

Perry Local School District

Audited Financial Statements

June 30, 2006



Mary Taylor, CPA
Auditor of State

Board of Education
Perry Local School District
4201 13th Street SW
Massillon, Ohio 44646

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

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

April 30, 2007

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**PERRY LOCAL SCHOOL DISTRICT
STARK COUNTY**

JUNE 30, 2006

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**PERRY LOCAL SCHOOL DISTRICT
STARK COUNTY**

JUNE 30, 2006

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November 29, 2006

To the Board of Education
Perry Local School District
Massillon, OH 44646

Independent Auditor's Report

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 the Perry Local School District (the "School District"), Stark County, Ohio as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the School 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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 the Perry Local School District, Stark County, Ohio as of June 30, 2006, and the respective changes in financial position and the respective 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 also have issued our report dated November 29, 2006, on our consideration of the School 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of the audit performed in accordance with *Government Auditing Standards* and should be and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 3 through 10 is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Perry Local School District
Independent Accountants' Report
November 29, 2006
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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for additional analysis as 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements. In our opinion, it is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Hea & Associates, Inc.

Perry Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)

The discussion and analysis of the Perry Local School District's (the "School District") financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance. The financial statements of the component unit are issued as a separate report and are available by contacting the Perry Panther Digital Academy.

Financial Highlights

Key financial highlights for 2006 are as follows:

- ◆ In total, net assets of governmental activities increased \$4,095,320.
- ◆ Revenues for governmental activities totaled \$46,431,344 in 2006. Of this total, \$38,204,551 or approximately 82 percent consisted of general revenues while program revenues accounted for the balance of \$8,226,793 or approximately 18 percent.
- ◆ The School District had \$42,336,024 in expenses related to governmental activities; only \$8,226,793 of these expenses were offset by program specific charges for services, grants or contributions. General revenues (primarily taxes and school foundation) of \$38,204,551 were adequate to provide for these programs.
- ◆ Program expenses totaled \$42,336,024. Instructional expenses made up \$25,100,371 or 59 percent of this total while support services accounted for \$14,000,567 or 33 percent. Other expenses, \$3,235,086 rounded out the remaining 8 percent.

Using this Annual Financial Report

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

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

Perry Local School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2006
(Unaudited)

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

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

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

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

Reporting the School District's Most Significant Funds

Fund Financial Statements

The financial statements of the School District's major funds begins on page 12. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for 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 and the permanent improvement capital projects fund.

Governmental Funds

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

Perry Local School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2006
(Unaudited)

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 2006 compared to 2005:

Table 1
Net Assets
Governmental Activities

	2006	2005
Assets		
Current and Other Assets	\$ 41,665,890	\$ 38,768,966
Capital Assets, Net	19,570,272	19,413,511
<i>Total Assets</i>	61,236,162	58,182,477
Liabilities		
Other Liabilities	23,977,482	25,240,403
Long-Term Liabilities	4,198,659	3,977,373
<i>Total Liabilities</i>	28,176,141	29,217,776
Net Assets		
Invested in Capital Assets, Net of Related Debt	19,050,272	18,798,511
Restricted	5,283,427	4,427,752
Unrestricted	8,726,322	5,738,438
<i>Total Net Assets</i>	\$ 33,060,021	\$ 28,964,701

Total assets increased by \$3,053,685. An increase of \$156,761 in total capital assets reflects additional purchases exceeding depreciation. The majority of the increase in governmental assets can be attributed to an increase in cash and investments. Total liabilities decreased by \$1,041,635. This decrease was primarily the result of decreased deferred revenue.

The vast majority of revenues supporting governmental activities are the general revenues. General revenues totaled \$38,204,551 which is approximately 82 percent of total revenue. The most significant portions of the general revenue are the property taxes which is approximately 47 percent of total revenue. Grants and entitlements not restricted to specific programs consisting of State foundation, homestead and rollback and personal property tax exemption consists of approximately 33 percent of total revenue. Other general revenue accounts for approximately 3 percent of total revenue. The remaining amount of revenue received was in the form of program revenues, which equaled \$8,226,793 or 14 percent of total revenue.

Perry Local School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2006
(Unaudited)

Table 2 shows the changes in net assets for fiscal year 2006 and 2005. This table presents two fiscal years in side-by-side comparisons in successive reporting years. This will enable the reader to draw further conclusion about the School District's financial status and possibly project future problems.

Table 2
Change in Net Assets
Governmental Activities

	2006	2005
Revenues		
<i>Program Revenues</i>		
Charges for Services	\$ 3,216,643	\$ 3,200,586
Operating Grants	4,844,295	4,553,072
Capital Grants	165,855	80,049
<i>Total Program Revenues</i>	8,226,793	7,833,707
<i>General Revenues</i>		
Property Taxes	21,808,745	21,466,402
Grants and Entitlements	15,181,623	14,799,084
Other	1,214,183	889,405
<i>Total General Revenues</i>	38,204,551	37,154,891
<i>Total Revenues</i>	46,431,344	44,988,598
<i>Program Expenses</i>		
Instruction:		
Regular	18,349,478	18,223,023
Special	4,559,426	3,983,042
Vocational	1,806,374	2,163,804
Adult Continuing	14,257	16,816
Other	370,836	0
Support Services:		
Pupils	2,629,721	2,623,437
Instructional Staff	1,706,813	1,652,797
Board of Education	133,399	126,613
Administration	2,850,588	2,785,758
Fiscal	636,110	790,597
Operation and Maintenance of Plant	3,943,636	3,705,642
Pupil Transportation	1,793,319	1,845,600
Central	306,981	332,997
Operation of Non-Instructional	2,171,983	1,999,640
Extracurricular Activities	1,026,508	979,225
Interest and Fiscal Charges	36,595	39,480
<i>Total Program Expenses</i>	42,336,024	41,268,471
<i>Change in Net Assets</i>	4,095,320	3,720,127
<i>Net Assets Beginning of Year</i>	28,964,701	25,244,574
<i>Net Assets End of Year</i>	\$ 33,060,021	\$ 28,964,701

Perry Local School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2006
(Unaudited)

Governmental Activities

The School District has carefully planned its financial existence by forecasting its revenues and expenses over the next five years. The School District's revenue growth is mostly dependent upon property tax increases and new construction. Property taxes made up 47 percent of revenues for governmental activities for the School District in fiscal year 2006. Although the School District relies heavily upon local property taxes to support its operations, the School District does actively solicit and receive additional grant and entitlement funds to help offset some operating costs.

Instruction comprises 59 percent of governmental program expenses. Additional supporting services for pupils, staff and business operations encompassed an additional 33 percent. The remaining 8 percent of program expenses is used for other obligations of the School District such as non-instructional services, extracurricular activities and interest and fiscal charges.

The Statement of Activities shows the cost of program services and the charges for 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. Comparisons of 2006 to 2005 have been made in Table 3.

Table 3
Total and Net Cost of Program Services
Governmental Activities

	Total Cost of Services 2006	Total Cost of Services 2005	Net Cost of Services 2006	Net Cost of Services 2005
Program Expenses				
Instruction:				
Regular	\$18,349,478	\$18,223,023	\$(16,576,310)	\$(15,945,313)
Special	4,559,426	3,983,042	(2,343,640)	(2,226,721)
Vocational	1,806,374	2,163,804	(1,433,295)	(1,754,554)
Adult Continuing	14,257	16,816	(829)	2,945
Other	370,836	0	(370,836)	0
Support Services:				
Pupils	2,629,721	2,623,437	(2,229,560)	(2,208,115)
Instructional Staff	1,706,813	1,652,797	(1,016,432)	(892,743)
Board of Education	133,399	126,613	(133,399)	(126,613)
Administration	2,850,588	2,785,758	(2,729,273)	(2,785,758)
Fiscal	636,110	790,597	(636,110)	(790,597)
Operation and Maintenance of Plant	3,943,636	3,705,642	(3,916,636)	(3,638,466)
Pupil Transportation	1,793,319	1,845,600	(1,642,903)	(1,783,088)
Central	306,981	332,997	(306,981)	(297,191)
Operation of Non-Instructional Services	2,171,983	1,999,640	(1,081)	(219,094)
Extracurricular Activities	1,026,508	979,225	(735,351)	(729,976)
Interest and Fiscal Charges	36,595	39,480	(36,595)	(39,480)
Total	<u>\$42,336,024</u>	<u>\$41,268,471</u>	<u>\$(34,109,231)</u>	<u>\$(33,434,764)</u>

Perry Local School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2006
(Unaudited)

The dependence upon tax revenues for governmental activities is apparent. The community, as a whole, is the primary support for Perry Local School District students. Program revenues only account for 16 percent of all governmental expenses. Program revenues include charges for services, grants and contributions that are program specific.

