

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED JUNE 30, 2005 & 2004



**Auditor of State
Betty Montgomery**

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY**

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LAKE COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Perry Local School District
Lake County
4325 Manchester Road
Perry, Ohio 44081

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Perry Local School District, Lake County, Ohio, (the District) as of and for the years ended June 30, 2005 and June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Perry Local School District, Lake County, Ohio, as of June 30, 2005 and June 30, 2004, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General fund for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

Betty Montgomery
Auditor of State

March 20, 2006

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(UNAUDITED)**

The management discussion and analysis of Perry Local School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2005. The intent of this management discussion and analysis is to look at the District's financial performance as a whole. Readers should also review the basic financial statements and notes to those respective statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key Financial Highlights for 2005 are as follows:

In total, net assets decreased by \$ 1,758,550.

Revenues for governmental activities totaled \$ 29,388,763 in 2005. Of this total, 96 percent consisted of General revenues while Program revenues accounted for the remaining balance of 4 percent.

Program expenses totaled \$ 31,147,313. Instructional expenses made up 43 percent of this total while support services accounted for 45 percent. Other expenses rounded out the remaining 12 percent.

Using the Annual Financial Report

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

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

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains all the funds used by the District to provide programs and activities, the view of the District as a whole considers all financial transactions and asks the question, "How did we do financially during 2005?" The Statement of Net Assets and Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting, similar to the accounting used by most private-sector companies. Accrual accounting takes into account all the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's net assets and changes in those net assets. This change in net assets is important because it tells the reader that, for the District as a whole, the financial position of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the District's performance, demographic and socioeconomic factors and willingness of the community to support the District. On the other hand, financial factors may include the District's financial position, liquidity and solvency, fiscal capacity and risk and exposure.

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(UNAUDITED)**

In the Statement of Net Assets and the Statement of Activities, the District is classified as governmental activities. All of the District's programs and services are reported here including instruction, support services, operation of non-instructional services and extracurricular activities.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major funds begins on page 13. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the General Fund and the Capital Projects Fund.

Governmental Funds

All of the District's activities are reported as governmental funds, which focus on how money flows into and out of these funds and the balances left at year-end that are 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 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.

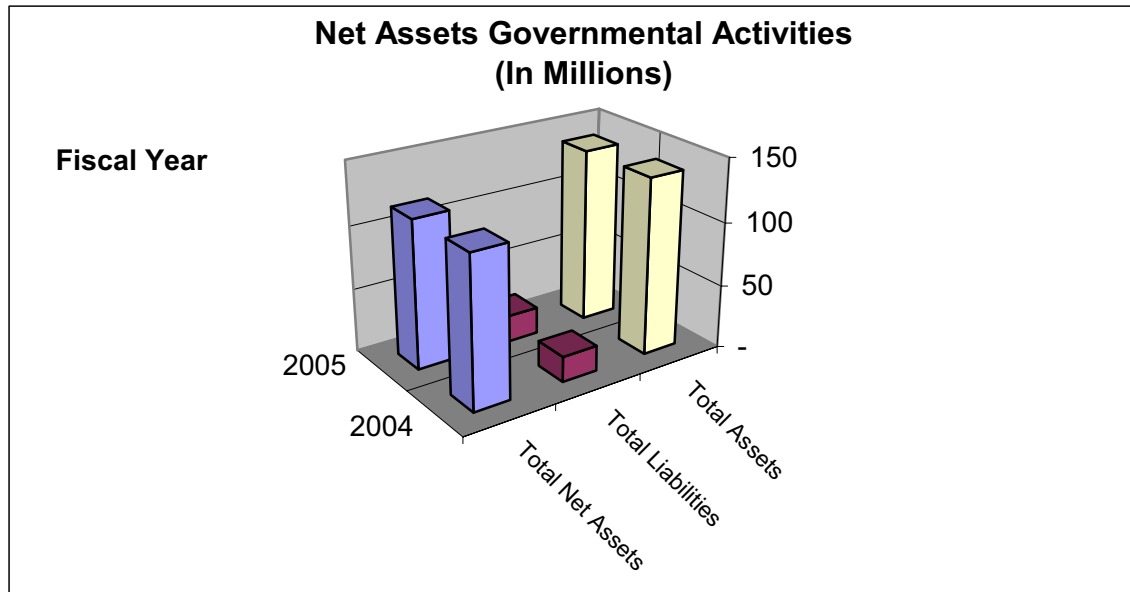
The District as a Whole

The Statement of Net Assets provides the perspective of the District as a whole. Table 1 provides a summary of the District's net assets for 2005 compared to 2004:

**Table 1
Net Assets
Governmental Activities**

| Assets | 2005 | 2004 | Variance |
|-------------------------------|-----------------------|-----------------------|-----------------------|
| Current and Other Assets | \$ 46,196,111 | \$ 45,149,216 | \$ 1,046,895 |
| Capital Assets, Net | <u>90,546,942</u> | <u>92,675,980</u> | <u>(2,129,038)</u> |
| Total Assets | <u>136,743,053</u> | <u>137,825,196</u> | <u>(1,082,143)</u> |
| Liabilities | | | |
| Current Liabilities | 17,826,705 | 17,181,625 | 645,080 |
| Long Term Liabilities | | | |
| Due within one year | 44,507 | 73,033 | (28,526) |
| Due within more than one year | <u>3,365,174</u> | <u>3,305,321</u> | <u>59,853</u> |
| Total Liabilities | <u>21,236,386</u> | <u>20,559,979</u> | <u>676,407</u> |
| Net Assets | | | |
| Invested in Capital Assets | 90,546,942 | 92,675,980 | (2,129,038) |
| Restricted for: | | | |
| Capital Projects | 8,910,360 | 8,609,909 | 300,451 |
| Set asides | 25,237 | 25,237 | 0 |
| Other purposes | 2,603,572 | 2,036,169 | 567,403 |
| Unrestricted | <u>13,420,556</u> | <u>13,917,922</u> | <u>(497,366)</u> |
| Total Net Assets | <u>\$ 115,506,667</u> | <u>\$ 117,265,217</u> | <u>\$ (1,758,550)</u> |

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(UNAUDITED)**



Total assets decreased by \$ 1,082,143. The decrease can be primarily attributed to decreases in taxes receivable, accrued interest and capital assets softened by an increase in cash.

Total liabilities increased by \$ 676,407. The majority of the increase can be attributed primarily to the increase in deferred revenue.

The vast majority of revenue supporting all Governmental Activities is General revenues. General revenue totaled \$ 28,105,972 or 96 percent of the total revenue. Two significant portions of the General revenue are local property tax and grants and entitlements not restricted to specific programs, this constitutes 92 percent of total revenue. The remaining amount of revenue was in the form of program revenues that equated to \$1,282,791 or only 4 percent of total revenue.

