268,351</u>	<u>52,653,587</u>
<b>Other Financing Sources (Uses)</b>					
Transfers In	18,941	0	0	1,689,705	1,708,646
Transfers Out	(241,000)	(1,448,705)	0	(18,941)	(1,708,646)
<i>Total Other Financing Sources (Uses)</i>	<u>(222,059)</u>	<u>(1,448,705)</u>	<u>0</u>	<u>1,670,764</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	13,837,400	(74,925)	36,951,997	1,939,115	52,653,587
<i>Fund Balances at Beginning of Fiscal Year</i>	<u>16,853,781</u>	<u>2,232,344</u>	<u>15,202,850</u>	<u>10,222,348</u>	<u>44,511,323</u>
<i>Fund Balances at End of Fiscal Year</i>	<u>\$30,691,181</u>	<u>\$2,157,419</u>	<u>\$52,154,847</u>	<u>\$12,161,463</u>	<u>\$97,164,910</u>

See accompanying notes to the basic financial statements

**Akron City School District**  
*Reconciliation of the Statement of Revenues,  
Expenditures and Changes in Fund Balances of Governmental Funds  
to the Statement of Activities  
For the Fiscal Year Ended June 30, 2007*

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**Net Change in Fund Balances - Total Governmental Funds** \$52,653,587

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

Governmental funds report capital outlays as expenditures.

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

Capital Asset Additions	31,298,292	
Current Year Depreciation	(3,115,162)	
<b>Total</b>		<b>28,183,130</b>

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.

(646,786)

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

Delinquent Property Taxes	1,242,197	
Radio Membership Contributions	(6,986)	
Tuition and Fees	(82,668)	
Food Service Sales	78	
Miscellaneous	(76)	
<b>Total</b>		<b>1,152,545</b>

In the prior fiscal year, grant revenues were reported on the statement of activities but were excluded from the statement of revenues, expenditures and changes in fund balances because it had not met the availability criteria. For the current fiscal year, these grant revenues are included on the statement of revenues, expenditures and changes in fund balances but are not included on the statement of activities.

(62,082,936)

Repayment of loan and capital lease principal are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

263,379

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

Compensated Absences	156,153
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The internal service funds used by management to charge the costs of insurance, central supplies and workers' compensation to individual funds are not reported in the district-wide statement of activities. Governmental fund expenditures and related internal funds revenues are eliminated. The net revenue (expense) of the internal service funds are allocated among the governmental activities.

3,421,612

*Change in Net Assets of Governmental Activities*

\$23,100,684

See accompanying notes to the basic financial statements

**Akron City School District**  
*Statement of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*General Fund*  
*For the Fiscal Year Ended June 30, 2007*

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Taxes	\$116,348,077	\$106,897,483	\$106,545,129	(\$352,354)
Intergovernmental	161,157,759	148,067,413	147,579,356	(488,057)
Interest	4,109,384	3,775,496	3,784,220	8,724
Tuition and Fees	3,979,508	3,654,072	3,648,588	(5,484)
Rentals	107,385	98,662	98,337	(325)
Charges for Services	134,447	9,158	359,448	350,290
JEDD	895,725	822,968	820,255	(2,713)
Contributions and Donations	479,675	440,713	439,260	(1,453)
Miscellaneous	1,842,153	4,262,817	3,722,413	(540,404)
<i>Total Revenues</i>	289,054,113	268,028,782	266,997,006	(1,031,776)
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	105,989,705	107,126,078	104,164,047	2,962,031
Special	27,430,769	27,414,854	27,482,615	(67,761)
Vocational	11,230,725	11,166,585	11,192,294	(25,709)
Adult	269,503	269,888	267,178	2,710
Other	27,119	27,219	27,772	(553)
Support Services:				
Pupils	13,292,995	13,177,155	12,478,624	698,531
Instructional Staff	11,932,986	11,873,302	12,187,397	(314,095)
Board of Education	121,979	174,979	91,947	83,032
Administration	18,095,183	18,235,049	17,923,638	311,411
Fiscal	3,529,172	3,662,585	3,619,757	42,828
Business	3,066,888	3,188,004	3,045,168	142,836
Operation and Maintenance of Plant	30,551,601	30,532,425	29,751,587	780,838
Pupil Transportation	10,750,422	10,663,801	10,024,177	639,624
Central	5,360,842	5,456,704	5,036,334	420,370
Operations of Non-Instructional Services	236,676	249,794	247,254	2,540
Extracurricular Activities	2,260,746	2,591,253	2,150,492	440,761
Capital Outlay	1,021,902	1,006,902	897,885	109,017
<i>Total Expenditures</i>	245,169,213	246,816,577	240,588,166	6,228,411
<i>Excess of Revenues Over Expenditures</i>	43,884,900	21,212,205	26,408,840	5,196,635
<b>Other Financing Sources (Uses)</b>				
Transfers In	11,382	11,382	18,941	7,559
Transfers Out	(96,952)	(339,333)	(241,000)	98,333
<i>Total Other Financing Sources (Uses)</i>	(85,570)	(327,951)	(222,059)	105,892
<i>Net Change in Fund Balance</i>	43,799,330	20,884,254	26,186,781	5,302,527
<i>Fund Balance at Beginning of Fiscal Year</i>	12,321,978	12,321,978	12,321,978	0
Prior Fiscal Year Encumbrances Appropriated	1,272,627	1,272,627	1,272,627	0
<i>Fund Balance at End of Fiscal Year</i>	\$57,393,935	\$34,478,859	\$39,781,386	\$5,302,527

See accompanying notes to the basic financial statements

**Akron City School District**  
*Statement of Fund Net Assets*  
*Proprietary Fund*  
*June 30, 2007*

	<u>Internal Service Funds</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash	
Equivalents	\$15,548,864
Materials and Supplies Inventory	<u>396,628</u>
<i>Total Assets</i>	<u>15,945,492</u>
<b>Liabilities</b>	
Accounts Payable	36,998
Premium Payable	617,938
Claims Payable	<u>7,203,979</u>
Total Liabilities	<u>7,858,915</u>
<b>Net Assets</b>	
Unrestricted	<u><u>\$8,086,577</u></u>

See accompanying notes to the basic financial statements

**Akron City School District**  
*Statement of Revenues,  
Expenses and Changes in Fund Net Assets  
Proprietary Fund  
For the Fiscal Year Ended June 30, 2007*

	Internal Service Funds
<b>Operating Revenues</b>	
Charges for Services	\$42,376,783
<b>Operating Expenses</b>	
Purchased Services	3,695,306
Materials and Supplies	1,174,387
Claims	34,085,478
Total Operating Expenses	38,955,171
<i>Operating Income/Change in Net Assets</i>	3,421,612
<i>Net Assets at Beginning of Fiscal Year</i>	4,664,965
<i>Net Assets at End of Fiscal Year</i>	\$8,086,577

See accompanying notes to the basic financial statements

**Akron City School District**  
*Statement of Cash Flows*  
*Proprietary Fund*  
*For the Fiscal Year Ended June 30, 2007*

	Internal Service Funds
<b><i>Increase (Decrease) in Cash and Cash Equivalents</i></b>	
<b>Cash Flows from Operating Activities</b>	
Cash Received for Interfund Services	\$42,376,783
Cash Payments for Other Expenses	(3,819,503)
Cash Payments for Goods and Services	(1,100,814)
Cash Payments for Claims	(33,153,599)
<i>Net Cash Provided by Operating Activities</i>	4,302,867
<i>Net Increase in Cash and Cash Equivalents</i>	4,302,867
Cash and Cash Equivalents at Beginning of Fiscal Year	11,245,997
Cash and Cash Equivalents at End of Fiscal Year	\$15,548,864
 <b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>	
<i>Operating Income</i>	\$3,421,612
Adjustments:	
<i>(Increase) Decrease in Assets:</i>	
Materials and Supplies Inventory	57,578
<i>Increase (Decrease) in Liabilities:</i>	
Accounts Payable	15,295
Premium Payable	(123,497)
Claims Payable	931,879
<i>Total Adjustments</i>	881,255
<i>Net Cash Provided by Operating Activities</i>	\$4,302,867
 See accompanying notes to the basic financial statements	