The School District's Funds

Information about the School District's major funds starts on page 12. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$46,720,434 and expenditures of \$42,370,525. The net change in fund balance for the year was most significant in the general fund totaling \$3,723,342.

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 main operating fund of the School District, the general fund.

During the course of fiscal year 2006, the School District amended its general fund budget several times. For the general fund, the final budget basis revenue including other financing sources was \$40,804,663 representing a \$2,288,633 increase from the original budget estimate of \$38,516,030. Most of this difference is due to an underestimation of property tax and intergovernmental revenues. The School District's general fund unencumbered cash balance at the end of the fiscal year was \$15,067,629.

For the other non-significant budget amendments, the School District uses a site-based style of budgeting and had in place systems that are designed to tightly control site budgets but provide flexibility for site management. Building principles are given a per pupil allocation for textbooks, instructional materials and equipment.

Capital Assets

At the end of fiscal year 2006, the School District had \$19,570,272 invested in land and improvements, buildings and improvements, furniture and equipment and vehicles. Table 4 shows fiscal year 2006 balances compared with 2005.

Table 4
Capital Assets at June 30
Governmental Activities

	2006	2005
Construction in Progress	\$ 259,026	\$ 0
Land and Improvements	1,111,633	983,435
Buildings and Improvements	16,043,473	16,336,468
Furniture and Equipment	523,252	485,614
Vehicles	1,632,888	1,607,994
<i>Total</i>	\$ 19,570,272	\$ 19,413,511

Perry Local School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2006
(Unaudited)

All capital assets are reported net of depreciation. The \$156,761 increase in capital assets was attributable to additional purchases exceeding current year depreciation. See note 8 to the basic financial statements for more detail on the capital assets of the School District.

For fiscal year 2006, Ohio law required school districts to set aside three percent of certain revenues for capital improvements and an additional three percent for textbooks and instructional materials and supplies. For fiscal year 2006, this amounted to \$683,809 for each purpose. The School District had qualifying disbursements exceeding both the capital and maintenance requirement and the textbook and instructional materials and supplies requirement. More detailed information is presented in Note 19 of the notes to the basic financial statements.

Current Issues

The Perry Local School District continues to receive strong support from the residents of the School District. As the preceding information shows, the School District relies heavily on its local property taxpayers. The last operating levy passed by the residents of the district was in November, 2005. The Board of Education anticipates the renewal levy will generate sufficient revenues for a period of 4 years with no substantial decreases in state funding or student enrollment.

Real estate and personal property tax collections have shown small increases. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenue generated by a levy will not increase solely as a result of inflation due to Ohio House Bill 920 (passed in 1976). 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 .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 47 percent of revenues for governmental activities for the Perry Local School District in fiscal year 2006.

The School District has also been affected by increased delinquency rates and changes in the personal property tax structure (utility deregulation) and commercial business/property uncertainties. Management has diligently planned expenses so that the last levy has stretched for the four years it was planned. This has been made increasingly difficult with mandates in gifted education, rising utility costs, increased special education services required for our students, and significant increases in health insurance and property/liability/fleet insurance.

From a State funding perspective, the State of Ohio was found by the Ohio Supreme Court in March, 1997 to be operating an unconstitutional education 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 (which is unlike our School District). It is still undetermined whether the State has met the standards of the Ohio Supreme Court.

The Perry Local School District has not anticipated any meaningful growth in State revenue. This was confirmed by the passage of HB66 by the State Legislature. This is the funding bill for FY06 and FY07. The bill allowed for modest per pupil increases but offset the increase with the elimination of a cost of doing business factor and increases in the valuation used to calculate local effort.

Perry Local School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2006
(Unaudited)

In addition, HB66 eliminated tangible personal property from taxation over a short period of time with a replacement tax in place that disappears over time. For the Perry Local Schools, that would mean a loss of \$3.9 million in taxes by the year 2017. Previous legislation had already reduced these taxes \$1.3 million since 2002.

All scenarios require management to plan carefully and prudently to provide the resources to meet student needs over the next several years.

In addition, the School District's systems of budgeting and internal controls are well regarded. All of the School District's financial abilities will be needed to meet the challenges of the future.

Contacting the School District's Financial 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 Beth Winkhart, Treasurer of Perry Local School District, 4201 13th St. S.W., Massillon, OH 44646 or winkhart@sparcc.org.

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

	Governmental Activities	Perry Panther Digital Academy
Assets		
Equity in Pooled Cash and Cash Equivalents	\$ 9,473,782	\$ 0
Cash and Cash Equivalents in Segregated Accounts	102,516	0
Investments in Segregated Accounts	11,658,444	0
Receivables:		
Taxes	19,976,231	0
Accounts	197,308	0
Intergovernmental	142,139	0
Inventory Held for Resale	20,982	0
Materials and Supplies Inventory	94,488	0
Nondepreciable Capital Assets	259,026	0
Depreciable Capital Assets, Net	19,311,246	0
<i>Total Assets</i>	<u>61,236,162</u>	<u>0</u>
Liabilities		
Accounts Payable	394,793	0
Contracts Payable	259,026	0
Accrued Wages and Benefits	3,896,273	0
Intergovernmental Payable	1,211,841	0
Matured Compensated Absences Payable	163,730	0
Deferred Revenue	18,051,819	0
Long-Term Liabilities:		
Due Within One Year	206,867	0
Due in More Than One Year	3,991,792	0
<i>Total Liabilities</i>	<u>28,176,141</u>	<u>0</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	19,050,272	0
Restricted for:		
Capital Outlay	4,985,529	0
Debt Service	102,516	0
Other Purposes	195,382	0
Unrestricted	8,726,322	0
<i>Total Net Assets</i>	<u>\$ 33,060,021</u>	<u>\$ 0</u>

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

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

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Component Unit
					Governmental Activities	Perry Panther Digital Academy
Governmental Activities						
Instruction:						
Regular	\$ 18,349,478	\$ 1,185,405	\$ 494,269	\$ 93,494	\$ (16,576,310)	\$ 0
Special	4,559,426	305,414	1,910,372	0	(2,343,640)	0
Vocational	1,806,374	3,690	369,389	0	(1,433,295)	0
Adult Continuing	14,257	13,428	0	0	(829)	0
Other	370,836	0	0	0	(370,836)	0
Support Services:						
Pupils	2,629,721	0	400,161	0	(2,229,560)	0
Instructional Staff	1,706,813	30,240	660,141	0	(1,016,432)	0
Board of Education	133,399	0	0	0	(133,399)	0
Administration	2,850,588	60,057	61,258	0	(2,729,273)	0
Fiscal	636,110	0	0	0	(636,110)	0
Operation and Maintenance of Plant	3,943,636	0	27,000	0	(3,916,636)	0
Pupil Transportation	1,793,319	76,287	1,768	72,361	(1,642,903)	0
Central	306,981	0	0	0	(306,981)	0
Operation of Non-instructional Services:						
Food Service Operations	1,687,080	951,908	680,152	0	(55,020)	0
Community Services	484,903	323,472	215,370	0	53,939	0
Extracurricular Activities	1,026,508	266,742	24,415	0	(735,351)	0
Interest and Fiscal Charges	36,595	0	0	0	(36,595)	0
<i>Total Primary Government</i>	<u>\$ 42,336,024</u>	<u>\$ 3,216,643</u>	<u>\$ 4,844,295</u>	<u>\$ 165,855</u>	<u>(34,109,231)</u>	<u>0</u>
Component Unit						
Perry Panther Digital Academy	<u>\$ 447,602</u>	<u>\$ 0</u>	<u>\$ 118,496</u>	<u>\$ 0</u>	<u>0</u>	<u>(329,106)</u>
General Revenues						
Property Taxes Levied for:						
General Purposes					20,908,210	0
Capital Outlay					900,535	0
Grants and Entitlements not Restricted to Specific Programs					15,181,623	153,000
Investment Earnings					810,035	0
Miscellaneous					404,148	0
<i>Total General Revenues</i>					<u>38,204,551</u>	<u>153,000</u>
<i>Change in Net Assets</i>					4,095,320	(176,106)
<i>Net Assets Beginning of Year</i>					28,964,701	176,106
<i>Net Assets End of Year</i>					<u>\$ 33,060,021</u>	<u>\$ 0</u>