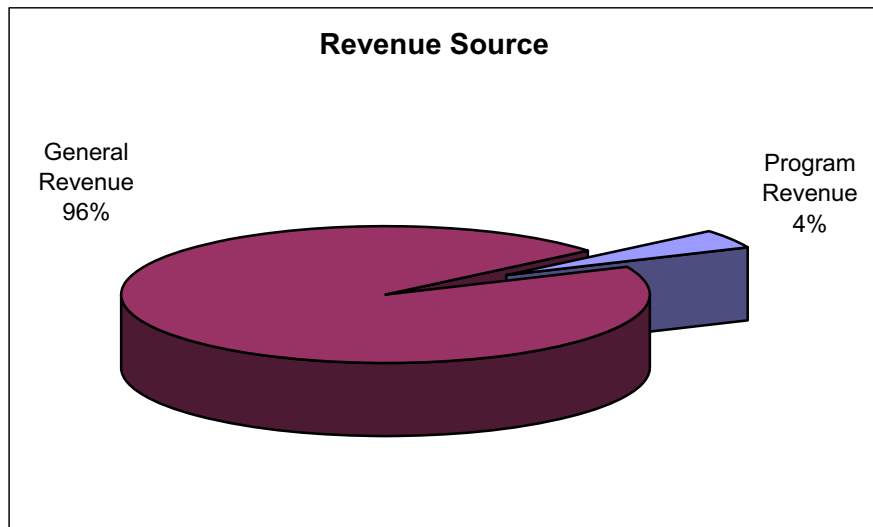
**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(UNAUDITED)**

Table 2 shows the changes in net assets for fiscal year 2005 with comparative totals for fiscal year 2004.

**Table 2
Governmental Activities**

| | <u>2005</u> | <u>2004</u> |
|---|-----------------------------|-----------------------------|
| Revenues | | |
| Program Revenues | | |
| Charges for Services and Sales | \$ 800,321 | \$ 805,327 |
| Operating Grants, and Contributions | 465,565 | 401,953 |
| Capital Grants | <u>16,905</u> | <u>0</u> |
| Total Program Revenues | <u>1,282,791</u> | <u>1,207,280</u> |
| General Revenue | | |
| Property Taxes | 15,151,250 | 27,110,348 |
| Grants and Entitlements | 11,826,865 | 11,857,910 |
| Interest | 806,475 | 212,009 |
| Miscellaneous | <u>321,382</u> | <u>1,776,137</u> |
| Total General Revenues | <u>28,105,972</u> | <u>40,956,404</u> |
| Total Program & General Revenues | <u>\$ 29,388,763</u> | <u>\$ 42,163,684</u> |
| Program Expenses | | |
| Instruction: | | |
| Regular | \$ 12,230,592 | \$ 13,077,553 |
| Special | 1,090,125 | 1,124,743 |
| Vocational | 98,570 | 115,592 |
| Other Instruction | 32,197 | 37,796 |
| Support Services: | | |
| Pupil | 742,116 | 1,081,468 |
| Instructional Staff | 3,121,059 | 2,837,881 |
| Board of Education | 157,757 | 147,150 |
| Administration | 2,416,152 | 2,242,357 |
| Fiscal | 1,010,287 | 965,298 |
| Business | 40,684 | 33,432 |
| Operation and Maintenance of plant | 4,601,421 | 4,732,211 |
| Pupil Transportation | 1,640,910 | 1,726,655 |
| Central | 189,676 | 98,440 |
| Operation of Non-Instructional Services: | | |
| Food Service | 264,973 | 375,570 |
| Other | 2,167,803 | 1,434,705 |
| Extracurricular Activities | <u>1,342,991</u> | <u>1,301,345</u> |
| Total Program Expenses | <u>\$ 31,147,313</u> | <u>\$ 31,332,196</u> |
| Increase (decrease) in Net Assets | <u>(\$1,758,550)</u> | <u>\$ 10,831,488</u> |

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(UNAUDITED)**

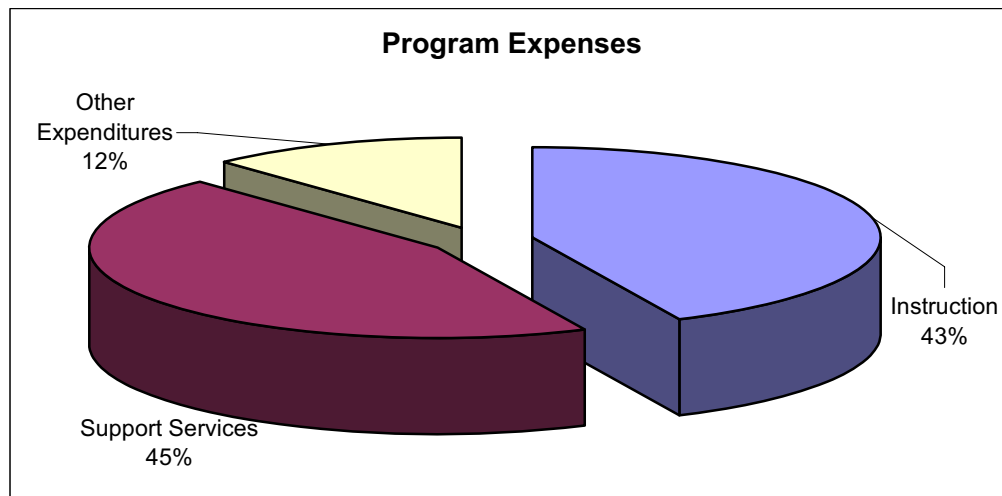


Governmental Activities

The District has carefully planned its financial future by forecasting its revenues and expenditures over the next five years. In October of 2005, the District submitted its yearly five-year forecast to the Ohio Department of Education. Based upon the current five-year financial forecast, the District has adequate operating funds for the next three (2006 – 2008) years. Although the District relies heavily upon local property taxes to support its operations, the District does actively solicit and receive additional grant and entitlement funds to help offset some operating costs.

Approximately 43 percent of the District's program expense is used to fund instructional expenses. Additional supporting services for pupils, staff and business operations encompass an additional 45 percent. The remaining program expenses of 12 percent are expensed to facilitate other obligations of the District, such as non-instructional services and extracurricular activities.