**Akron City School District**  
*Statement of Fiduciary Net Assets*  
*Fiduciary Funds*  
*June 30, 2007*

	Private Purpose Trust	
	Scholarship	Agency
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$56,665	\$248,944
Cash and Cash Equivalents in Segregated Accounts	154,311	0
Investments in Segregated Accounts	5,000	0
Accrued Interest Receivable	27	0
<i>Total Assets</i>	<u>216,003</u>	<u>\$248,944</u>
<b>Liabilities</b>		
Undistributed Monies	0	\$86,546
Due to Students	0	162,398
<i>Total Liabilities</i>	<u>0</u>	<u>\$248,944</u>
<b>Net Assets</b>		
Held in Trust for Scholarships	<u>\$216,003</u>	

See accompanying notes to the basic financial statements

**Akron City School District**  
*Statement of Changes in Fiduciary Net Assets*  
*Private Purpose Trust Fund*  
*For the Fiscal Year Ended June 30, 2007*

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	<u>Scholarship</u>
<b>Additions</b>	
Interest	\$3,791
<b>Deductions</b>	
Miscellaneous	<u>2,266</u>
<i>Change in Net Assets</i>	1,525
<i>Net Assets at Beginning of Fiscal Year</i>	<u>214,478</u>
<i>Net Assets at End of Fiscal Year</i>	<u><u>\$216,003</u></u>

See accompanying notes to the basic financial statements

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**Akron City School District**  
**Summit County**

*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2007*

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**Note 1 – Description of the School District and Reporting Entity**

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

The School District was established in 1847 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 55 square miles and is located in Summit County, and is within the City of Akron. The School District is the fifth largest in the State of Ohio (among 920 public school districts and community schools) in terms of enrollment. It is staffed by 978 full-time classified employees, 1,964 full-time certificated personnel, 150 administrative employees, and 700 part-time employees who provide services to 25,982 students and other community members. The School District currently operates 58 instructional buildings, four administrative buildings, three auxiliary buildings and one garage.

*Reporting Entity*

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

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

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

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*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2007*  
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*Discretely Presented Component Unit*

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

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

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

The Academy was approved for operation under contract with the School District for a period of five years commencing July 1, 2002. The Academy began operations on October 7, 2002. The School District is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. In addition, the Academy was approved for operation under contract with the School District for another period of five years commencing July 1, 2007.

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

All of the Academy's personnel services, which provided services to 644 students, were purchased from the School District during fiscal year 2007.

**Note 2 – Summary of Significant Accounting Policies**

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

**Akron City School District**  
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*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2007*  
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***A. Basis of Presentation***

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

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

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

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

***B. Fund Accounting***

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

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

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

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*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2007*  
*(Continued)*

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

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

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

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

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

***Fiduciary Fund Types*** Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The School District has a private purpose trust fund to account for scholarships for further education after graduation. Agency funds are purely custodial in nature (assets equal liabilities) and are used to hold resources for individuals, organizations or other governments. Agency funds do not involve measurement of results of operations. The School District's agency funds account for student managed activities, Stafford loans for students and the Urban League's share of locally funded initiative construction costs at the Helen Arnold Elementary School.

***C. Measurement Focus***

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

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*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2007*  
*(Continued)*

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

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

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

***D. Basis of Accounting***

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

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

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

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*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2007*  
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Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year end: property taxes available as an advance, interest, tuition, grants, rentals, radio membership contributions, sales, services and fees.

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

Property taxes for which there is an enforceable legal claim as of June 30, 2007, but which were levied to finance fiscal year 2008 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.

***Expenses/Expenditures*** On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

***E. Budgetary Data***

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount that the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The legal level of control has been established by the Board of Education at the object level for the general fund and at the fund level for all other funds. The School District's Treasurer has been authorized to allocate Board appropriations to the function and object level within each fund, except for the general fund.

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

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*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2007*  
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The appropriation resolution is subject to amendment by the Board throughout the fiscal year with the restriction that appropriations may not exceed estimated revenues by fund. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for the funds that covered the entire fiscal year, including amounts automatically carried forward from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

***F. Cash, Cash Equivalents and Investments***

To improve cash management, all cash received by the School District is pooled. Monies for all funds, including the internal service funds, are maintained in this pool. Individual fund integrity is maintained through School District records. Interest in the pool is presented as "equity in pooled cash and cash equivalents" on the basic financial statements. The general fund provides advances to cover deficit cash balances at the end of the fiscal year. At the end of fiscal year 2007, the general fund advanced monies to several special revenue funds to cover negative cash balances. See Note 16 for additional information.

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

During fiscal year 2007, investments were limited to overnight repurchase agreements, Federal Home Loan Bank Notes, Federal Home Loan Mortgage Corporation Notes, Federal National Mortgage Association Notes, Federal Farm Credit Bank Notes, an Allegiant Treasury Money Market Fund, a First American Treasury Money Market Fund, a Fifth Third Institutional Money Market Fund and certificates of deposit. Except for investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase, investments are reported at fair value which is based on quoted market prices. Investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase are reported at cost or amortized cost.

Following Ohio statutes, the Board of Education has, by resolution, identified the funds to receive an allocation of interest. Interest revenue credited to the general fund during fiscal year 2007 amounted to \$3,757,586, which includes \$1,482,492 assigned from other School District funds.

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

***G. Inventory***

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

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

**Akron City School District  
Summit County**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007  
(Continued)*

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***H. Deferred Expense***

In accordance with an agreement between the School District and the City of Akron (the “City”), the City issued securities to assist in the School District’s funding of its share of basic project costs and any locally funded initiatives for rebuilding and renovating all of the School District’s school buildings into community learning centers. The securities were issued with a maturity life of 30 years. While the securities are outstanding, the School District will contribute \$3,000,000 each year from the permanent improvement capital projects fund to the City for the purpose of paying debt charges on those securities and other project costs. Payments due to the City for periods beyond June 30, 2007 are recorded as deferred expense with a corresponding intergovernmental payable.

***I. Capital Assets***

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

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of one thousand dollars for all assets except for assets capitalized in the food service nonmajor special revenue fund, which has a capitalization threshold of five hundred dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are not.

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

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	20 years
Buildings and Improvements	70 years
Furniture and Equipment	5 - 30 years
Vehicles	7 - 15 years

***J. Interfund Balances***

On the fund financial statements, outstanding interfund loans are classified as “interfund receivables/ payables”. Interfund balances are eliminated in the statement of net assets.

***K. Compensated Absences***

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

**Akron City School District**  
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*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2007*  
*(Continued)*

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Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the School District's past experience of making termination payments.

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

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated leave are paid.

***L. Accrued Liabilities and Long-Term Obligations***

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables and accrued liabilities from internal service funds are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and compensated absences that will be paid from governmental funds are reported as a liability in the governmental fund financial statements only to the extent that they are due for payment during the current fiscal year. Loans payable is recognized as a liability on the governmental fund financial statements when due.

***M. Interfund Activity***

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

***N. Fund Balance Reserves***

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

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

**Akron City School District**  
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*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2007*  
*(Continued)*

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***O. Net Assets***

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws and regulations of other governments. Net assets restricted for other purposes include auxiliary services, local grants, State and Federal programs, adult education and student activities.