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

Perry Local School District

Balance Sheet

Governmental Funds

June 30, 2006

	<u>General</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Equity in Pooled Cash and Cash Equivalents	\$ 3,621,132	\$ 5,119,183	\$ 733,467	\$ 9,473,782
Cash and Cash Equivalents in Segregated Accounts	102,516	0	0	102,516
Investments in Segregated Accounts	11,658,444	0	0	11,658,444
Receivables:				
Taxes	19,121,259	854,972	0	19,976,231
Accounts	193,171	0	4,137	197,308
Interfund	30,000	0	0	30,000
Intergovernmental	754	36	141,349	142,139
Inventory Held For Resale	0	0	20,982	20,982
Materials and Supplies Inventory	92,291	0	2,197	94,488
<i>Total Assets</i>	<u>\$ 34,819,567</u>	<u>\$ 5,974,191</u>	<u>\$ 902,132</u>	<u>\$ 41,695,890</u>
Liabilities and Fund Balances				
Liabilities				
Accounts Payable	\$ 282,101	\$ 0	\$ 112,692	\$ 394,793
Contracts Payable	38,641	220,385	0	259,026
Accrued Wages and Benefits	3,494,706	0	401,567	3,896,273
Interfund Payable	0	0	30,000	30,000
Intergovernmental Payable	1,048,934	0	162,907	1,211,841
Matured Compensated Absences Payable	157,983	0	5,747	163,730
Deferred Revenue	17,934,649	794,092	0	18,728,741
<i>Total Liabilities</i>	<u>22,957,014</u>	<u>1,014,477</u>	<u>712,913</u>	<u>24,684,404</u>
Fund Balances				
Reserved for Encumbrances	142,905	299,715	18,046	460,666
Reserved for Tax Revenue Unavailable for Appropriation	1,286,610	60,880	0	1,347,490
Reserved for Debt Service Principal	102,516	0	0	102,516
Unreserved, Undesignated, Reported in:				
General Fund	10,330,522	0	0	10,330,522
Special Revenue Funds	0	0	171,173	171,173
Capital Projects Funds	0	4,599,119	0	4,599,119
<i>Total Fund Balances</i>	<u>11,862,553</u>	<u>4,959,714</u>	<u>189,219</u>	<u>17,011,486</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 34,819,567</u>	<u>\$ 5,974,191</u>	<u>\$ 902,132</u>	<u>\$ 41,695,890</u>

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

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

Total Governmental Fund Balances	\$	17,011,486
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds		19,570,272
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Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.

Delinquent Property Taxes	\$	576,922	
Charges for Services		100,000	
			676,922
Total			

Long-term liabilities, including capital leases and compensated absences payable, are not due and payable in the current period and, therefore, are not reported in the funds:

Compensated Absences	\$	(3,678,659)	
Capital Leases Payable		(520,000)	
			(4,198,659)
Total			

<i>Net Assets of Governmental Activities</i>	\$	<u><u>33,060,021</u></u>
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The accompanying notes are an integral part of the basic financial statements.

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

	General	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Revenues				
Property and Other Local Taxes	\$ 21,287,857	\$ 909,978	\$ 0	\$ 22,197,835
Intergovernmental	16,629,169	93,494	3,294,491	20,017,154
Investment Income	803,340	0	6,695	810,035
Tuition and Fees	1,276,893	0	53,927	1,330,820
Extracurricular Activities	25,968	0	564,264	590,232
Rentals	4,689	0	4,275	8,964
Customer Sales and Services	218,395	0	964,733	1,183,128
Gifts and Donations	31,000	0	147,118	178,118
Miscellaneous	381,514	0	22,634	404,148
<i>Total Revenues</i>	<u>40,658,825</u>	<u>1,003,472</u>	<u>5,058,137</u>	<u>46,720,434</u>
Expenditures				
Current:				
Instruction:				
Regular	17,416,500	0	542,829	17,959,329
Special	3,438,704	0	1,048,482	4,487,186
Vocational	1,777,123	0	3,459	1,780,582
Adult Continuing	0	0	14,257	14,257
Other	336,660	0	2,661	339,321
Support Services:				
Pupils	2,091,561	0	445,763	2,537,324
Instructional Staff	925,247	0	688,202	1,613,449
Board of Education	133,399	0	0	133,399
Administration	2,728,033	0	65,427	2,793,460
Fiscal	639,045	0	0	639,045
Operation and Maintenance of Plant	3,962,805	0	27,005	3,989,810
Pupil Transportation	2,017,791	0	7,673	2,025,464
Central	282,800	0	21,891	304,691
Operation of Non-Instructional Services:				
Food Service Operations	0	0	1,619,420	1,619,420
Community Services	18,807	0	473,267	492,074
Extracurricular Activities	686,669	0	254,321	940,990
Capital Outlay	348,744	220,385	0	569,129
Debt Service:				
Principal Retirement	95,000	0	0	95,000
Interest and Fiscal Charges	36,595	0	0	36,595
<i>Total Expenditures</i>	<u>36,935,483</u>	<u>220,385</u>	<u>5,214,657</u>	<u>42,370,525</u>
<i>Net Change in Fund Balances</i>	3,723,342	783,087	(156,520)	4,349,909
<i>Fund Balances Beginning of Year</i>	<u>8,139,211</u>	<u>4,176,627</u>	<u>345,739</u>	<u>12,661,577</u>
<i>Fund Balances End of Year</i>	<u>\$ 11,862,553</u>	<u>\$ 4,959,714</u>	<u>\$ 189,219</u>	<u>\$ 17,011,486</u>

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

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

Net Change in Fund Balances - Total Governmental Funds \$ 4,349,909

*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 outlay exceeded depreciation in the current period.

Capital Asset Additions	\$	961,002	
Current Year Depreciation		<u>(795,947)</u>	
Total			165,055

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. (8,294)

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

Delinquent Property Taxes		(389,090)	
Charges for Services		<u>100,000</u>	
Total			(289,090)

Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 95,000

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 governmental funds.