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(UNAUDITED)**



The Statement of Activities shows the total net cost of program services. Table 3 shows the total cost of services for governmental activities and the net cost of those services. It identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

Table 3

| Governmental Activities | Total Cost of Services 2005 | Net Cost of Services 2005 |
|---------------------------------|--|--------------------------------------|
| Governmental Activities | | |
| Instruction: | | |
| Regular | \$ 12,230,592 | \$ (12,186,467) |
| Special | 1,090,125 | (1,035,084) |
| Vocational | 98,570 | (98,570) |
| Other Instruction | 32,197 | (32,197) |
| Support Services: | | |
| Pupil | 742,116 | (540,878) |
| Instructional Staff | 3,121,059 | (3,119,602) |
| Board of Education | 157,757 | (157,757) |
| Administration | 2,416,152 | (2,416,152) |
| Fiscal Services | 1,010,287 | (1,010,287) |
| Business | 40,684 | (40,684) |
| Operations & Maintenance | 4,601,421 | (4,596,177) |
| Pupil Transportation | 1,640,910 | (1,624,005) |
| Central | 189,676 | (189,676) |
| Operation of Non-Instructional: | | |
| Food Service | 264,973 | 295,943 |
| Other | 2,167,803 | (2,083,541) |
| Extracurricular Activities | <u>1,342,991</u> | <u>(1,029,388)</u> |
| Total Program Expenses | <u>\$ 31,147,313</u> | <u>\$ (29,864,522)</u> |

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(UNAUDITED)**

As one can see, the reliance upon local tax revenues for governmental activities is crucial. Over 50 percent of expenses are directly supported by local property taxes. Grants and entitlements not restricted to specific programs support 39 percent, while investments and other miscellaneous type revenues support the remaining activity costs. Program revenues fund only 4 percent of all governmental expenses.

The District Funds

Information regarding the District's major funds can be found on page 13. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$ 32,115,567 and expenditures of \$ 29,609,434. The net change in fund balances for the year was as follows: General Fund \$ 2,368,693, Capital Projects Fund \$ 300,451 and Other Governmental Funds \$ (163,011).

General Fund Budgeting Highlights

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

During the course of fiscal year 2005, the District amended its General Fund budget several times, none significantly. Fluctuations among the budget base expenditures categories are due to the District's site-based style of budgeting that is designed to tightly control expenses but provide flexibility for managers to redirect funds as conditions develop during the year.

Overall revenue received by the General Fund was more than revised budgetary projections by \$ 495,506 or 1.7 percent. Actual expenditures for the year were \$ 1,184,153 or 4.4 percent under General Fund revised budgetary projections. The decrease was due to lower than anticipated expenditures and management controls to reduce the expenditures. Fund unencumbered cash balance of \$ 11,201,801 was \$ 1,713,695 higher than revised budgetary projections.

Capital Assets

Capital Assets

All capital assets, except land, are reported net of depreciation. At the end of fiscal 2005, the District had \$ 90,546,942 invested in land, building and improvements, furniture and equipment and vehicles. Table 4 shows fiscal 2005 values compared to 2004. More detailed information is presented in Note 9 of the basic financial statements.

**Table 4
Governmental Activities
(Net of Depreciation)**

| | Capital Assets at June 30, | |
|-----------------------------|----------------------------|----------------------|
| | 2005 | 2004 |
| Land | \$ 12,490,326 | \$ 12,490,324 |
| Building and Improvements | 74,804,571 | 76,593,478 |
| Furniture and Equipment | 3,015,263 | 3,274,057 |
| Vehicles | 236,782 | 318,121 |
| Total Capital Assets | \$ 90,546,942 | \$ 92,675,980 |

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(UNAUDITED)**

During fiscal year 2005, the District purchased \$ 793,276 of capital assets. Approximately 6 percent or \$ 49,983 of the purchase was for a school bus, 58 percent or \$ 461,188 for furniture and equipment with the remaining 36 percent or \$ 282,105 for building improvements.

District Outlook

The District has a strong financial position. The Board of Education and the administration closely monitor the District's revenues and expenditures in accordance with its financial forecast and the District's Continuous Improvement Plan.

The District's financial future is not without challenges, though. The nature of school funding in Ohio severely restricts the growth in the District's operating revenues and requires the District to periodically seek additional funds from the taxpayers to offset rising operating costs.

In addition, with the problem of limited growth in revenue, school districts are faced with the challenge of losing traditional sources of tax revenue through the Ohio General Assembly legislative actions. In 2003, the Ohio General Assembly passed Amended Substitute House Bill 95 that will phase-out, the taxation on business inventories. Once fully implemented, the District's operating revenue will be reduced by approximately \$ 282,000 annually.

In June 1999, the Ohio General Assembly passed Senate Bill 3 to deregulate the electric utility industry in Ohio. Under this legislation, the assessment rate on electric utility property was dramatically reduced but this district will remain revenue neutral due to the Property Tax Replacement Fund. This fund derives its revenue from a special user's tax on electricity. Our district receives approximately \$ 10.16 million annually from this fund, however it will sunset in 2017.

Financial aid from the State of Ohio through the State Foundation Program has not been the major source of operating revenue for the Perry Local School District. Because Perry Local School is considered a wealthy district in terms of property values, it receives a relatively small amount of revenue from the State to fund operating expenses.

As a result of the challenges mentioned above, the District's administration continues to carefully plan its expenditures to provide adequate resources to meet student needs over the next several years. The administration and the District's Task Force is currently reviewing all programs and services provided to students with the goal of reducing operating costs.

Contacting the District's Financial Management

This report is designed to provide our citizens, taxpayers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Lewis Galante, Chief Financial Officer at Perry Local School District, 4325 Manchester Avenue, Perry, Ohio 44081.

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
STATEMENT OF NET ASSETS
JUNE 30, 2005**

| | Governmental Activities |
|--|----------------------------|
| Assets | |
| Equity in Pool Cash and Cash Equivalents | \$ 21,827,759 |
| Restricted Cash | 25,237 |
| Cash with Fiscal Agent | 774,531 |
| Accounts Receivable | 8,080 |
| Accrued Interest | 131,301 |
| Intergovernmental Receivable | 28,600 |
| Materials and Supplies Inventory | 108,632 |
| Prepaid Items | 129,081 |
| Taxes Receivable | 23,162,890 |
| Nondepreciable Capital Assets | 12,490,326 |
| Depreciable Capital Assets, Net | 78,056,616 |
| Total Assets | \$ 136,743,053 |
| Liabilities | |
| Accounts Payable | \$ 228,846 |
| Accrued Wages | 2,599,137 |
| Intergovernmental Payable | 296,880 |
| Claims Payable | 377,546 |
| Deferred Revenue | 14,324,296 |
| Long-term Liabilities: | |
| Due Within One Year | 44,507 |
| Due in More than One Year | 3,365,174 |
| Total Liabilities | 21,236,386 |
| Net Assets | |
| Invested in Capital Assets | 90,546,942 |
| Restricted for: | |
| Capital Projects | 8,910,360 |
| Set Asides | 25,237 |
| Other Purposes | 2,603,572 |
| Unrestricted | 13,420,556 |
| Total Net Assets | 115,506,667 |
| Total Liabilities and Net Assets | \$ 136,743,053 |