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

***P. Operating Revenues and Expenses***

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

***Q. Estimates***

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

**Note 3 – Restatement of Beginning Net Assets**

For fiscal year 2007, the School District discovered the misuse and omission of certain facts and reports used in establishing the useful lives of furniture and equipment other than computer equipment in the prior period. As a result, the School District has increased the estimated useful lives of furniture and equipment other than computer equipment by ten years. This correction affected only the government-wide financial statements and amounted to \$2,001,795. Net assets at June 30, 2006 on the statement of activities were restated from \$215,341,895 to \$217,343,690. The impact on the change in net assets in the statement of activities for the fiscal year ended June 30, 2006 would not be material.

**Akron City School District**  
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*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2007*  
*(Continued)*

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**Note 4 – Accountability and Compliance**

***A. Accountability***

The following nonmajor special revenue funds had deficit fund balances on a GAAP basis at June 30, 2007:

<u>Nonmajor Fund</u>	<u>Amount</u>
Public School Preschool	\$5,688
School Net Professional Development	75
Ohio Reads	9,700
High Schools That Work	20,083
Alternative Schools	46,709
Poverty Based Assistance	1,058,749
Adult Basic Education	34,708
Prevention, Retention & Contingency Youth	1,824
Title VI-B - Special Education	319,571
Vocational Education	328,480
Title III - Limited English Proficiency	18,375
Title I	456,344
Title V - Innovative Programs	13,408
Safe and Drug-Free Schools	21,798
Preschool Handicapped	68,125
Title II-A - Improving Teacher Quality	173,580
Miscellaneous Federal Grants	129,743

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

***B. Legal Compliance***

Contrary to Section 5705.41(D), of the Ohio Revised Code, the District did not certify certain expenditures prior to incurring the obligations.

**Akron City School District  
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*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007  
(Continued)*

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

<b>Fund Type/Fund</b>	<b>Jan.</b>	<b>Mar.</b>	<b>June</b>
<b>General Fund</b>			
Rotary	\$88,940	\$462,463	
<b>Special Revenue Funds</b>			
Post Secondary Vocational Education		2,018	
Public School Preschool	7,176	9,807	
High Schools That Work		16,085	\$6,224
Alternative Schools	97,306	7,311	31,662
Adult Basic Education		29,492	17,519
Prevention, Retention & Contingency Youth	40,321	18,688	8,503
Title VI-B - Special Education	456,524	493,142	
Vocational Education	40,127	17,409	258,348
Title III - Limited English Proficiency	5,156	7,287	15,265
Title V - Innovative Programs	2,026		12,184
Safe and Drug-Free Schools	21,173	13,730	9,358
Pre-School Handicapped			49,765
Title II-A - Improving Teacher Quality	65,200	223,898	
Miscellaneous Federal Grants	261,671	288,052	137,177
<b>Agency Fund</b>	<b>3,129,742</b>	<b>2,949,540</b>	<b>2,785,713</b>

**Note 5 - Budgetary Basis of Accounting**

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).

**Akron City School District**  
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*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2007*  
*(Continued)*

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3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balances (GAAP basis).

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

<u>Net Change In Fund Balance</u>	
GAAP Basis	\$13,837,400
Net Adjustment for Revenue Accruals	(3,218,423)
Net Adjustment for Expenditure Accruals	16,992,861
Adjustment for Encumbrances	<u>(1,425,057)</u>
Budget Basis	<u>\$26,186,781</u>

**Note 6 - Deposits and Investments**

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

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

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

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

Interim monies may be invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
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;

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*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2007*  
*(Continued)*

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

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

**Deposits** Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, the carrying amount of the School District's deposits was (\$5,335,264) and the bank balance was \$2,681,056. Of the bank balance, \$318,000 was covered by Federal Deposit Insurance Corporation, and \$2,363,056 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the School District's name.

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

**Akron City School District**  
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*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2007*  
*(Continued)*

**Investments** As of June 30, 2007, the School District had the following investments:

	Carrying Value	Maturities In Years		% to Total
		Less than 1	1-2	
Overnight Repurchase Agreements	\$78,682,000	\$78,682,000	\$0	39.97%
Federal Home Loan Bank Notes	70,897,489	46,085,679	24,811,810	36.01
Federal Home Loan Mortgage Corporation Notes	14,292,362	10,047,970	4,244,392	7.26
Federal Farm Credit Bank Notes	6,232,864	1,626,434	4,606,430	3.17
Federal National Mortgage Association Notes	16,914,569	16,914,569	0	8.59
Fifth Third Institutional Money Market Fund	460,281	460,281	0	0.23
Allegiant Treasury Money Market Fund	9,364,673	9,364,673	0	4.76
First American Treasury Money Market Fund	17,306	17,306	0	0.01
Total Investments	<u>\$196,861,544</u>	<u>\$163,198,912</u>	<u>\$33,662,632</u>	<u>100.00%</u>

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

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

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

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

**Akron City School District**  
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*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2007*  
*(Continued)*

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**Note 7 - Property Taxes**

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar year 2007 represents collections of calendar year 2006 taxes. Real property taxes received in calendar year 2007 were levied after April 1, 2006, on the assessed value listed as of January 1, 2006, 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 semi-annually with payments due in February and July. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar year 2007 represents collections of calendar year 2006 taxes. Public utility real and tangible personal property taxes received in calendar year 2007, which became a lien December 31, 2005, were levied after April 1, 2006 and are collected in calendar year 2007 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar year 2007 (other than public utility property) represents the collection of calendar year 2007 taxes. Tangible personal property taxes received in calendar year 2007 were levied after April 1, 2006, on the value as of December 31, 2006. Machinery and equipment is currently assessed at 12.75 percent of true value and telecommunications property is currently assessed at twenty percent of true value. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

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

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2007 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2007 was \$10,477,372 in the general fund and \$375,665 in the permanent improvement capital projects fund. The amount available as an advance at June 30, 2006, was \$8,904,757 in the general fund and \$410,082 in the permanent improvement capital projects fund.

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

**Akron City School District  
Summit County**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007  
(Continued)*

The assessed values upon which the fiscal year 2007 taxes were collected are:

	2006 Second Half Collections		2007 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$2,752,557,470	89.90%	\$2,746,092,200	91.82%
Public Utility Personal	111,881,580	3.65%	108,869,360	3.64%
Tangible Personal Property	197,358,998	6.45%	135,863,639	4.54%
<b>Total</b>	<b>\$3,061,798,048</b>	<b>100.00%</b>	<b>\$2,990,825,199</b>	<b>100.00%</b>
 Tax rate per \$1,000 of assessed valuation	 \$63.76		 \$71.66	

**Note 8 - Contingencies**

***A. Grants***

The School District received financial assistance from federal and State agencies in the form of grants. The disbursements of funds received under these programs generally require compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2007.

***B. Litigation***

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

**Note 9 – Receivables**

Receivables at June 30, 2007 consisted of taxes, interest, accounts (student transportation fees, radio membership contributions, tuition, local grants, fuel sales, mechanics' services and food service sales), interfund and intergovernmental (tuition and grants). All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. All receivables are expected to be collected within one fiscal year except for classroom facilities.