Compensated Absences		(316,286)	
Accrued Vacation Payable		<u>99,026</u>	
Total			<u>(217,260)</u>

Change in Net Assets of Governmental Activities \$ 4,095,320

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

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

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Property and Other Local Taxes	\$ 20,097,300	\$ 21,196,027	\$ 21,196,027	\$ 0
Intergovernmental	15,914,530	16,628,415	16,628,415	0
Investment Income	486,500	719,175	719,175	0
Tuition and Fees	1,362,800	1,388,427	1,388,427	0
Extracurricular Activities	18,000	25,968	25,968	0
Rentals	107,000	4,689	4,689	0
Customer Sales and Services	0	1,044	1,044	0
Contributions and Donations	500	1,000	1,000	0
Miscellaneous	379,400	612,418	612,418	0
<i>Total Revenues</i>	<u>38,366,030</u>	<u>40,577,163</u>	<u>40,577,163</u>	<u>0</u>
Expenditures				
Current:				
Instruction:				
Regular	17,866,395	17,402,563	17,402,563	0
Special	3,193,837	3,183,465	3,183,465	0
Vocational	1,972,125	1,836,478	1,836,478	0
Other	340,584	293,007	293,007	0
Support Services:				
Pupils	2,214,021	2,132,770	2,132,770	0
Instructional Staff	958,163	933,143	933,143	0
Board of Education	151,116	138,760	138,760	0
Administration	2,962,860	2,779,206	2,779,206	0
Fiscal	751,636	742,341	742,341	0
Operation and Maintenance of Plant	3,804,416	3,767,719	3,767,719	0
Pupil Transportation	2,173,958	2,044,696	2,044,696	0
Central	288,395	302,916	302,916	0
Operation of Non-instructional Services:				
Food Service Operations	45,000	19,547	19,547	0
Extracurricular Activities	663,994	684,458	684,458	0
Capital Outlay	938,090	747,273	747,273	0
<i>Total Expenditures</i>	<u>38,324,590</u>	<u>37,008,342</u>	<u>37,008,342</u>	<u>0</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>41,440</u>	<u>3,568,821</u>	<u>3,568,821</u>	<u>0</u>
Other Financing Sources (Uses)				
Advances In	150,000	227,500	227,500	0
Advances Out	(200,000)	(257,500)	(257,500)	0
Transfers Out	(125,000)	0	0	0
<i>Total Other Financing Sources (Uses)</i>	<u>(175,000)</u>	<u>(30,000)</u>	<u>(30,000)</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	(133,560)	3,538,821	3,538,821	0
<i>Fund Balance Beginning of Year</i>	11,350,309	11,350,309	11,350,309	0
Prior Year Encumbrances Appropriated	178,499	178,499	178,499	0
<i>Fund Balance End of Year</i>	<u>\$ 11,395,248</u>	<u>\$ 15,067,629</u>	<u>\$ 15,067,629</u>	<u>\$ 0</u>

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

Perry Local School District
Statement of Fiduciary Assets and Liabilities
Agency Fund
June 30, 2006

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 53,159
Liabilities	
Due to Students	\$ 53,159

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

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

Note 1 – Description of School District and Reporting Entity

The Perry Local School District (the “School District”) was established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The School District is a school district as defined by Section 3311.02 of the Ohio Revised Code. The School District operates under an elected Board of Education, consisting of five members, and is responsible for providing public education to residents of the School District. Average daily membership on, or as of October 1, 2005, was 4,809. The School District employs 345 certificated and 242 non-certificated employees.

Reporting Entity

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

Components 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 provides 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.

Discretely Presented Component Unit The component unit column in the entity-wide financial statements identify the financial data of the School District’s component unit, the Perry Panther Digital Academy, which is reported separately to emphasize that it is legally separate from the School District.

Perry Panther Digital Academy The Perry Panther Digital Academy (the “Academy”) is a non profit corporation established pursuant to Ohio Revised Code Chapters 3314 and 3314.03 which is operated under the direction of a five-member Board of Directors. The Academy, under contractual agreement with the School District, is to deliver a comprehensive educational program of high quality, tied to State and National standards, which can be delivered to students in the K-12 population entirely through distance learning technologies. It is to be operated in cooperation with public schools to provide an innovative and cost-effective solution to the special problems of disabled students, students removed from school for disciplinary reasons, students needing advanced or specialized courses which are not available locally, and others including home-schooled students who are not currently enrolled in any public school and who are not receiving a meaningful, comprehensive and standards-based educational program. The Academy, which is part of the State’s education program, is nonsectarian in its programs, admissions policies, employment practices, and all other operations. The Academy may acquire facilities as needed and contract for any services necessary for the operation of the school. The Academy is fiscally dependent on the School District for all accounting and fiscal purposes and is therefore presented as a component unit of the School District. Financial statements can be obtained from the Perry Panther Digital Academy, 2100 38th Street NW, Canton, Ohio 44709.

Perry Local School District
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006

Note 1 – Description of School District and Reporting Entity (Continued)

Included with the reporting entity, within the School District's boundaries, St. Joan of Arc Elementary and Central Catholic High School are operated as non-public schools. Current legislation provides funding to these non-public schools. These monies are received and disbursed on behalf of the schools by the Treasurer of the School District, as directed by the non-public schools. These transactions are reported as a governmental activity of the School District.

The School District participates in one jointly governed organization and two public entity risk pools. These organizations are the Stark Portage Area Computer Consortium (SPARCC), Stark County Schools Council of Governments Workers' Compensation Group Rating Plan, and Stark County School Council of Governments Health Benefits Program. They are presented in Notes 16 and 17.

Note 2 - Summary of Significant Accounting Policies

The School District's financial statements 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 unless those pronouncements conflict with or contradict GASB pronouncements. Following are the more significant of the School District's accounting policies.

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 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 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 function is self-financing or draws from the general revenues of the School District.

Perry Local School District
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006

Note 2 - Summary of Significant Accounting Policies (Continued)

Fund Financial Statements During the 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. Fiduciary funds are reported by type.

B. Fund Accounting

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

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

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

Permanent Improvement Fund The permanent improvement fund accounts for financial resources to be used for the acquisition, construction, or improvement of major capital facilities.

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

Fiduciary Funds Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the 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. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's only fiduciary fund is an agency fund. The School District's agency fund accounts for student activities.

Perry Local School District
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006

Note 2 - Summary of Significant Accounting Policies (Continued)

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., expenditures) in total net assets.

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

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements and statements for the fiduciary funds are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the 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 sixty days of the 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. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 6). Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which 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 a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

Perry Local School District
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006

Note 2 – Summary of Significant Accounting Policies (Continued)

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

Property taxes for which there is an enforceable legal claim as of June 30, 2006, but which were levied to finance fiscal year 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

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

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

E. Budgetary Process

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

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

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

Perry Local School District
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006

Note 2 – Summary of Significant Accounting Policies (Continued)

F. Cash and Cash Equivalents

To improve cash management, all cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the School District records. Interest in the pool is presented as "equity in pooled cash and cash equivalents" on the financial statements.

During fiscal year 2006, investments were limited to STAROhio, repurchase agreements, Federal Home Loan Mortgage Corporation notes, Federal National Mortgage Association notes, and a money market fund.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as nonnegotiable certificates of deposit and repurchase agreements are reported at cost.

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

Following Ohio statutes, the Board of Education has, by resolution, identified the funds to receive an allocation of interest. Interest revenue credited to the general fund during fiscal year 2006 amounted to \$803,340, which includes \$230,881 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 financial statements as cash equivalents. Investments with an original 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 expensed/expensed when used. Inventories consist of materials and supplies held for consumption and donated and purchased food.

H. 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. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

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

Perry Local School District
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006

Note 2 – Summary of Significant Accounting Policies (Continued)

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	20-75 Years
Buildings and Improvements	20-75 Years
Furniture and Equipment	5-30 Years
Vehicles	12-15 Years

I. 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 School District will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the 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.

On the governmental fund statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the funds from which the employee will be paid.

J. Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements.

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

Perry Local School District
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006

Note 2 – Summary of Significant Accounting Policies (Continued)

K. Net Assets

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

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

L. Fund Balance Reserves

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

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

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

N. Interfund Balances

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

O. Extraordinary and Special Items

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

Perry Local School District
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006

Note 2 – Summary of Significant Accounting Policies (Continued)

P. Estimates

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

Q. New Accounting Principles

For the year ended June 30, 2006, the School District has implemented GASB Statement No 42, “*Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*”, GASB Statement No. 46 “*Net Assets Restricted by Enabling Legislation*”, and Statement No. 47 “*Accounting for Termination Benefits.*”

Statement No. 42 establishes accounting and financial standards for impairment of capital assets and clarifies and establishes accounting requirements for insurance recoveries.

Statement No. 46 establishes that any amount of the primary government’s net assets at the end of the reporting period restricted by enabling legislation should be disclosed in the notes to the financial statements. At June 30, 2006, none of the School District’s net assets were restricted by enabling legislation.