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

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

| Governmental Activities | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets |
|---|----------------------|--------------------------------------|--|-------------------|---|
| | | Charges for Services and Sales | Operating Grants and Contributions | Capital Grants | |
| Instruction: | | | | | |
| Regular | \$ 12,230,592 | \$ - | \$ 44,125 | \$ - | \$ (12,186,467) |
| Special | 1,090,125 | - | 55,041 | - | (1,035,084) |
| Vocational | 98,570 | - | - | - | (98,570) |
| Other Instruction | 32,197 | - | - | - | (32,197) |
| Support Services: | | | | | |
| Pupil | 742,116 | - | 201,238 | - | (540,878) |
| Instruction Staff | 3,121,059 | - | 1,457 | - | (3,119,602) |
| Board of Education | 157,757 | - | - | - | (157,757) |
| Administration | 2,416,152 | - | - | - | (2,416,152) |
| Fiscal | 1,010,287 | - | - | - | (1,010,287) |
| Business | 40,684 | - | - | - | (40,684) |
| Operation and Maintenance of Plant | 4,601,421 | - | 5,244 | - | (4,596,177) |
| Pupil Transportation | 1,640,910 | - | - | 16,905 | (1,624,005) |
| Central | 189,676 | - | - | - | (189,676) |
| Operation of Non-Instructional Services | | | | | |
| Food Service | 264,973 | 463,931 | 96,985 | - | 295,943 |
| Other | 2,167,803 | 84,262 | - | - | (2,083,541) |
| Extracurricular Activities | 1,342,991 | 252,128 | 61,475 | - | (1,029,388) |
| Totals | <u>\$ 31,147,313</u> | <u>\$ 800,321</u> | <u>\$ 465,565</u> | <u>\$ 16,905</u> | <u>\$ (29,864,522)</u> |

General Revenues

| | |
|---|-----------------------|
| Property taxes levied for: | |
| General purpose | \$ 15,151,250 |
| Grants and entitlements not restricted to specific program | 11,826,865 |
| Interest | 806,475 |
| Miscellaneous | <u>321,382</u> |
| Total General Revenues | 28,105,972 |
| Change in Net Assets | (1,758,550) |
| Net Assets Beginning of Year | <u>117,265,217</u> |
| Net Assets End of Year | <u>\$ 115,506,667</u> |

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

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005**

| | General | Capital Projects Fund | Other Governmental Funds | Total Governmental Funds |
|--|----------------------|-----------------------------|--------------------------------|--------------------------------|
| Assets | | | | |
| Equity in Pooled Cash and Cash Equivalents | \$ 11,429,742 | \$ 8,991,500 | \$ 1,241,516 | \$ 21,662,758 |
| Restricted Assets: | | | | |
| Equity in Pooled Cash and Cash Equivalents | 25,237 | - | - | 25,237 |
| Taxes Receivable | 23,162,891 | - | - | 23,162,891 |
| Accounts Receivable | 7,532 | - | 548 | 8,080 |
| Materials and Supplies Inventory | 98,618 | - | 10,014 | 108,632 |
| Intergovernmental Receivable | - | - | 28,600 | 28,600 |
| Interest Receivable | 131,301 | - | - | 131,301 |
| Prepaid Items | 129,081 | - | - | 129,081 |
| | <u>\$ 34,984,402</u> | <u>\$ 8,991,500</u> | <u>\$ 1,280,678</u> | <u>\$ 45,256,580</u> |
| Liabilities and Fund Balances | | | | |
| Liabilities | | | | |
| Accounts Payable | \$ 147,705 | \$ 81,140 | \$ - | \$ 228,845 |
| Accrued Wages and Benefits | 2,424,675 | - | 174,462 | 2,599,137 |
| Intergovernmental Payable | 289,396 | - | 7,484 | 296,880 |
| Deferred Revenue | 22,662,544 | - | 12,170 | 22,674,714 |
| Total Liabilities | <u>25,524,320</u> | <u>81,140</u> | <u>194,116</u> | <u>25,799,576</u> |
| Fund Balances | | | | |
| Reserved for Encumbrances | 449,501 | 32,250 | 16,923 | 498,674 |
| Reserved for Property Taxes | 500,346 | - | - | 500,346 |
| Budget Stabilization Reserve | 25,237 | - | - | 25,237 |
| Unreserved: | | | | |
| Undesignated, reported in: | | | | |
| General Fund | 8,484,998 | - | - | 8,484,998 |
| Special Revenue Funds | - | - | 1,069,639 | 1,069,639 |
| Capital Projects Funds | - | 8,878,110 | - | 8,878,110 |
| Total Fund Balances | <u>9,460,082</u> | <u>8,910,360</u> | <u>1,086,562</u> | <u>19,457,004</u> |
| | <u>\$ 34,984,402</u> | <u>\$ 8,991,500</u> | <u>\$ 1,280,678</u> | <u>\$ 45,256,580</u> |

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

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2005**

| | | |
|---|-------------|------------------------------|
| Total Governmental Fund Balances | | \$ 19,457,004 |
| <i>Amounts reported for governmental activities in the statement of net assets are different because:</i> | | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds | | 90,546,942 |
| Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds: | | |
| Delinquent Property Taxes | 8,345,239 | |
| Grants | 5,178 | |
| Total | | 8,350,417 |
| One internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets. | | 561,985 |
| Certain long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds: | | |
| Accrued Vacation | (249,110) | |
| Compensated Absences | (3,160,571) | |
| Total | | (3,409,681) |
| <i>Net Assets of Governmental Activities</i> | | <u><u>\$ 115,506,667</u></u> |