**Akron City School District**  
**Summit County**

*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2007*  
*(Continued)*

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A summary of the items of intergovernmental receivables follows:

<u>Governmental Activities</u>	<u>Amounts</u>
Tuition and Fees	\$61,462
JROTC	22,123
CAFS Medicaid	1,731,348
Other Local Grants	13,679
Public School Preschool	18,024
Ohio Reads	20,821
High Schools That Work	17,242
Alternative Schools	36,661
Miscellaneous State Grants	194,388
Adult Basic Education	47,690
Prevention, Retention & Contingency Youth	8,502
Title VI-B - Special Education	3,187,297
Vocational Education	354,084
Title III - Limited English Proficiency	18,435
Title I	3,061,502
Title V - Innovative Programs	17,823
Safe and Drug-Free Schools	70,095
Pre-School Handicapped	37,270
Title II-A - Improving Teacher Quality	487,102
Miscellaneous Federal Grants	577,531
Food Service	1,118,427
Classroom Facilities	<u>81,987,753</u>
 Total Intergovernmental Receivables	 <u><u>\$93,089,259</u></u>

**Akron City School District  
Summit County**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007  
(Continued)*

**Note 10 – Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

	Restated Balance 6/30/2006	Additions	Deletions	Balance 6/30/2007
<b>Governmental Activities</b>				
<i>Capital Assets, not being depreciated:</i>				
Land	\$6,190,716	\$5,896	\$0	\$6,196,612
Construction In Progress	9,431,357	24,345,963	(4,504,665)	29,272,655
<i>Total Capital Assets, not being depreciated</i>	<u>15,622,073</u>	<u>24,351,859</u>	<u>(4,504,665)</u>	<u>35,469,267</u>
<i>Capital Assets, being depreciated:</i>				
Land Improvements	102,896	0	0	102,896
Buildings and Improvements	107,255,071	8,783,975	(1,581,933)	114,457,113
Furniture and Equipment	38,168,028	1,500,620	(3,900,704)	35,767,944
Vehicles	6,711,811	1,166,504	(142,084)	7,736,231
<i>Total Capital Assets, being depreciated</i>	<u>152,237,806</u>	<u>11,451,099</u>	<u>(5,624,721)</u>	<u>158,064,184</u>
Less Accumulated Depreciation:				
Land Improvements	(15,864)	(5,145)	0	(21,009)
Buildings and Improvements	(52,106,385)	(1,484,468)	957,292	(52,633,561)
Furniture and Equipment	(30,911,722)	(1,139,601)	3,878,558	(28,172,765)
Vehicles	(4,753,183)	(485,948)	142,084	(5,097,047)
<i>Total Accumulated Depreciation</i>	<u>(87,787,154)</u>	<u>(3,115,162) *</u>	<u>4,977,934</u>	<u>(85,924,382)</u>
Total Capital Assets, being depreciated, net	<u>64,450,652</u>	<u>8,335,937</u>	<u>(646,787)</u>	<u>72,139,802</u>
Governmental Activities Capital Assets, Net	<u>\$80,072,725</u>	<u>\$32,687,796</u>	<u>(\$5,151,452)</u>	<u>\$107,609,069</u>

**Akron City School District**  
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*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2007*  
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\* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$1,346,880
Special	41,227
Vocational	215,847
Adult/Continuing	6,755
Support Services:	
Pupil	156,935
Instructional Staff	156,887
Board of Education	216
Administration	61,470
Fiscal	513
Business	61,665
Operation and Maintenance of Plant	412,160
Pupil Transportation	335,935
Central	110,318
Operation of Non-Instructional Services	13,889
Extracurricular Activities	16,649
Food Service Operations	<u>177,816</u>
Total Depreciation Expense	<u><u>\$3,115,162</u></u>

**Note 11 - Risk Management**

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2007, the School District contracted for property, liability insurance, crime, auto, equipment and inland marine coverage. Coverage provided is as follows:

**Akron City School District  
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*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007  
(Continued)*

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Type of Coverage	Coverage Amount
Commercial Property Building and Contents (\$50,000 deductible)	\$588,826,491
Earthquake (\$50,000 deductible)	5,000,000
Flood (\$50,000 deductible)	5,000,000
Commercial Inland Marine (\$5,000 deductible)	250,000
Commercial Crime (\$5,000 deductible)	200,000
Commercial General Liability (\$25,000 deductible)	
General aggregate limit	3,000,000
Products-completed operations aggregate limit	3,000,000
Personal and advertising injury limit	2,000,000
Each occurrence limit	2,000,000
Damage to premises rented to the District limit	100,000
Employers Liability	1,000,000
Educators Legal Liability (\$25,000 deductible)	2,000,000
Equipment Breakdown (\$25,000 deductible)	100,000,000
Auto	
Liability (\$25,000 deductible)	2,000,000
Uninsured Motorists	1,000,000
Underinsured Motorists	1,000,000

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

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

**Akron City School District**  
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*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2007*  
*(Continued)*

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

Fiscal Year	Beginning Balance	Current Fiscal Year Premium/ Claims	Premium/ Claims Payments	Ending Balance
2006	\$1,455,495	\$2,300,948	\$1,697,408	\$2,059,035
2007	2,059,035	2,306,805	1,504,523	2,861,317

Medical/surgical insurance is offered to employees on a self-insured basis. The School District has various third-party administrators for the self-insurance activity. The claims liability of \$4,960,600 reported in the self-insurance internal service fund at June 30, 2007 is based on an estimate provided by the third party administrator and the requirements of GASB Statement No. 30, which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in the fund's claims liability amount follow for the last two fiscal years:

	Balance at Beginning of Fiscal Year	Current Fiscal Year Claims	Claims Payments	Balance at End of Fiscal Year
2006	\$4,098,132	\$33,543,889	\$32,687,521	\$4,954,500
2007	4,954,500	33,159,699	33,153,599	4,960,600

**Note 12 – Defined Benefit Pension Plans**

***A. School Employees Retirement System***

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

**Akron City School District  
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*Notes to the Basic Financial Statements  
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(Continued)*

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Plan members are required to contribute 10 percent of their annual covered salary, and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contributions is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006 and 2005 were \$3,989,002, \$4,035,873 and \$4,008,556, respectively; 68.09 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005.

***B. State Teachers Retirement System***

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

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

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

**Akron City School District**  
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*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2007*  
*(Continued)*

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For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2006, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2007, 2006, and 2005 were \$16,327,260, \$19,360,383, and \$18,903,013, respectively; 100.04 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. Contributions to the DC and Combined Plans for fiscal year 2007 were \$120,988 made by the School District and \$322,008 made by the plan members.

***C. Social Security System***

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2007, two members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

**Note 13 - Post Employment Benefits**

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

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$1,255,943 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006 (the latest information available), the balance in the Fund was \$3.5 billion. For the fiscal year ended June 30, 2006, net health care costs paid by STRS Ohio were \$282,743,000 and STRS Ohio had 119,184 eligible benefit recipients.

**Akron City School District**  
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*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2007*  
*(Continued)*

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, compared to 3.42 percent of covered payroll for fiscal year 2006. 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 2007, the minimum pay was established as \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2007 fiscal year equaled \$1,813,985.

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 fund is 150 percent of the projected claims less premium contributions for the next fiscal year. Net health care costs for the fiscal year ended June 30, 2006 (the latest information available) were \$158,751,207. As of June 30, 2006, the value of the health care fund was \$295.6 million, which is about 221% of next fiscal year's 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% of estimated annual net claim costs. SERS has 59,492 participants eligible to receive health care benefits.

**Note 14 - Other Employee Benefits**

***A. Compensated Absences***

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

***B. Insurance Benefits***

The School District provides life insurance and accidental death and dismemberment insurance to most employees through Fort Dearborn Life.