Statement No. 47 provides guidance to governmental employers for measuring, recognizing, and reporting liabilities and expenses/expenditures related to *all* termination benefits without limitation as to the period of time during which the benefits are offered.

The implementation of these GASB Statements did not have an effect on the financial statements of the School District.

Note 3 – Accountability

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

Non-Major Funds:

Food Service	\$ 147,814
Entry Year Programs	583
Title VI-B	128,618
Drug Free Schools Grant	776
Title V	43
Preschool	500
Title II Teacher Quality	504

The special revenue deficit balances resulted from adjustments for accrued liabilities. The general fund is liable for any deficit in these funds and will provide transfers when cash is required, not when accruals occur.

Perry Local School District
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006

Note 4 - Budgetary Basis of Accounting

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).
4. Advances in and advances out are non-operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

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

Net Change in Fund Balance

	<u>General</u>
GAAP Basis	\$ 3,723,342
Net Adjustment for Revenue Accruals	(81,662)
Advances In	227,500
Advances Out	(257,500)
Net Adjustment for Expenditure Accruals	120,289
Adjustment for Encumbrances	<u>(193,148)</u>
Budget Basis	<u><u>\$ 3,538,821</u></u>

Perry Local School District
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006

Note 5 - 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 two 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 to be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,

Perry Local School District
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006

Note 5 - Deposits and Investments (Continued)

8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

According to State law, public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by FDIC, or may pledge a pool of government securities valued at least 105 percent of the total value of public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within 5 years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the School District's name. During 2006, the School District and public depositories complied with the provisions of these statutes.

Deposits with Financial Institutions

Custodial credit risk is the risk that, in the event of a bank failure, the School District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105 percent of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the School District.

At fiscal year-end, the carrying amount of the School District's deposits was \$(739,275), which includes \$500 cash on hand. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures," as of June 30, 2006, the School District's entire bank balance of \$5,523 was covered by Federal Deposit Insurance Corporation.

Perry Local School District
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006

Note 5 - Deposits and Investments (Continued)

Investments

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>	
		<u>6 Months or Less</u>	<u>7 to 12 Months</u>
FHLMC	\$ 3,717,620	\$ 1,737,260	\$ 1,980,360
FNMA	7,880,320	1,982,500	5,897,820
Money Market	163,020	163,020	0
STAROhio	9,356,216	9,356,216	0
Repurchase Agreement	<u>910,000</u>	<u>910,000</u>	<u>0</u>
Total	<u>\$ 22,027,176</u>	<u>\$ 14,148,996</u>	<u>\$ 7,878,180</u>

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the District's investment policy limits investment portfolio maturities to five years or less.

Credit Risk. The School District's investments in FHLMC and FNMA were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. STAROhio has been given an AAA rating by Standard & Poor's. The School District's investments in the money market account and repurchase agreement are unrated.

Concentration of Credit Risk. The School District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage to total of each investment type held by the School District at June 30, 2006:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Percent of Total</u>
FHLMC	\$ 3,717,620	16.87%
FNMA	7,880,320	35.78%
Money Market	163,020	0.74%
STAROhio	9,356,216	42.48%
Repurchase Agreement	<u>910,000</u>	<u>4.13%</u>
Total	<u>\$ 22,027,176</u>	<u>100.00%</u>

Perry Local School District
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006

Note 6 - 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 2006 represents collections of calendar 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed as of January 1, 2005, the lien date. Assessed values for real property taxes are established by State Law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible taxes received in calendar year 2006 became a lien December 31, 2004, were levied after April 1, 2005 and are collected in 2005 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 2006 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value as of December 31, 2005. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. 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 Stark County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2006, are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

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

The amount available as an advance at June 30, 2006 was \$1,286,610 in the general fund and \$60,880 in the permanent improvement capital projects fund. The amount available as an advance at June 30, 2005 was \$1,194,780 in the general fund and \$54,470 in the permanent improvement capital projects fund.

Perry Local School District
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006

Note 6 - Property Taxes (Continued)

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

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

	2005 Second		2006 First	
	Half Collections		Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$ 419,725,120	64.77%	\$ 426,436,320	67.02%
Commercial Industrial	113,116,630	17.46%	118,645,850	18.65%
Tangible Personal Property	92,299,716	14.25%	69,224,788	10.88%
Personal Public Utility	<u>22,788,820</u>	<u>3.52%</u>	<u>21,945,890</u>	<u>3.45%</u>
	<u>\$ 647,930,286</u>	<u>100.00%</u>	<u>\$ 636,252,848</u>	<u>100.00%</u>
 Taxrate per \$1,000 assessed valuation	 <u>\$ 48.70</u>		 <u>\$ 47.50</u>	

Note 7 - Receivables

Receivables at June 30, 2006, consisted of taxes, accounts (rent, student fees and tuition), interfund and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of the State programs, and the current fiscal year guarantee of Federal funds.

Perry Local School District
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006

Note 8 - Capital Assets

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

	Balance 6/30/2005	Additions	Deletions	Balance 6/30/2006
Governmental Activities				
<i>Capital Assets, not being depreciated</i>				
Construction in Progress	\$ 0	\$ 259,026	\$ 0	\$ 259,026
<i>Capital Assets being depreciated</i>				
Land Improvements	1,130,647	177,800	0	1,308,447
Buildings and Improvements	26,437,532	182,557	0	26,620,089
Furniture and Equipment	859,234	90,365	(16,599)	933,000
Vehicles	2,643,416	251,254	(18,000)	2,876,670
<i>Total Capital Assets being depreciated</i>	<u>31,070,829</u>	<u>701,976</u>	<u>(34,599)</u>	<u>31,738,206</u>
<i>Less Accumulated Depreciation:</i>				
Land Improvements	(147,212)	(49,602)	0	(196,814)
Buildings and Improvements	(10,101,064)	(475,552)	0	(10,576,616)
Furniture and Equipment	(373,620)	(49,183)	13,055	(409,748)
Vehicles	(1,035,422)	(221,610)	13,250	(1,243,782)
<i>Total Accumulated Depreciation</i>	<u>(11,657,318)</u>	<u>(795,947) *</u>	<u>26,305</u>	<u>(12,426,960)</u>
<i>Total Capital Assets being depreciated, net</i>	<u>19,413,511</u>	<u>(93,971)</u>	<u>(8,294)</u>	<u>19,311,246</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$ 19,413,511</u>	<u>\$ 165,055</u>	<u>\$ (8,294)</u>	<u>\$ 19,570,272</u>

*Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 295,044
Special	58,686
Vocational	45,800
Support Services:	
Pupil	53,197
Instructional Staff	71,385
Administration	56,171
Fiscal	2,348
Operation and Maintenance of Plant	54,314
Pupil Transportation	11,532
Operation of Non-Instructional Services:	
Food Service Operations	64,565
Extracurricular Activities	82,905
Total Depreciation	<u>\$ 795,947</u>

Perry Local School District
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006

Note 9 - Risk Management

A. General Insurance

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. The School District has a comprehensive property and casualty policy with a deductible of \$5,000 and \$1,000 per incident on property and equipment, respectively, with a 100 percent blanket, all risk policy for property coverage. The School District's vehicle insurance policy limit is \$3,000,000 single occurrence limited liability. All board members, administrators, and employees are covered under a school district liability policy. Additionally, the School District carries a \$5,000,000 blanket umbrella policy. The limits of this coverage are \$2,000,000 per occurrence and \$5,000,000 in aggregate, with no deductible. Settlements have not exceeded coverage in any of the last three fiscal years. There has not been a significant reduction in coverage from the prior year.

B. Fidelity Bond

The treasurer is covered under a surety bond in the amount of \$50,000.

C. Workers' Compensation

The School District participates in the CompManagement Workers Compensation Group Rating Plan, an insurance purchasing pool (Note 17). The intent of the Plan is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the group. The worker's compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the group. Each participant pays its worker's compensation premium to the State Bureau of Workers' Compensation based on the rate for the group rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the group. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the group. Participation in the Plan is limited to school districts that can meet the Plan selection criteria. The firm of CompManagement provides administrative, cost control and actuarial services to the group.