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

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

| | General | Capital Projects Fund | Other Governmental Funds | Total Governmental Funds |
|---|---------------------|-----------------------------|--------------------------------|--------------------------------|
| Revenues | | | | |
| Taxes | \$ 17,355,962 | \$ - | \$ - | \$ 17,355,962 |
| Intergovernmental | 11,739,370 | 16,905 | 589,671 | 12,345,946 |
| Interest | 703,911 | 102,564 | - | 806,475 |
| Tuition and Fees | 67,913 | - | 16,350 | 84,263 |
| Extracurricular Activities | - | - | 252,128 | 252,128 |
| Charges for Services | - | - | 463,931 | 463,931 |
| Miscellaneous | 511,018 | 137,933 | 157,911 | 806,862 |
| Total Revenues | <u>30,378,174</u> | <u>257,402</u> | <u>1,479,991</u> | <u>32,115,567</u> |
| Expenditures | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 11,074,589 | - | 146,819 | 11,221,408 |
| Special | 1,179,131 | - | - | 1,179,131 |
| Vocational | 110,527 | - | - | 110,527 |
| Other | 32,197 | - | 7,033 | 39,230 |
| Support Services: | | | | |
| Pupil | 637,427 | - | 289,420 | 926,847 |
| Instructional Staff | 3,054,778 | 3,560 | 16,404 | 3,074,742 |
| Board of Education | 157,757 | - | - | 157,757 |
| Administration | 2,458,805 | - | - | 2,458,805 |
| Fiscal | 1,006,609 | - | - | 1,006,609 |
| Business | 39,741 | - | - | 39,741 |
| Operation and Maintenance of Plant | 3,854,268 | 81,140 | 50 | 3,935,458 |
| Pupil Transportation | 1,647,709 | - | - | 1,647,709 |
| Central | 187,096 | - | - | 187,096 |
| Operation of Non-instructional Services: | | | | |
| Food Service | - | - | 893,120 | 893,120 |
| Other | - | - | 130,107 | 130,107 |
| Extracurricular Activities | 959,467 | - | 335,049 | 1,294,516 |
| Capital Outlay | 39,319 | 1,267,312 | - | 1,306,631 |
| Total Expenditures | <u>26,439,420</u> | <u>1,352,012</u> | <u>1,818,002</u> | <u>29,609,434</u> |
| Excess of Revenues Over (Under) Expenditures | <u>3,938,754</u> | <u>(1,094,610)</u> | <u>(338,011)</u> | <u>2,506,133</u> |
| Other Financing Sources (Uses) | | | | |
| Transfers In | - | 1,395,061 | 175,000 | 1,570,061 |
| Transfers Out | (1,570,061) | - | - | (1,570,061) |
| Total Other Financing Sources (Uses) | <u>(1,570,061)</u> | <u>1,395,061</u> | <u>175,000</u> | <u>-</u> |
| Net Change in Fund Balances | 2,368,693 | 300,451 | (163,011) | 2,506,133 |
| Fund Balances Beginning of Year | <u>7,091,389</u> | <u>8,609,909</u> | <u>1,249,573</u> | <u>16,950,871</u> |
| Fund Balances End of Year | <u>\$ 9,460,082</u> | <u>\$ 8,910,360</u> | <u>\$ 1,086,562</u> | <u>\$ 19,457,004</u> |

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

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Net Change in Fund Balances - Total Governmental Funds \$ 2,506,133

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

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

| | | |
|---------------------------|--------------------|-------------|
| Capital Asset Additions | 793,276 | |
| Current Year Depreciation | <u>(2,922,314)</u> | |
| Total | | (2,129,038) |

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

| | | |
|---------------------------|--------------------|-------------|
| Grants | (36,611) | |
| Delinquent Property Taxes | <u>(2,204,712)</u> | |
| Total | | (2,241,323) |

The internal service fund used by management to charge the costs of insurance to individual funds are not reported in the district-wide statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund are allocated among the governmental activities

137,009

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.

| | | |
|----------------------|---------------|-----------------|
| Accrued Vacation | 56,502 | |
| Compensated Absences | (98,066) | |
| Capital Lease | <u>10,233</u> | |
| Total | | <u>(31,331)</u> |

Changes in Net Assets of Governmental Activities \$ (1,758,550)

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

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET (NON-GAAP BASIS) AND ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

| Revenue | Budgeted Amounts | | | Variance with Final Budget Positive (Negative) |
|---|----------------------|---------------------|----------------------|---|
| | Original | Final | Actual | |
| Taxes | \$ 17,500,395 | \$ 17,192,771 | \$ 17,542,391 | \$ 349,620 |
| Intergovernmental | 11,056,576 | 11,724,940 | 11,739,370 | 14,430 |
| Interest | 350,000 | 247,250 | 366,972 | 119,722 |
| Tuition and Fees | 68,700 | 55,000 | 60,872 | 5,872 |
| Rentals | 12,000 | - | - | - |
| Miscellaneous | 28,100 | 16,100 | 21,962 | 5,862 |
| Total Revenues | <u>29,015,771</u> | <u>29,236,061</u> | <u>29,731,567</u> | <u>495,506</u> |
| Expenditures | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 11,335,450 | 11,768,679 | 11,386,089 | 382,590 |
| Special | 1,257,421 | 1,305,478 | 1,185,599 | 119,879 |
| Vocational | 115,412 | 115,412 | 111,517 | 3,895 |
| Other | 45,000 | 45,000 | 32,197 | 12,803 |
| Support Services: | | | | |
| Pupil | 806,130 | 806,130 | 748,764 | 57,366 |
| Instructional Staff | 3,006,212 | 3,121,106 | 2,979,641 | 141,465 |
| Board of Education | 162,990 | 162,990 | 156,169 | 6,821 |
| Administration | 2,338,195 | 2,427,558 | 2,338,257 | 89,301 |
| Fiscal | 1,064,811 | 1,105,507 | 1,037,653 | 67,854 |
| Business | 44,555 | 44,555 | 43,930 | 625 |
| Operation and Maintenance of Plant | 3,857,976 | 4,005,425 | 3,839,689 | 165,736 |
| Pupil Transportation | 1,757,651 | 1,824,826 | 1,755,129 | 69,697 |
| Central | 206,919 | 206,919 | 196,113 | 10,806 |
| Operation of Non-instructional Services | | | | - |
| Extracurricular Activities | 1,006,521 | 1,044,989 | 999,569 | 45,420 |
| Capital Outlay | 51,213 | 51,213 | 41,318 | 9,895 |
| Total Expenditures | <u>27,056,456</u> | <u>28,035,787</u> | <u>26,851,634</u> | <u>1,184,153</u> |
| Excess of Revenues Over (Under) Expenditures | <u>1,959,315</u> | <u>1,200,274</u> | <u>2,879,933</u> | <u>1,679,659</u> |
| Other Financing Sources (Uses) | | | | |
| Transfers Out | (275,000) | (1,570,061) | (1,570,061) | - |
| Refund of Prior Years Expenditures | 450,000 | 450,000 | 484,036 | 34,036 |
| Sale of Assets | 2,000 | - | - | - |
| Total Other Financing Sources (Uses) | <u>177,000</u> | <u>(1,120,061)</u> | <u>(1,086,025)</u> | <u>34,036</u> |
| Net Change in Fund Balance | 2,136,315 | 80,213 | 1,793,908 | 1,713,695 |
| FUND BALANCES - BEGINNING OF YEAR | 8,659,153 | 8,659,153 | 8,659,153 | - |
| PRIOR YEAR ENCUMBRANCES - APPROPRIATED | 748,740 | 748,740 | 748,740 | - |
| FUND BALANCES - END OF YEAR | <u>\$ 11,544,208</u> | <u>\$ 9,488,106</u> | <u>\$ 11,201,801</u> | <u>\$ 1,713,695</u> |

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

PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
STATEMENT OF FUND NET ASSETS
INTERNAL SERVICE FUND
JUNE 30, 2005

| | Governmental Activities - Internal Service Fund <hr style="width: 100%;"/> |
|------------------------|--|
| Assets | |
| Cash | \$ 165,000 |
| Cash with Fiscal Agent | <u>774,531</u> |
| Total Assets | <u>939,531</u> |
| Liabilities | |
| Claims Payable | <u>377,546</u> |
| Total Liabilities | <u>377,546</u> |
| Net Assets | |
| Unrestricted | <u>561,985</u> |
| Total Net Assets | <u><u>\$ 561,985</u></u> |