**Akron City School District  
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*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007  
(Continued)*

**Note 15 - Long-Term Obligations**

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

Governmental Activities:	Principal Outstanding 6/30/2006	Additions	Reductions	Principal Outstanding 6/30/2007	Amount Due in One Year
1988 \$141,533 0% Asbestos Loan	\$11,794	\$0	(\$7,863)	\$3,931	\$3,931
Capital Leases	255,516	0	(255,516)	0	0
Compensated Absences	26,043,703	2,001,581	(2,157,734)	25,887,550	1,559,320
Total Governmental Activities Long-Term Liabilities	<u>\$26,311,013</u>	<u>\$2,001,581</u>	<u>(\$2,421,113)</u>	<u>\$25,891,481</u>	<u>\$1,563,251</u>

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

Principal requirements to retire the asbestos loan outstanding at June 30, 2007 are as follows:

	Principal
2008	<u>3,931</u>
Total	<u><u>\$3,931</u></u>

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

**Note 16 – Interfund Transfers and Balances**

**A. Transfers**

Transfers are primarily from the general fund to various funds within the School District. Transfers from the general fund totaling \$241,000 were made to move unrestricted balances to support programs and projects accounted for in nonmajor funds.

The special trust special revenue fund transferred \$1,547 of unclaimed monies to the general fund. These monies were unclaimed for five years, and in accordance with State law, can be transferred to the general fund to be spent for general operating purposes.

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

During fiscal year 2006, the School District closed Central-Hower High School. During fiscal year 2007, the District transferred the unexpended balances of the following special revenue funds at Central-Hower High School to the general fund: the uniform school supplies fund amounting to \$896, the public school support fund totaling \$2,853 and the district managed activities fund equaling \$7,879.

Also, the uniform school supplies special revenue fund transferred the unexpended balances of the Needle Arts & Crafts activity at North High School amounting to \$2 to the general fund due to the termination of the activity.

In addition, the district managed activities special revenue fund transferred the unexpended balances of the following activities to the general fund due to the termination of the activities: Commercial Foods at North High School amounting to \$1, the Class of 2006 at Kenmore High School totaling \$5,752 and the Future Teachers Club at North High School equaling \$11.

Transfers made during the fiscal year ended June 30, 2007 were as follows:

<u>Transfers To</u>	<u>Transfers From</u>			<u>Total</u>
	<u>General Fund</u>	<u>Permanent Improvement Capital Projects Fund</u>	<u>Nonmajor Funds</u>	
General Fund	\$0	\$0	\$18,941	\$18,941
Nonmajor Funds	241,000	1,448,705	0	1,689,705
Total	\$241,000	\$1,448,705	\$18,941	\$1,708,646

**Akron City School District  
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**B. Balances**

The general fund advanced funds to various special revenue funds to cover negative cash balances at the end of fiscal year 2007 on the GAAP basis.

Advanced To	Nonmajor Funds
School Net Professional Development	\$75
Ohio Reads	3,578
High Schools That Work	7,214
Alternative Schools	36,364
Adult Basic Education	24,271
Prevention, Retention & Contingency Youth	8,762
Vocational Education	265,533
Title III - Limited English Proficiency	17,522
Title V - Innovative Programs	13,156
Safe and Drug-Free Schools	8,154
Preschool Handicapped	49,858
Miscellaneous Federal Grants	156,748
Total	\$591,235

**Note 17 – Jointly Governed Organization**

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

In fiscal year 2007, the District participated in the Council’s electric energy program. This program allows school districts to purchase electricity at reduced rates. The participants make monthly payments based on estimated usage. At the end of the fiscal year, these estimated monthly payments are compared to their actual usage and any necessary adjustments are made.

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*Notes to the Basic Financial Statements*  
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**Note 18 – Set Asides**

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

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

	Textbooks & Instructional Materials Reserve	Capital Improvements Reserve
Set-aside Reserve Balances as of June 30, 2006	(\$1,684,546)	\$0
Current Fiscal Year Set-aside Requirements	4,871,193	4,871,193
Qualifying Disbursements	(3,295,551)	(6,680,464)
Totals	(\$108,904)	(\$1,809,271)
Set-aside Balances Carried Forward to Future Fiscal Years	(\$108,904)	\$0

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

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(Continued)*

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**Note 19 – Construction Commitments**

The School District has active construction projects as of June 30, 2007. At fiscal year end, the School District's commitments with contractors are as follows:

Project	Spent-to-Date	Remaining Commitment
Central Learning Center Construction	\$12,120,356	\$17,518
Betty Jane Elementary School Construction	6,536,361	1,848,391
Crouse Elementary School Construction	92,604	8,780,453
Judith Resnik Elementary School Construction	7,921,408	30,079
Forest Hill Elementary School Construction	2,177,825	5,211,164
Glover Elementary School Construction	799,895	7,727,328
Sam Salem Elementary School Construction	1,857,761	5,342,828
David Hill Elementary School Construction	7,921,161	922,793
Helen Arnold Elementary School Construction	7,786,071	914,170
Mason Elementary School Construction	8,128,966	2,784,942
Ritzman Elementary School Construction	478	282,393
Robinson Elementary School Construction	2,443,052	6,570,917
Voris Elementary School Construction	7,290,786	85,763
Innes Middle School Construction	11,411	23,332
Jennings Middle School Construction	11,909,084	2,014,211
East High School Construction	43,358	90,962
Firestone High School Construction	67,375	73,113
	<u>\$77,107,952</u>	<u>\$42,720,357</u>

These commitments are being financed entirely with Ohio School Facilities Commission monies and proceeds from a municipal income tax levied by the City.

**Note 20 – Ohio Schools Facilities Commission Construction Project**

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

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The tax took effect January 1, 2004. As of June 30, 2007, the School District has received \$150,211,800 in local funds from the City by way of this tax to date. A liability, "due to City of Akron", was recorded in the amount of \$101,886,459 as of June 30, 2007. The amount of this liability was determined by reducing the \$150,211,800 received as of June 30, 2007 by the amount of capital expenditures made by the School District using these local funds received from the City since the inception of this project. The School District has made a total of \$48,325,341 in capital expenditures using these local funds received from the City as of June 30, 2007. A liability was recorded for these monies because if the School District does not spend these local funds by the end of this project, these funds would have to be returned to the City in accordance with an agreement between the School District and the City.

The School District and the City share ownership of the new community learning centers equally. For completed community learning centers, the School District has recorded 50 percent of the capital expenditures as land capital assets in the amount of \$5,896 and as buildings capital assets in the amount of \$8,783,975 to date as of June 30, 2007. For community learning centers still under construction, the School District has recorded 50 percent of the capital expenditures as construction in progress capital assets. Construction in progress capital assets totaled \$29,272,655 as of June 30, 2007.

OSFC has determined that \$81,987,753 is owed to the School District as of June 30, 2007. This represents the amount that OSFC has appropriated but not remitted to the School District as of June 30, 2007 over the entire life of this project. As a result, \$81,987,753 was recorded as an intergovernmental receivable as of June 30, 2007. Of this \$81,987,753 receivable, \$39,391,575 is the amount that OSFC estimates will be remitted to the School District in fiscal year 2008. On the accrual basis, the entire \$81,987,753 was recorded as revenue because all of the eligibility requirements were satisfied for this nonexchange transaction. On the modified accrual basis, \$39,391,575 was recorded as revenue because this is the amount that is estimated to be available to pay the liabilities of the 2007 fiscal year. The remaining portion was recorded as deferred revenue.

**Note 21 – Akron Digital Academy**

***A. Summary of Significant Accounting Policies***

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

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*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2007*  
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*Basis of Presentation*

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

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

*Measurement Focus*

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities are included on the statement of net assets. The statement of revenues, expenses and changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the Academy finances and meets the cash flow needs of its enterprise activities.

*Basis of Accounting*

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

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

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

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

Expenses are recognized at the time they are incurred.

*Budgetary Process*

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

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*Cash and Cash Equivalents*

During fiscal year 2007, investments were limited to overnight Eurodollars. Investments with an original maturity of three months or less at the time they are purchased by the Academy are presented on the basic financial statements as cash equivalents.