D. Employee Health Benefits

The School District participates in the Stark County Schools Council of Governments Health Benefits Program, a shared risk pool (Note 17) to provide employee medical/surgical benefits. The Council is a risk sharing pool created pursuant to State statute for the purpose of carrying out a cooperative program for the provision and administration of health care benefits. The Assembly is the legislative decision-making body of the Council. The Assembly is comprised of the superintendents or executive officers of the members, who have been appointed by the respective governing body of each member.

The intent of the insurance pool is to achieve a reduced, stable and competitive rate for the School District by grouping with other members of the Health Benefits Program. The experience of all participating districts is calculated as one and a common premium rate is applied to all member districts.

Perry Local School District
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006

Note 9 - Risk Management (Continued)

Rates are set through an annual calculation process. The School District pays a monthly contribution which is placed in a common fund from which claim payments are made for all participating districts. The employees share the cost of the monthly premium with the Board. For fiscal year 2006 the School District's and the employee's premiums were \$729.15 and \$81.02 for family coverage and \$300.14 and \$33.36 for single coverage per employee per month, respectively. Dental insurance is also provided by the School District to qualified employees through the Stark County Schools Council of Governments. For fiscal year 2006, the School District's cost was \$104.47 for family coverage and \$42.35 for single coverage per employee per month.

Claims are paid for all participants regardless of claims flow. Upon termination, all School District claims would be paid without regard to the School District's account balance. The Stark County Schools Council of Government Board of Directors has the right to return monies to an existing school district subsequent to the settlement of all expenses and claims.

Note 10 - Other Employee Benefits

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn five to twenty-five days of vacation per year, depending upon length of service and hours worked. Teachers do not earn vacation time. Administrators employed to work 260 days per year can earn fifteen to twenty-five days of vacation annually. Accumulated unused vacation time is paid to classified employees and administrators upon termination of employment.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated to a maximum of 290 days. Upon retirement, employees receive payment for 30 percent of the total sick leave accumulation, up to a maximum accumulation of 200 days.

B. Life Insurance

The School District provided life insurance and accidental death and dismemberment insurance to all employees through the Stark County Schools Council of Governments Health Benefits Program. Coverage ranges from \$10,000 to \$65,000 depending on the daily hours worked by the employee.

Note 11- Pension Plans

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Columbus, Ohio 43215, or by calling (614) 222-5853.

Perry Local School District
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006

Note 11- Pension Plans (Continued)

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 rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund health care benefits; for fiscal year 2006, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by SERS' Retirement Board. The School District's contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005 and 2004 were \$701,988, \$711,156 and \$650,928, respectively; 48 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. \$361,869 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability within the respective funds.

B. State Teachers Retirement System

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost sharing multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to the STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

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

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

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

Perry Local School District
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006

Note 11- Pension Plans (Continued)

The School District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2006, 2005 and 2004 were \$2,682,890, \$2,662,620 and \$2,458,464, respectively; 82 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. \$473,607 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability within the respective funds.

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 have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2006, two members of the Board of Education have elected social security. The Board's liability is 6.2% of wages paid.

Note 12 - Postemployment Benefits

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.

Retirees who participated in the DC or Combined Plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$191,635 for fiscal year 2006.

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

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year, ended June 30, 2006, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay has been established at \$27,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$278,076.

Perry Local School District
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006

Note 12 - Postemployment Benefits (Continued)

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. Net health care costs for the fiscal year ended June 30, 2005, (the latest information available) were \$178,221,113. The target level for the health care reserve is 150 percent of projected claims less premium contributions for the next fiscal year. At June 30, 2005 (the latest information available), the value of the health care fund was \$267.5 million, which is about 168% of next year's projected net health care costs of \$158,776,151. SERS has 58,123 participants currently receiving health care benefits.

Note 13 - Long - Term Obligations

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

	Outstanding <u>6/30/2005</u>	Additions	Reductions	Outstanding <u>6/30/2006</u>	Due in <u>One Year</u>
Capital Lease	\$ 615,000	\$ 0	\$ (95,000)	\$ 520,000	\$100,000
Compensated Absences	<u>3,362,373</u>	<u>715,172</u>	<u>(398,886)</u>	<u>3,678,659</u>	<u>106,867</u>
<i>Total General Long-Term Obligations</i>	<u>\$ 3,977,373</u>	<u>\$ 715,172</u>	<u>\$ (493,886)</u>	<u>\$ 4,198,659</u>	<u>\$206,867</u>

Capital lease payments will be paid from the general fund. Compensated absences will be paid from the fund from which the employees' salaries are paid, this has been the policy in prior years also.

Note 14 - Capitalized Leases

In prior years the School District entered into a lease purchase agreement for a new science wing. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. The science wing construction costs were financed by the issuance of \$1,025,000 Certificates of Participation, Series 2000 by McDonald Investments Inc. (lessor), Key Bank National Association (original purchaser), Huntington National Bank (trustee) and the Board of Education (lessee). Ownership of the new building transfers to the Board of Education at the end of the lease. Capital lease payments are reflected as debt service expenditures in the combined financial statements for the governmental funds.

Perry Local School District
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006

Note 14 - Capitalized Leases (Continued)

The general capital assets acquired by the leases have been capitalized in governmental capital assets in the amount of \$1,025,000. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded in the statement of net assets and is reduced for each required principal payment.

The following is a schedule of future minimum lease payments under the capital leases together with the present value of the net minimum lease payments as of June 30, 2006:

		<u>Science Wing</u>	
Year Ending June 30,	2007	\$ 127,025	
	2008	126,131	
	2009	129,806	
	2010	<u>205,750</u>	
		588,712	
Less: Amount representing interest		<u>(68,712)</u>	
Present value of minimum lease payments		<u>\$ 520,000</u>	

Note 15 – Interfund Balances

During the fiscal year, the general fund advanced \$30,000 to the food service fund to provide additional resources for current operations. The results of this cash advance are a receivable of \$30,000 for the General Fund and a payable of \$30,000 for the Food Service Fund.

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

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

Note 16 - Jointly Governed Organization

The Stark Portage Area Computer Consortium (SPARCC) is a jointly governed organization among 31 school districts, the Stark County Educational Service Center and the Portage County Educational Service Center and the Portage County Education Service Center. The purpose of the organization is to apply modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. The legislative and advisory body is the assembly which is comprised of the superintendents of the participating schools. The degree of control exercised by any participating district is limited to its representation on the assembly, which appoints the five-member executive board. The executive board exercises total control over the operation of SPARCC including budgeting, appropriating, contracting and designating management. The executive board consists of five superintendents. All revenues are generated from State funding and an annual fee charged to participating districts. The School District paid \$103,545 to SPARCC during the fiscal year 2006. The Stark County Educational Service Center is the fiscal agent of SPARCC. Financial information can be obtained by writing to the Stark County Educational Service Center, 2100 38th Street NW, Canton, OH 44709-2300.

Perry Local School District
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006

Note 17 - Public Entity Risk Pools

A. Risk Sharing Pool

The Stark County Schools Council of Governments Health Benefits Program is a shared risk pool. The Council is governed by an assembly which consists of one representative from each participant (usually the superintendent or designee). The assembly elects officers for two-year terms to serve as the Board of Directors. The assembly exercises control over the operation of the consortium. All consortium revenues are generated from charges for services received from the participating school districts, based on the established premiums for the insurance plans. Financial information can be obtained by writing to the Stark County Educational Service Center, 2100 38th Street NW, Canton, OH 44709.

B. Insurance Purchasing Pool

The School District participates in the CompManagement Workers' Compensation Group Rating Program, an insurance purchasing pool. The Group's business and affairs are conducted by the CompManagement Corporation. Each year the participating districts pay an enrollment fee to the Group to cover the costs of administering the program.