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

PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
INTERNAL SERVICE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

| | Governmental Activities - Internal Service Fund <hr style="border: 0.5px solid black;"/> |
|----------------------------------|--|
| Operating Revenues | |
| Charges for Services | \$ 1,751,890 |
| Operating Expenses | |
| Claims | <hr style="border: 0.5px solid black;"/> 1,614,881 |
| Change in Net Assets | 137,009 |
| Net Assets Beginning Year | <hr style="border: 0.5px solid black;"/> 424,976 |
| Net Assets End of Year | <hr style="border: 1.5px solid black;"/> \$ 561,985 |

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

PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

| | Governmental Activities Internal Service Fund <hr style="width: 100%;"/> |
|--|--|
| Increase (Decrease) in Cash and Cash Equivalents | |
| Cash Flows from Operating Activities | |
| Cash Received from Interfund Services | \$ 1,751,890 |
| Cash Payments for Claims | <u>(1,571,993)</u> |
| Net Cash Provided by Operating Activities | <u>179,897</u> |
| Net Increase in Cash and Cash Equivalents | 179,897 |
| Cash and Cash Equivalents - Beginning of Year | <u>759,634</u> |
| Cash and Cash Equivalents - End of Year | <u><u>\$ 939,531</u></u> |
| | |
| Reconciliation of Operating Income to Net Cash Provided by Operating Activities | |
| Operating Income | \$ 137,009 |
| Adjustments | |
| Increase in Claims Payable | <u>42,888</u> |
| Net Cash Provided by Operating Activities | <u><u>\$ 179,897</u></u> |

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

PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
JUNE 30, 2005

| | Agency | Private Purpose Trust | Total |
|--|-----------|-----------------------------|-----------|
| Assets | | | |
| Equity in Pooled Cash and Cash Equivalents | \$ 74,373 | \$ 8,351 | \$ 82,724 |
| Accounts Receivable | 85 | - | 85 |
| Total Assets | \$ 74,458 | 8,351 | 82,809 |
| Liabilities | | | |
| Due to Students | \$ 74,458 | - | 74,458 |
| Total Liabilities | \$ 74,458 | - | 74,458 |
| Net Assets | | | |
| Held in trust for scholarships | | 8,351 | 8,351 |
| Total Net Assets | | \$ 8,351 | \$ 8,351 |

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

PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

| | Private Purpose Trust |
|-------------------------------------|-----------------------------|
| Additions | |
| Investment Earnings | \$ 20 |
| Other | 910 |
| Changes in Net Assets | 930 |
| Net Assets Beginning of Year | 7,421 |
| Net Assets End of Year | \$ 8,351 |

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

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Note 1 – Description of the District and Reporting Entity

The Perry Local School District (the "District") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The District operates under a locally elected five-member Board and provides education services as mandated by State or Federal agencies. The Board controls the District's three instructional facilities, staffed by 111 classified personnel, 132 certified full-time teaching personnel and 12 administrative employees to provide services to students and other community members.

Reporting Entity

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the general purpose financial statements are not misleading. The primary government of the District consists of only the funds and account groups of those organizational entities for which its elected governing body is financially accountable. For the District, this includes education, pupil transportation, food service and maintenance of the District facilities.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. The District has no component units.

The District participates in five jointly governed organizations, a claim servicing pool and an insurance purchasing pool. These organizations are the East Shore Regional Transportation System, the East Shore Center, the Ohio Schools Council, the Ohio School Boards Association Workers' Compensation Group Rating Program, the Auburn Career Center, the Lake-Geauga Computer Association and Lake County Council of Governments Health Care Benefits Program. These organizations are discussed in Notes 16, 17 and 18 to the basic financial statements.

Note 2 – Summary of Significant Accounting Policies

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

A. Basis of Presentation

The 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.

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Note 2 – Summary of Significant Accounting Policies (Continued)

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

The statement of net assets presents the financial condition of the governmental activities of the 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 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 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 District.

Fund Financial Statements – During the year, the District segregates transactions related to certain 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 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. Non-major funds are aggregated and presented in a single column. The internal service fund is presented on the face of the Statement of Fund Net Assets - Internal Service. The fiduciary funds are reported by type.

B. Fund Accounting

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

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

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

Capital Projects Fund – The capital projects fund is used to account for revenues and expenditures related to the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Note 2 – Summary of Significant Accounting Policies (Continued)

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

Proprietary Funds – Proprietary funds focus on the determination of operating income, changes in net assets, financial position and cash flows and are either classified as enterprise or internal service. The District only has an Internal Service Fund. The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the District on a cost reimbursement basis. The District's only internal service fund accounts for the self-insurance.

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

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 District are included on the statement of net assets. The statement of activities presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets.

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

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

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2005**

Note 2 – Summary of Significant Accounting Policies (Continued)

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 the statement for the fiduciary funds are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Differences in the accrual and 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 District, available means expected to be received within sixty days of fiscal year end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 6). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange 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 year-end: property taxes available as an advance, interest, tuition, grants, fees and rentals.

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

Property taxes for which there is an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Note 2 – Summary of Significant Accounting Policies (Continued)

E. Cash and Investments

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

During fiscal year 2005, investments were limited to STAROhio and Federal Securities. Except for non-participating investment contracts, investments are reported at fair value, which is based on quoted market prices. Non-participating investment contracts 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, 2005.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during the fiscal year 2005 amounted to \$ 806,475.

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

F. Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws or other governments or imposed by enabling legislation. Restricted assets in the General Fund represent amounts required by State statute to be set aside for budget stabilization. See Note 21 for additional information regarding set-asides.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2005 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

H. Inventory

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

Inventories consist of donated foods, purchased foods and school supplies held for resale and material and supplies for consumption.

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Note 2 – Summary of Significant Accounting Policies (Continued)

I. Capital Assets

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

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$ 1,500. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets except land 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>Governmental Activities Estimated Lives</u> |
|---------------------------|--|
| Building and improvements | 10 - 50 years |
| Furniture and equipment | 5 - 10 years |
| Vehicles | 10 years |

J. 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 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 vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at year end, taking into consideration any limits specified in the District's termination policy. The District records a liability for accumulated unused sick leave for classified, certified and administrative employees after fifteen years of service with the District.

K. Accrued Liabilities and Long-Term Obligations

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

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

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Note 2 – Summary of Significant Accounting Policies (Continued)

L. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

M. Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for 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 budget stabilization.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles, but not available for appropriations under State statute. The reserve for budget stabilization represents money required to be set-aside by statute to protect against cyclical changes in revenues and expenditures.

N. Operating Revenues and Expenses

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

O. 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 and after non-operating revenues/expenses in internal service funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

P. 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.

Q. 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.

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2005**

Note 2 – Summary of Significant Accounting Policies (Continued)

R. Budgetary Data

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount that the Board of Education may appropriate. The 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 major object level within the General Fund and the fund level for all other funds.