*Prepaid Items*

Payments made to vendors for services that will benefit periods beyond June 30, 2007 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the fiscal year in which the services are consumed.

*Capital Assets*

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

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

*Net Assets*

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets.

*Operating Revenues and Expenses*

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

*Intergovernmental Revenues*

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

The Academy also participates in the in the State Education Management Information System ("EMIS") through the Ohio Department of Education. Under this program, the Academy was awarded \$5,000 during the fiscal year ended June 30, 2007 to offset costs for EMIS reporting. Revenues received from this program are recognized as non-operating revenue in the accounting period in which all eligibility requirements have been met.

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Amounts received under these programs for the 2007 fiscal year totaled \$3,982,534.

*Estimates*

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

***B. Restatement of Beginning Net Assets***

For fiscal year 2007, the Academy discovered the misuse and omission of certain facts and reports used in establishing the useful lives of some equipment in the prior period. As a result, the Academy has increased the estimated lives of some equipment from three to four years. This correction amounted to \$1,741.

The impact on the change in net assets in the statement of revenues, expenses and changes in net assets for the fiscal year ended June 30, 2006 would not be material.

***C. Deposits and Investments***

***Deposits*** Custodial credit risk for deposits is the risk that in the event of bank failure, the Academy will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, the carrying amount of the Academy's deposits was \$7,781 and the bank balance was \$595,650. Of the bank balance, \$100,000 was covered by the Federal Deposit Insurance Corporation and \$495,650 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Academy's name.

The Academy has no deposit policy for custodial risk.

***Investments*** As of June 30, 2007, the Academy had the following investment:

	<u>Carrying Value</u>	<u>Maturity</u>
Overnight Eurodollars	\$1,685,512	July 2, 2007

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

The overnight Eurodollars carry a rating of AA- by Standard and Poor's and AA2 by Moody's Investor Service.

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

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***D. Capital Assets***

Capital asset activity for the fiscal year June 30, 2007, was as follows:

	Restated Balance 6/30/2006	Additions	Deletions	Balance 6/30/2007
<b><i>Capital Assets, being depreciated:</i></b>				
Furniture and Equipment	\$29,410	\$28,087	(\$2,676)	\$54,821
Less Accumulated Depreciation:				
Furniture and Equipment	(10,967)	(8,623)	1,108	(18,482)
Total Capital Assets, being depreciated, net	\$18,443	\$19,464	(\$1,568)	\$36,339

***E. Risk Management***

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2007, the Academy was covered under the School District's insurance for property, liability, crime, auto, equipment and inland marine coverage.

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

***F. Agreement with the Akron City School District***

A service contract for fiscal year 2007 between the Academy and the School District was previously approved. This service contract commenced on July 1, 2005 and ends on June 30, 2007 and may be renewed by mutual agreement. On June 11, 2007, the Academy and the School District entered into a new service contract which commences on July 1, 2007 and ends June 30, 2009, which may be renewed by mutual agreement.

In agreement with the current service contract, the Academy purchased the following services from the School District: personnel to administer and oversee the instruction and governance of the Academy, hourly personnel to provide instructional services to the Academy, and hourly staff to provide support services to the Academy. The Academy is responsible for reimbursement of 100 percent of all costs incurred by the School District related to these services. The Academy reimbursed the School District \$2,022,942 during fiscal year 2007 for these services.

In addition, in accordance with the current service contract, the Academy will remit an amount not to exceed \$2,000 per pupil enrolled in the Academy during the respective academic years for the following management services: marketing support, insurance coverage, human resource services, payroll processing, use of the School District's name and goodwill, printing services, professional consulting related to curriculum, instruction, special education, finances, employee relations, legal issues, professional development and training and instructional materials. The Academy paid the School District \$716,419 during fiscal year 2007 for these services.

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All personnel providing services to the Academy on behalf of the School District under the service contract are considered employees of the School District. All of the Academy's personnel services were provided by the School District during the 2007 fiscal year.

For the fiscal year ended June 30, 2007, the Academy paid the School District the following expenses:

<u>Purchased Services Expenses</u>	<u>Amounts</u>
Professional and technical services	\$2,738,313
Communications	523
Contracted craft or trade services	525
Total Purchased Services Expenses	<u>\$2,739,361</u>

***G. Defined Benefit Pension Plans***

*School Employees Retirement System*

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

Plan members are required to contribute 10 percent of their annual covered salary, and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contributions is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the personnel provided to the Academy for the fiscal years ended June 30, 2007, 2006 and 2005 were \$47,545, \$51,941 and \$31,455, respectively; 68.09 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005.

*State Teachers Retirement System*

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

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

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

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2006, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the personnel provided to the Academy for the fiscal years ended June 30, 2007, 2006, and 2005 were \$145,913, \$93,924, and \$107,111, respectively; 100.04 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. There were no contributions to the DC and Combined Plans for fiscal year 2007 made by the School District for the personnel provided to the Academy or made by the plan members.

***H. Post Employment Benefits***

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio ("STRS Ohio"), and to retired non-certified employees and their dependents through the School Employees Retirement System ("SERS") for the personnel provided to the Academy. 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 on a pay-as-you-go basis.

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All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$11,224 for fiscal year 2007 for the personnel provided to the Academy.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006 (the latest information available), the balance in the Fund was \$3.5 billion. For the fiscal year ended June 30, 2006, net health care costs paid by STRS Ohio were \$282,743,000 and STRS Ohio had 119,184 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, compared to 3.42 percent of covered payroll for fiscal year 2006. 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 2007, the minimum pay was established as \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2007 fiscal year equaled \$32,854 for the personnel provided to the Academy.

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 fund is 150 percent of the projected claims less premium contributions for the next fiscal year. Net health care costs for the fiscal year ended June 30, 2006 (the latest information available) were \$158,751,207. As of June 30, 2006, the value of the health care fund was \$295.6 million, which is about 221% of next fiscal year's 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% of estimated annual net claim costs. SERS has 59,492 participants eligible to receive health care benefits.

***I. Capital Leases***

Capital lease obligations relate to a scanner for the Academy. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases". Capital leases acquired by an interest-free lease have been originally capitalized in the amount of \$23,790.

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The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2007:

Fiscal Year Ending June 30,	Principal Payments
2008	\$4,758
2009	4,758
2010	4,758
2011	4,758
2012	2,775
Total	\$21,807

***J. Operating Leases***

The Academy leases facilities space, copiers and a postage meter under noncancelable operating leases. Total costs for such leases were \$92,306 for the fiscal year ended June 30, 2007. The future minimum lease payments for these leases are as follows:

Fiscal Year Ending June 30,	Amount
2008	127,266
2009	128,470
2010	123,441
2011	3,328
Total	\$382,505

***K. Contingencies***

*Grants*

The Academy received financial assistance from federal and State agencies in the form of grants. The disbursements of funds received under these programs generally require compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, any disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2007.

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*Litigation*

A lawsuit entitled **Beverly Blount-Hill, et al. v. State of Ohio, et al., Case #: 3:04CV197** was filed in the U.S. District Court, Southern District of Ohio, Western Division on October 6, 2004. The suit alleges that the funding provisions of the Ohio Community Schools Act, Ohio Revised Code Section 3314, violate both the Ohio and Federal constitutions. If the funding scheme is determined to be unconstitutional, it could have financial ramifications for all community/charter schools. The case is still currently pending, and the effect of this suit, if any, on the Academy cannot be presently determined.