Note 18 – Contingencies

A. Grants

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

B. Litigation

The School District is party to various legal proceedings. The School District is of the opinion that the ultimate disposition of these claims and legal proceedings will not have a material effect, if any, on the financial condition of the School District.

Note 19 - Set-Asides

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

Perry Local School District
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006

Note 19 - Set-Asides (Continued)

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

	<u>Textbooks</u>	<u>Capital Improvements</u>
Set-Aside Reserve Balance as of June 30, 2005	\$ (1,941,192)	\$ 0
Current Year Set-Aside Requirement	683,809	683,809
Qualifying Disbursements	(1,050,284)	(1,082,674)
Current Year Offsets	<u>0</u>	<u>(903,568)</u>
 Totals	 <u>\$ (2,307,667)</u>	 <u>\$ (1,302,433)</u>
 Set-Aside Balance, Carried Forward to Fiscal Years	 <u>\$ (2,307,667)</u>	 <u>\$ 0</u>
 Set-Aside Reserve Balance as of June 30, 2006	 <u>\$ 0</u>	 <u>\$ 0</u>

The School District had qualifying disbursements during the year that reduced the textbooks and the capital improvements set-aside amount below zero. The negative set-aside balance for the textbooks may be used to reduce the set-aside requirement of future years. The negative set-aside balance for the capital improvements may not be used to reduce the set-aside requirements of future years.

Note 20 – Contractual Commitments

As of June 30, 2006, the School District had contractual purchase commitments for the following projects:

<u>Contractor</u>	<u>Purchase Commitments</u>	<u>Amount Paid as of 6/30/2006</u>	<u>Amount Remaining on Contracts</u>
National Recreation Systems - Stadium Renovations	\$ 336,985	\$ 0	\$ 336,985
Hammond Construction - Stadium Renovations	23,980	0	23,980
Hammond Construction - Auditorium Renovations	14,661	0	14,661
Seating Concepts - Auditorium Renovations	82,360	0	82,360
Rayhaven - Locker Replacement at High School	126,500	0	126,500
Capital Aluminum - Window Replacement at Whipple	199,889	0	199,889
<i>Totals</i>	<u>\$ 784,375</u>	<u>\$ 0</u>	<u>\$ 784,375</u>

Perry Local School District
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006

Note 21 – Perry Panther Digital Academy

The Perry Panther Digital Academy (the “Digital Academy”) has been determined to be a discrete component unit. The School District Management has determined it is significant; therefore, it has been included as part of the School District’s basic financial statements. The Digital Academy issues a publicly available, stand-alone financial report that includes financial statements and supplementary information. That report may be obtained by writing to Perry Panther Digital Academy, 2100 38th Street NW, Canton, Ohio 44709.

The Digital Academy was approved under contract with Perry Local School District (hereafter “Sponsorship Contract”) for a period of five years commencing July 1, 2002. The Digital Academy began operations on September 24, 2003 and ceased operations effective June 30, 2006. All assets of the Academy reverted to the Sponsor on June 30, 2006 in accordance with the Sponsorship Contract (see Note 20 G). The sponsor was responsible for evaluating the performance of the Digital Academy.

A. Significant Accounting Policies

Accounting Basis The basic financial statements of the Perry Panther Digital Academy (the “Digital Academy”) 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 Digital Academy also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided those pronouncements do not conflict with or contradict GASB pronouncements. The Digital Academy’s significant accounting policies are described below.

Basis of Presentation Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Measurement Focus and Basis of Accounting Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. The statement of revenues, expenses and changes in net assets presents increases (e.g. revenues) and decreases (e.g. expenses) in net total assets. The statement of cash flows reflects how the Academy finances and meets its cash flow needs.

Perry Local School District
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006

Note 21 – Perry Panther Digital Academy (Continued)

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Academy's financial statements are prepared using the accrual basis of accounting. Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded when the exchange takes place. Revenues resulting from nonexchange transactions, in which the Academy receives values without directly giving equal value in return, such as grants and entitlements, are recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the 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. Expenses are recognized at the time they are incurred.

Budget Process Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Chapter 5705, unless specifically provided in the Academy's contract with its sponsor. The contract between the Academy and its Sponsor does not prescribe a budgetary process for the Academy.

Cash and Cash Equivalents All monies received by the Digital Academy would have been deposited in a demand deposit account. The Digital Academy had no investments during the fiscal period ended June 30, 2006. As of June 30, 2006 the Digital Academy had no remaining "Cash and Cash Equivalents".

Intergovernmental Revenues The Academy currently participates in the State Foundation Program. Revenue received from this program is recognized as operation revenues (foundation payments) in the accounting period in which they are earned and become measurable.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the 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.

The Academy also participates in the Federal Charter Grant Program through the Ohio Department of Education. Under this program, the Academy was awarded \$150,000 to help defray operating costs. Revenue received from these programs is recognized as non-operating revenue in the accompanying financial statements.

Amounts awarded under the above named programs for the year ended June 30, 2006 totaled \$271,496.

Perry Local School District
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006

Note 21 – Perry Panther Digital Academy (Continued)

Capital Assets All capital assets were capitalized at cost and updated for additions and reductions during the year. Donated capital assets were recorded at their fair market value on the date donated. The Digital Academy maintained a capitalization threshold of \$500. The Digital Academy did not have any infrastructure. Improvements were capitalized. The costs of normal maintenance and repairs that did not add to the value of the asset or materially extend an asset's life were not capitalized.

All capital assets were depreciated. Improvements were depreciated over the remaining useful life of the related capital asset. Depreciation was computed using the straight-line method. Furniture and equipment were depreciated over a period of five to twenty years.

In accordance with the Sponsorship Contract, which states that “upon dissolution of the Digital Academy, any remaining assets shall be conveyed to the Sponsor”, and as discussed in Note 9, all capital assets were transferred to the Sponsor on June 30, 2006.

Net Assets Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, are net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. At June 30, 2006 the Digital Academy had no restricted net assets.

The Digital Academy applied restricted resources when an expense was incurred for purposes for which both restricted and unrestricted net assets were available.

Operating Revenues and Expenses Operating revenues are those revenues that are generated directly from the primary activity of the Academy. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the Digital Academy. All revenues and expenses not meeting this definition are reported as non-operating.

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

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

B. Deposits

At fiscal year-end, the Digital Academy had no deposits with any carrying value and no bank balances.

Perry Local School District
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006

Note 21 – Perry Panther Digital Academy (Continued)

C. Capital Assets

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

	Balance		Transfer of	
	6/30/2005	Additions	Assets to	Balance
	<u>6/30/2005</u>	<u>Additions</u>	<u>Sponsor</u>	<u>6/30/2006</u>
Furniture and Equipment	\$ 112,613	\$ 27,311	\$ (139,924)	\$ 0
Less: Accumulated Depreciation	<u>(23,907)</u>	<u>(24,594)</u>	<u>48,501</u>	<u>0</u>
Total Capital Assets, Net	<u>\$ 88,706</u>	<u>\$ 2,717</u>	<u>\$ (91,423)</u>	<u>\$ 0</u>

D. Service Agreement

The Academy entered into a one year agreement for the 2005-2006 school year with the Stark Portage Area Computer Consortium (SPARCC), in partnership with Tri-Rivers Educational Computer Association (TRECA), for planning, instructional, administrative and technical services required for the operation of the Digital Academy.

For these services, the Digital Academy is required to pay the following fees to SPARCC:

1. Annual Fee – The Academy shall pay to SPARCC a fee of \$25,000 for fiscal year 2006 school year for services acquired from SPARCC. The fee shall be due in two equal payments. The first payment shall be due upon receipt by the Digital Academy of the second installment paid to the Digital Academy pursuant to the Ohio Charter Schools Federal Sub-grant Program (or any similar funding program, regardless of name) or by June 1, 2005, whichever is later. The second payment shall be due by December 1, 2006, or upon receipt of the aforementioned second installment of such grant, whichever is later.
2. Enrollment - \$3,500 per full time Grade 9-12 student and \$2,500 per full-time K-8 student enrolled per year. Part-time students may be enrolled on such terms as are agreed to by the parties. In case of a student enrolled with an IEP, the Digital Academy will determine if special education will be provided by SPARCC or otherwise. If substantially all of the special education and services are provided to such a student by other than SPARCC, the Digital Academy does not have to pay SPARCC. If the special education fro a student is provided by SPARCC, then any additional amount received from Department of Education for special education and related service is due to SPARCC for that student.