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

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, including all supplemental appropriations.

Note 3 – Compliance and Accountability

Fund Deficits

The following funds had a deficit fund balance or deficit net assets as of June 30, 2005:

| | <u>Deficit Fund Balance</u> |
|-----------------------|---------------------------------|
| Special Revenue: | |
| Sports Oriented | \$ 3,484 |
| Ohio Reads Program | \$ 5,889 |
| Student Intervention | \$ 14,898 |
| Safe Schools Helpline | \$ 279 |
| Idea-B | \$ 3,934 |
| Title I | \$ 9,102 |
| Title IV | \$ 4,068 |
| Title II | \$ 6,108 |
| Internal Service: | |
| Field Trips | \$ 489 |

The deficit in the special revenue and internal service funds – field trips resulted from the recognition of accrued liabilities. The General Fund is responsible to cover deficit fund balances by means of a transfer. However, this is done when cash is needed rather than when accruals occur.

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Note 4 – Budgetary Basis of Accounting

While the District is reporting financial position, results of operations and changes in fund balance/retained earnings 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 Balances – Budget (Non-GAAP Basis) and Actual presented for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are as follows:

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. Investments are reported at fair value (GAAP basis) rather than cost (budget basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund.

| | |
|---|---------------------------------------|
| | <u>Net Change in Fund Balance</u> |
| GAAP basis | \$ 2,368,693 |
| Net adjustment for revenue accruals | (162,571) |
| Net adjustment for expenditure accruals | 336,526 |
| Adjustment for encumbrances | <u>(748,740)</u> |
| Budget basis | <u>\$ 1,793,908</u> |

Note 5 – Deposits and Investments

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

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

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

Interim deposits are deposits of interim monies. Interim 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.

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

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Note 5 – Deposits and Investments (Continued)

Interim monies may be deposited or invested in the following securities:

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

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

At June 30, 2005, the District's self-insurance internal service fund had a balance of \$ 774,531 with Lake County Council of Governments Health Care Benefits Program, a claims servicing pool. The District's share was determined based on the percentage of the District's participants to total pool participants (See Note 18). The money is held by the claims servicer in a pooled account which is representative of numerous entities and therefore cannot be classified by risk under GASB No. 3. The classification of cash and cash equivalents and investments for the Lake County Council of Governments Health Care Benefits Program Self Insurance Plan as a whole may be obtained from the Lake County Council Health Care Benefits Program. To obtain financial information, write to the Lake County Council Health Care Benefits Program, 30 South Park Place, Suite 320, Painesville, OH 44077.

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Note 5 - Deposits and Investments (Continued)

Cash on Hand – At fiscal year end, the District had \$ 3,100 in undeposited cash on hand, which is included in the balance sheet of the District as part of equity in pooled cash and cash equivalents.

DEPOSITS

Custodial Credit Risk – Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in possession of an outside party. At the fiscal year end, \$100,000 of the School District's \$256,829 bank balance was uninsured and uncollateralized. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

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

Investments

Investments are reported at fair value. As of June 30, 2005, the School District had the following investments:

| | Fair Value | Average Maturity |
|---|---------------|---------------------|
| Federal Home Loan Mortgage Corporation | \$ 982,600 | 6/30/06 |
| Federal National Mortgage Association notes | 4,918,420 | 2/10/06 – 1/30/07 |
| Federal Home Loan Bank notes | 3,977,180 | 2/15/06 – 4/6/07 |
| Corporate cash | 1,474,027 | 1 Day |
| STAROhio | 11,226,993 | 33 Days |
| | \$ 22,579,220 | |

Interest Rate Risk – As a means of limiting its exposure to fair value losses caused by rising interest rates, the School District's investment policy requires that operating funds be invested primarily in investments so that the securities mature to meet cash requirements for ongoing operations and long-term debt payments. The stated intent of the policy is to avoid the need to sell securities prior to maturity. To date, no investments have been purchased with a life greater than four years.

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Note 5 - Deposits and Investments (Continued)

Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Federal Home Loan Mortgage Corporation Bonds, Federal National Mortgage Association Notes and Federal Home Loan Bank Notes are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty’s trust department or agent but not in the School District’s name. The School District has no investment policy dealing with investment custodial credit risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

Credit Risk – The Federal Home Loan Mortgage Corporation Bonds and the Federal Home Loan Bank Notes both carry a rating of AAA by Standard & Poor’s. The Federal National Mortgage Association Notes carries ratings of B+ by Standard & Poor’s. STAROhio also carries a rating of AAAM by Standard & Poor’s. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service.

Concentration of Credit Risk – The School District places no limit on the amount it may invest in any one issuer. The following is the School District’s allocation as of June 30, 2005:

| | <u>Percentage of Investments</u> |
|---|--------------------------------------|
| Federal Home Loan Mortgage Corporation | 4.35% |
| Federal National Mortgage Association notes | 21.78% |
| Federal Home Loan Bank notes | 17.61% |
| Corporate cash | 6.53% |
| STAROhio | 49.73% |

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Note 6 – Property Taxes

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, 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 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2003, were levied after April 1, 2004 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 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2005, on the value as of December 31, 2004. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Lake County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2005 are available to finance fiscal year 2005 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, 2005 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2005 was \$ 500,346 in the General Fund. The amount available as an advance at June 30, 2004 was \$ 294,595 in the General Fund.

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Note 6 – Property Taxes (Continued)

The assessed values upon which fiscal year 2005 taxes were collected are:

| | <u>2004 Second Half Collections</u> | | <u>2005 First Half Collections</u> | |
|--|-------------------------------------|----------------|------------------------------------|----------------|
| | <u>Amount</u> | <u>Percent</u> | <u>Amount</u> | <u>Percent</u> |
| Agriculture/residential and Other real estate | \$ 250,453,480 | 57% | \$ 255,215,980 | 55% |
| Public utility personal | 177,833,610 | 40 | 195,577,990 | 42 |
| Tangible personal property | <u>13,710,656</u> | <u>3</u> | <u>9,664,511</u> | <u>3</u> |
| | <u>\$ 441,997,746</u> | <u>100%</u> | <u>\$ 460,458,481</u> | <u>100%</u> |
| Tax rate per \$ 1,000 of Assessed valuation | \$ 45.70 | | \$ 44.20 | |

In October 2003, an agreement was reached to settle a property tax dispute based on the value of the Perry Nuclear Plant. Based on this agreement, repayment of delinquent property taxes to the District would amount to approximately \$ 9.2 million and would be paid in ten installments over five years.

The remaining receivable was \$ 5,693,885 at June 30, 2005.