***L. Federal Tax-Exempt Status***

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

***M. Contacting the Academy's Management***

A copy of the Academy's basic financial statements can be obtained by contacting Todd Adkins, Treasurer, at Akron Digital Academy, 70 North Broadway, Akron, Ohio 44308-1999 or email at [tadkins@akron.k12.oh.us](mailto:tadkins@akron.k12.oh.us).

**AKRON CITY SCHOOL DISTRICT  
SUMMIT COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2007**

<b>FEDERAL GRANTOR/ Pass-Through Grantor/ Program Title</b>	<b>FEDERAL CFDA NUMBER</b>	<b>PASS-THROUGH GRANTOR'S NUMBER</b>	<b>RECEIPTS</b>	<b>NON-CASH RECEIPTS</b>	<b>EXPENDITURES</b>	<b>NON-CASH EXPENDITURES</b>
<b>U.S. DEPARTMENT OF EDUCATION</b>						
<i>(Direct)</i>						
Impact Aid - Maintenance/Operations	84.041	45OH-96-1807	\$47,183		\$47,183	
Student Financial Assistance Cluster: Federal Family Education Loan	84.032	N/A	245,148		232,882	
Federal Pell Grant Program	84.063	N/A	226,714		226,714	
		N/A	91,125		91,125	
		EP063P54977	127,226		127,226	
Federal Pell Grant Program - Administrative Allowance		N/A	650		650	
Total Federal Pell Grant Program			<u>445,715</u>		<u>445,715</u>	
Total Student Financial Assistance Cluster			690,863		678,597	
Federal Crisis Grant	84.184E	Q184E040169	132,403		148,523	
Fund for the Improvement of Education	84.215X	U215X050001	308,453		297,463	
<i>(Passed-through Ohio Department of Education)</i>						
Adult Education - State Grant Program	84.002	043489-AB-S1-2007	610,544		628,063	
		043489-AB-S1-2006	55,013		2,287	
<i>(Passed through the County of Summit)</i>						
Adult Education - State Grant Program	84.002	N/A	<u>570,366</u>		<u>570,366</u>	
Total Adult Education-State Grant Program			1,235,923		1,200,716	
Special Education Cluster: Special Education Grants to States	84.027	043489-6B-SF-2007	6,332,119		6,209,746	
		043489-6B-SF-2006	330,240		101,470	
		043489-6B-SD-2006	6,289		1,541	
		043489-6B-SD-2006	3,619		0	
		043489-6B-SD-2006	(4,244)		2	
		043489-6B-SA-2006	30		3,170	
		043489-6B-SD-2006	2,348		1,639	
		043489-6B-SD-2006	(67)		0	
		043489-6B-PB-2006	11,619		244	
		043489-6B-PB-2006	3,116		2,194	
		C1680-ELAA-07-03	6,964		0	
Total Special Education Grants to States			<u>6,692,033</u>		<u>6,320,006</u>	
Special Education Preschool Grants	84.173	043489-PG-DO-2007	3,500		34,352	
		043489-PG-S1-2007	165,048		180,461	
		043489-PG-S1-2006	8,988		4,047	
Total Special Education Preschool Grants			<u>177,536</u>		<u>218,860</u>	
Total Special Education Cluster			6,869,569		6,538,866	
Javits Gifted and Talented Students Education Grant	84.206	043489-JG-S1-07	8,333		6,098	
		043489-JG-S1-06	0		3,820	
Total Javits Gifted and Talented Students Education Grant			<u>8,333</u>		<u>9,918</u>	
Vocational Education-Basic Grants to State	84.048	043489-20-C1-2007	564,292		819,518	
		043489-20-C2-2007	107,373		110,495	
		043489-20-C1-2006	105,040		32,294	
Total Vocational Education-Basic Grants to State			<u>776,705</u>		<u>962,307</u>	
Title I Grants to Local Educational Agencies	84.010	043489-C1-S1-2007	11,629,887		12,000,124	
		043489-C1-SD-2007	43,149		0	
		043489-C1-S1-2006	0		957,225	
		043489-C1-SK-2007	44,992		94,254	
		043489-C1-SK-2006	0		29,020	
		043489-C1-SK-2005	0		3,938	
Total Title I Grants to Local Educational Agencies			<u>11,718,028</u>		<u>13,084,561</u>	
Twenty-First Century Community Learning Centers	84.287	043489-T1-S1-2007	245,589		246,530	
		043489-T1-S1-2007	294,471		297,350	
		043489-T1-S1-2006	3,858		3,147	
		043489-T1-S1-2006	19,090		22,617	
Total Twenty-First Century Community Learning Centers			<u>563,008</u>		<u>569,644</u>	

**AKRON CITY SCHOOL DISTRICT  
SUMMIT COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2007**

<b>FEDERAL GRANTOR/ Pass-Through Grantor/ Program Title</b>	<b>FEDERAL CFDA NUMBER</b>	<b>PASS-THROUGH GRANTOR'S NUMBER</b>	<b>RECEIPTS</b>	<b>NON-CASH RECEIPTS</b>	<b>EXPENDITURES</b>	<b>NON-CASH EXPENDITURES</b>
Comprehensive School Reform Demonstration	84.332	043489-RF-CC-2007	0		143,832	
		043489-RF-CC-2006	338,968		199,566	
		043489-RF-K3-2005	12,195		9,350	
Total Comprehensive School Reform Demonstration			351,163		352,748	
Education for Homeless Children and Youth	84.196	043489-HC-S1-2007	120,487		123,044	
		043489-HC-S1-2006	32,400		37,358	
Total Education for Homeless Children and Youth			152,887		160,402	
State Grants for Innovative Programs	84.298	043489-C2-S1-2007	44,042		56,225	
		043489-C2-S1-2006	10,269		658	
Total State Grants for Innovative Programs			54,311		56,883	
English Language Acquisition Grant	84.365	043489-T3-S1-2007	107,571		122,836	
		043489-T3-S1-2006	33,959		9,505	
Total English Language Acquisition Grant			141,530		132,341	
Improving Teacher Quality State Grants	84.367	043489-TR-S1-2007	2,700,305		2,590,241	
		043489-TR-S1-2006	323,050		121,245	
Total Improving Teacher Quality State Grants			3,023,355		2,711,486	
Safe and Drug Free Schools and Communities State Grants	84.186	043489-DR-S1-2007	199,358		217,639	
		043489-DR-S1-2006	0		9,152	
Total Safe and Drug-Free Schools and Communities State Grants			199,358		226,791	
Fund for the Improvement of Education	84.215	C1680-SS10-07-04	10,198		10,198	
Education Technology State Grant	84.318	043489-TJ-S1-07	124,602		130,569	
		043489-TJ-S1-06	5,995		208	
Total Education Technology State Grant			130,597		130,777	
Reading First State Grants	84.357	043489-RS-S1-2007	500,077		484,786	
		043489-RS-S1-2006	49,597		9,277	
Total Reading First State Grants			549,674		494,063	
<b>TOTAL U.S. DEPARTMENT OF EDUCATION</b>			<b>26,831,138</b>		<b>27,813,467</b>	
<b><u>U.S. DEPARTMENT OF LABOR</u></b>						
<i>(Passed through County of Summit)</i>						
Work Investment Act Youth Activities	17.259	N/A	240,118		248,620	
		N/A	36,604		7,663	
		N/A	19,943		2,187	
Total Work Investment Act Youth Activities			296,665		258,470	
<b>TOTAL U.S. DEPARTMENT OF LABOR</b>			<b>296,665</b>		<b>258,470</b>	
<b><u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u></b>						
<i>(Passed through the Ohio Department of Mental Retardation &amp; Developmental Disabilities)</i>						
<i>(Passed through Summit County Job &amp; Family Services/TANF)</i>						
Temporary Assistance for Needy Families	93.558	N/A	102,027		143,021	
			335,980		346,198	
			150,944		207,576	
Total Temporary Assistance for Needy Families			588,951		696,795	
Medical Assistance Program	93.778	N/A	320,903		320,903	
<i>(Passed through Akron Summit Community Action Agency)</i>						
Head Start	93.600	PA-22-02-04	30,000		0	
<b>TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			<b>939,854</b>		<b>1,017,698</b>	
<b><u>U.S. DEPARTMENT OF JUSTICE</u></b>						
<i>(Passed through the University of Akron)</i>						
Juvenile Justice and Delinquency Prevention - Allocation to States	16.540	2004-JJ-CP1-0062	18,240		0	
		2003-JJ-CP1-0062	21,938		0	
Total Juvenile Justice and Delinquency Prevention - Allocation to States			40,178		0	
<b>TOTAL U.S. DEPARTMENT OF JUSTICE</b>			<b>40,178</b>		<b>0</b>	