Perry Local School District
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006

Note 21 – Perry Panther Digital Academy (Continued)

E. Purchased Services

For fiscal year ended June 30, 2006, purchased services expenses were as follows:

Professional and Technical Services	\$ 185,242
Tuition	23,875
Travel and Meetings	<u>76,232</u>
Total	<u>\$ 285,349</u>

F. Contingencies

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

Litigation A suit was filed in Franklin County Common Pleas Court, on May 14, 2001, alleging that Ohio's Community (i.e., Charter) Schools program violates the state's constitution and state laws. On April 21, 2004 the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case was heard for oral argument on November 18, 2003. The effect of this suit, if any, on the Academy is not presently determinable.

State Foundation Funding The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The Digital Academy was reviewed two times during this initial year of operations and zero errors were found in enrollment, withdrawals and attendance.

G. Continued Existence

Due to the expectations of the operation of the Digital Academy that would have resulted in the ineffective spending and an overuse of personnel, the Digital Academy ceased educational operations effective June 30, 2006. The Sponsorship Contract requires that, upon dissolution, any remaining assets of the Digital Academy be conveyed to the Sponsor (Perry Local School District). On June 30, 2006 the Digital Academy transferred its remaining capital assets of \$91,423, net of accumulated depreciation, to the Sponsor in accordance with the Sponsorship Contract.

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

November 29, 2006

To the Board of Education
Perry Local School District
Massillon, OH 44646

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

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 the Perry Local School District (the "School District") as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements and have issued our report thereon dated November 29, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted certain matters that we have reported to management in a separate letter dated November 29, 2006.

Compliance and Other Matters

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

This report is intended solely for the information and use of management, federal awarding agencies, pass-through entities, and the Board of Education and is not intended to be and should not be used by anyone other than those specified parties.

Rea & Associates, Inc.

Rea & Associates, Inc.
ACCOUNTANTS AND BUSINESS CONSULTANTS

November 29, 2006

To the Board of Education
Perry Local School District
Massillon, OH 44646

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

Compliance

We have audited the compliance of the Perry Local School District (the "School District") with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The School District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

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

Internal Control Over Compliance

The management of the School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Perry Local School District
Independent Auditor's Report On Compliance With Requirements
Applicable To Each Major Program And Internal Control Over
Compliance In Accordance With OMB Circular A-133
November 29, 2006
Page 2

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

This report is intended solely for the information and use of management, the Board of Education, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Hea & Associates, Inc.

PERRY LOCAL SCHOOL DISTRICT
STARK COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

FEDERAL GRANTOR/ PASSED THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS THROUGH GRANTOR NUMBER	RECEIPTS	NON-CASH RECEIPTS	EXPENDITURES	NON-CASH EXPENDITURES
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed through Ohio Department of Education:</i>						
Title I Grants to Local Education Agencies	84.010	049924-C1S1-2005 049924-C1S1-2006	\$ 52,399 <u>442,223</u>		\$ 94,652 <u>408,952</u>	
Total Title I Grants to Local Education Agencies			<u>494,622</u>		<u>503,604</u>	
Special Education Cluster:						
Special Education Grants to States	84.027	049924-6BSF-2005-P 049924-6BSF-2006	0 1,147,194		157,619 1,013,812	
Special Education - Preschool Grants	84.173	049924-PGS1-2005-P 049924-PGS1-2006	1,675 <u>26,947</u>		1,675 <u>26,947</u>	
Total Special Education Cluster			<u>1,175,816</u>		<u>1,200,053</u>	
Safe and Drug-Free Schools and Communities State Grants	84.186	049924-DRS1-2005 049924-DRS1-2006	1,060 <u>20,225</u>		1,982 <u>19,041</u>	
Total Safe and Drug-Free Schools and Communities State Grants			<u>21,285</u>		<u>21,023</u>	
Title II-D Education Technology State Grants	84.318	049924-TJS1-2006	8,853		3,503	
Advanced Placement Program	84.330	AVTF-2004	260		260	
Title II-A Improving Teacher Quality State Grants	84.367	049924-TRS1-2005 049924-TRS1-2006	15,894 <u>159,023</u>		28,860 <u>138,172</u>	
Total Title II-A Improving Teacher Quality State Grants			<u>174,917</u>		<u>167,032</u>	
Title V State Grants for Innovative Programs	84.298	049924-C2S1-2005 049924-C2S1-2006	2,478 <u>14,008</u>		7,186 <u>12,346</u>	
Total Title V State Grants for Innovative Programs			<u>16,486</u>		<u>19,532</u>	
Hurricane Education Recovery	84.938	049924-HR01-2006	<u>15,000</u>		<u>15,000</u>	
Total U. S. Department of Education			<u>1,907,239</u>		<u>1,930,007</u>	
<u>U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>						
<i>Passed through Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
Medical Assistance Program (CAFS)	93.778	N/A	44,909		62,545	
State Children's Insurance Program (SCHIP)	93.767	N/A	<u>3,452</u>		<u>3,452</u>	
Total U.S. Department of Health and Human Services			<u>48,361</u>		<u>65,997</u>	
<u>CORPORATION FOR NATIONAL AND COMMUNITY SERVICE</u>						
<i>Passed through National Council for the Social Studies:</i>						
Learn and Serve America - School and Community Based Programs	94.004	N/A	4,184		4,128	
<u>U. S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed through Ohio Department of Education:</i>						
Food Donation	10.550	N/A		\$ 181,600		\$ 181,600
Nutrition Cluster:						
School Breakfast Program	10.553	049924-05PU-2005 049924-05PU-2006	4,023 22,975		4,023 22,975	
National School Lunch Program	10.555	049924-LLP4-2003 049924-LLP4-2004	66,514 <u>328,316</u>		66,514 <u>328,316</u>	
Total Nutrition Cluster:			<u>421,828</u>		<u>421,828</u>	
Total U.S. Department of Agriculture			<u>421,828</u>	<u>181,600</u>	<u>421,828</u>	<u>181,600</u>
Total Federal Financial Assistance			<u>\$ 2,381,612</u>	<u>\$ 181,600</u>	<u>\$ 2,421,960</u>	<u>\$ 181,600</u>

PERRY LOCAL SCHOOL DISTRICT
STARK COUNTY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2006

NOTE A: SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B: NUTRITION CLUSTER

Nonmonetary assistance is reported in the schedule of expenditures of federal awards at the fair market value of the commodities received and disbursed. At June 30, 2006, the School District had no significant food commodities inventory. Reimbursement moneys are commingled with local receipts and state grants. It is assumed federal moneys are expended first.

PERRY LOCAL SCHOOL DISTRICT
STARK COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2006

1. SUMMARY OF AUDITOR'S RESULTS
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A-133 Ref.
.505(d)

(d) (1) (i)	Type of Financial Statement Opinion	Unqualified
(d) (1) (ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d) (1) (iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d) (1) (iv)	Were there any reportable conditions reported for major programs which were not considered to be material?	No
(d) (1) (v)	Type of Major Programs' Compliance Opinion	Unqualified
(d) (1) (vi)	Are there any reportable findings under Section .510(a) of Circular A-133?	No
(d) (1) (vii)	Major Programs (list): <i>Special Education Cluster :</i> Special Education Grants to States Special Education – Preschool Grants	CFDA # 84.027 CFDA # 84.173
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: >\$300,000 Type B: All others
(d) (1) (ix)	Low Risk Auditee?	Yes

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

NONE	
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3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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NONE	
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Mary Taylor, CPA
Auditor of State

PERRY LOCAL SCHOOL DISTRICT
STARK 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
MAY 10, 2007