AKRON CITY SCHOOL DISTRICT  
SUMMIT COUNTY

FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2007

FEDERAL GRANTOR/ Pass-Through Grantor/ Program Title	FEDERAL CFDA NUMBER	PASS-THROUGH GRANTOR'S NUMBER	RECEIPTS	NON-CASH RECEIPTS	EXPENDITURES	NON-CASH EXPENDITURES
<b>U.S. DEPARTMENT OF AGRICULTURE</b>						
<i>(Passed through the Ohio Department of Education)</i>						
Food Donation	10.550	N/A		\$753,977		\$752,945
Child Nutrition Cluster:						
School Breakfast Program	10.553	N/A	1,600,940		1,600,940	
National School Lunch Program	10.555	N/A	5,615,266		5,615,266	
Total Child Nutrition Cluster			7,216,206		7,216,206	
<b>TOTAL U.S. DEPARTMENT OF AGRICULTURE</b>			7,216,206	753,977	7,216,206	752,945
<b>U.S. DEPARTMENT OF DEFENSE</b>						
<i>(Direct)</i>						
Air Force R.O.T.C. Grant	12.XXX	N/A	46,710		46,710	
Army R.O.T.C. Grant	12.XXX	N/A	70,640		70,640	
Marines R.O.T.C. Grant	12.XXX	N/A	47,887		47,887	
Navy R.O.T.C. Grant	12.XXX	N/A	42,807		42,807	
Total R.O.T.C Grants			208,044		208,044	
<b>TOTAL U.S. DEPARTMENT OF DEFENSE</b>			208,044		208,044	
<b>TOTALS</b>			\$35,532,085	\$753,977	\$36,513,885	\$752,945

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

**AKRON CITY SCHOOL DISTRICT  
SUMMIT COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FISCAL YEAR ENDED JUNE 30, 2007**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B – FOOD DONATION PROGRAM**

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

**NOTE C - CHILD NUTRITION CLUSTER**

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

**NOTE D - MATCHING REQUIREMENTS**

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

**NOTE E – EPA ASBESTOS LOAN**

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

**NOTE F – MEDICAL ASSISTANCE PROGRAM**

Community Alternative Funding System (CAFS) Medicaid revenues received during fiscal year 2007 were \$309,843. This amount related to settlements for CAFS services provided during prior years.



# Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Akron City School District, Summit County, Ohio, (the District) as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 22, 2008. 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 as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the District's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the District's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

We noted certain matters that we reported to the District's management in a separate letter dated February 22, 2008.

### **Compliance and Other Matters**

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

We did note certain noncompliance or other matters that we reported to the District's management in a separate letter dated February 22, 2008.

The District's response to the finding identified in our audit is described in the accompanying Schedule of Findings. We did not audit the District's response and, accordingly, we express no opinion on it.

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



**Mary Taylor, CPA**  
Auditor of State

February 22, 2008



# Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

### Compliance

We have audited the compliance of Akron City School District, Summit County, Ohio, (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to each of its major federal programs for the year ended June 30, 2007. 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.

Our audit of Federal awards, described below, did not include the operations of Akron Digital Academy because the component unit expended less than \$500,000 of Federal awards for the year ended June 30, 2007 and was not subject to OMB Circular A-133 audit requirements.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2007. In a separate letter to the District's management dated February 22, 2008, we reported a matter related to federal noncompliance not requiring inclusion in this report.

### Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the 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 in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that the District's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the District's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

However, we noted a matter involving the internal control over federal compliance not requiring inclusion in this report, that we reported to the District's management in a separate letter dated February 22, 2008.

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



**Mary Taylor, CPA**  
Auditor of State

February 22, 2008

**AKRON CITY SCHOOL DISTRICT  
SUMMIT COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2007**

**1. SUMMARY OF AUDITOR'S RESULTS**

<i>(d)(1)(i)</i>	<b>Type of Financial Statement Opinion</b>	Unqualified
<i>(d)(1)(ii)</i>	<b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(ii)</i>	<b>Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(iii)</i>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	Yes
<i>(d)(1)(iv)</i>	<b>Were there any material internal control weaknesses reported for major federal programs?</b>	No
<i>(d)(1)(iv)</i>	<b>Were there any other significant deficiencies in internal control reported for major federal programs?</b>	No
<i>(d)(1)(v)</i>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<i>(d)(1)(vi)</i>	<b>Are there any reportable findings under § .510?</b>	No
<i>(d)(1)(vii)</i>	<b>Major Programs (list):</b>	Student Financial Aid Cluster: Federal Pell Grant Program (CFDA 84.063); Federal Family Education Loan (CFDA 84.032) Vocational Education-Basic Grants to State (CFDA 84.048); Title 1 Grants to Local Educational Agencies (CFDA 84.010); Adult Education- State Grant Program (CFDA 84.002)
<i>(d)(1)(viii)</i>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$1,118,005 Type B: all others
<i>(d)(1)(ix)</i>	<b>Low Risk Auditee?</b>	Yes

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

**FINDING NUMBER 2007-001**

**Noncompliance Citation**

**Ohio Rev. Code Section 5705.41(D)** requires that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the subdivision's fiscal officer. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. **"Then and Now" Certificate** – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the District can authorize the drawing of a warrant for the payment of the amount due. The District has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the District.

2. **Blanket Certificate** – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. **Super Blanket Certificate** – The District may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

**FINDING NUMBER 2007-001 (Continued)**

**Ohio Rev. Code Section 5705.41(D) (Continued)**

During fiscal year 2007, 3 of 25 non student activity transactions tested, or 12%, were not certified by the Treasurer prior to incurring the obligation. In addition, 12 of 25 student activity expenditures, or 48%, were not certified by the Treasurer prior to incurring the obligation or no documentation was presented showing they were certified. The failure to properly certify the availability of funds can result in overspending and negative cash fund balances. Also, although the District utilizes blanket certificates, a limit has not been approved by the Board of Education. The Board of Education should approve a limit on the blanket purchase orders through a resolution or ordinance.

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the District's funds exceeding budgetary spending limitations, we recommend the Treasurer certify the funds are or will be available prior to the obligation by the District. When prior certification is not possible "then and now" certification should be used.

We recommend the District certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The Treasurer should sign the certification at the time the District incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The Treasurer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

**Officials' Response:** We will continue to train our staff on the requirements of this statute, and we will continue to monitor our expenditures in regards to complying with this statute.

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS</b>
--

None

**AKRON CITY SCHOOL DISTRICT  
SUMMIT COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2007**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2006-001	<b>Ohio Rev. Code Section 5705.10</b> – Negative Fund Balances	No	Partially corrected. Similar comment in management letter.



**Mary Taylor, CPA**  
Auditor of State

**AKRON CITY SCHOOL DISTRICT**

**SUMMIT COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MARCH 27, 2008**