Note 7 – Receivables

Receivables at June 30, 2005 consisted of accounts 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 State programs and the current fiscal year guarantee of Federal funds. All receivables are expected to be collected within one year. The following is a summary of the intergovernmental receivables.

| | <u>Amount</u> |
|-------------------------------------|------------------|
| Governmental Activities: | |
| Instruction | \$ 9,060 |
| Support services | <u>19,540</u> |
| Total intergovernmental receivables | <u>\$ 28,600</u> |

Note 8 – LAKE COUNTY SCHOOL FINANCING DISTRICT

The Board of Education of the Lake County Educational Service Center has, by a resolution adopted February 6, 1990, pursuant to section 3311.50 of the Revised Code, created a county school financing district known as the Lake County School Financing District (the "Financing District") for the purpose of levying taxes for the provision of the following specified educational programs and services by the school districts that are part of the District: the provision of necessary personnel, materials, supplies and transportation for instruction in language arts, social studies, mathematics, fine and practical arts, health and physical education, science and business education.

The Board of Education of the Lake County Educational Service Center acts as the taxing authority of the Financing District pursuant to Section 3311.50 of the Revised Code. The Financing District receives settlements of taxes levied and distributes within ten days to each of the Member Districts (including Perry Local School District) each of such Member District's proportionate share of that tax settlement. Each Member District's proportionate share is a fraction, the numerator being Member District's total pupil population and the denominator being the aggregate pupil population of all Member Districts as of that date. Taxes collected by the Financing District available to the District at June 30 are recorded as receivables and revenue for the current fiscal year. Uncollected taxes outstanding received by the Financing District within sixty days after the fiscal year are recorded as a receivable and deferred revenue for they are measurable but not available to the District. The receivable is included in the account "Receivables-Taxes".

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Note 9 – Capital Assets

Capital asset activity for the fiscal year ended June 30, 2005 was as follows:

| | Balance June 30, 2004 | Additions | Deductions | Balance June 30, 2005 |
|--|-----------------------------|-----------------------|-------------|-----------------------------|
| Governmental Activities | | | | |
| Capital assets not being depreciated | | | | |
| Land | \$ 12,490,326 | \$ - | \$ - | \$ 12,490,326 |
| Capital assets, being depreciated | | | | |
| Building and improvements | 96,879,438 | 282,105 | - | 97,161,543 |
| Furniture and equipment | 12,927,298 | 461,188 | - | 13,388,486 |
| Vehicles | <u>2,261,725</u> | <u>49,983</u> | - | <u>2,311,708</u> |
| Total | 112,068,461 | 793,276 | - | 112,861,737 |
| Less accumulated depreciation | | | | |
| Buildings and improvements | (20,285,962) | (2,071,010) | - | (22,356,972) |
| Furniture and Equipment | (9,653,241) | (719,982) | - | (10,373,223) |
| Vehicles | <u>(1,943,604)</u> | <u>(131,322)</u> | - | <u>(2,074,926)</u> |
| Total | <u>(31,882,807)</u> | <u>(2,922,314)</u> | - | <u>(34,805,121)</u> |
| Total capital assets being depreciated, net | <u>80,185,654</u> | <u>(2,129,038)</u> | - | <u>78,056,616</u> |
| Government activities capital assets, net | <u>\$ 92,675,980</u> | <u>\$ (2,129,038)</u> | <u>\$ -</u> | <u>\$ 90,546,942</u> |

Depreciation expense was charged to governmental functions as follows:

| | |
|---|---------------------|
| Instruction: | |
| Regular | \$ 2,273,721 |
| Special | 1,017 |
| Vocational | 794 |
| Support Services: | |
| Pupil | 1,330 |
| Instructional staff | 154,402 |
| Administration | 20,618 |
| Fiscal | 3,042 |
| Business | 943 |
| Operation and maintenance of plant | 272,788 |
| Pupil transportation | 128,055 |
| Central | 737 |
| Operation of non-instructional services | |
| Food services | 27,564 |
| Extracurricular activities | 34,960 |
| Other | <u>2,343</u> |
| Total depreciation expense | <u>\$ 2,922,314</u> |

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Note 10 - Capitalized Leases - Equipment

The District has entered into several capitalized leases for the acquisition of copiers. The terms of each agreement provide options to purchase the equipment. Each 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 at the conclusion of the lease term. Lease payments will be made from the General Fund.

| | Balance at July 1, 2004 | Additions | Deletions | Balance at June 30, 2005 |
|-------------------|-------------------------------|-----------|-----------|--------------------------------|
| Lease obligations | \$ 10,233 | \$ -- | \$ 10,233 | \$ -- |

Note 11 – Risk Management

A. Property and Liability

The District is a member of the Ohio Schools Council Insurance Company property and fleet insurance purchasing group. On behalf of member school districts, the Ohio Schools Council prepares specifications and solicits quotations from insurance companies. The District fleet was insured with Republic Franklin Insurance with a \$ 1,000,000 liability limit per loss. Indiana Insurance carried the property insurance (which includes inland, marine, earthquake and crime), and also covered the boilers and machinery.

Since school districts are not protected by the doctrine of sovereign immunity, the District contracted with Ohio School Plan (through the Ohio School Boards Association/Nationwide Ohio Educational Liability Insurance program) for coverage with limits of liability of \$ 2,000,000 per claim and \$ 5,000,000 aggregate to insure the District, the board, all board members, all administrators, certified and classified employees and volunteers.

Settled claims have not exceeded this commercial coverage in any of the last three years. There has not been a significant reduction in coverage from the prior year.

B. Workers' Compensation

The District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 17). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP.

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Note 11 – Risk Management (Continued)

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

C. Employee Medical Benefits

The District has elected to provide medical coverage through a self-insurance program. The District uses the General Fund on the Budgetary Basis and the Self Insurance Internal Service Fund on a GAAP Basis to account for and finance its uninsured risks of loss in this program. Prior to fiscal year 2003, the District utilized the General Fund to account for the self-insurance program. The claims are serviced through the Lake County Council of Governments Health Care Benefit Program. The Lake County Council of Governments Health Care Benefits Program has stop loss coverage of 110 percent of expected claims. The claims liability as reported in the Self Insurance internal service fund was provided by the third party administrator and is based on the requirements of Government Accounting Standards Board, Statement No. 30, which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses.

The June 30, 2005 claim's liability was determined based on the percentage of the District’s participants to total pool participants. For the year ended June 30, 2005, the pool’s cash reserves and claims liability were \$ 6,317,545 and \$ 3,079,491, respectively. The District’s allocated pool percentage for the year ended June 30, 2005 was 12.26 %, which represents \$ 774,531 and \$ 377,546 of pool cash reserves and claims liability, respectively.

| | Balance at Beginning of Year | Current Year Claims | Current Year Payments | Balance at End of Year |
|------|------------------------------------|---------------------------|-----------------------------|------------------------------|
| 2004 | \$ 251,504 | \$ 1,467,750 | \$ 1,384,597 | \$ 334,657 |
| 2005 | \$ 334,657 | \$ 1,614,882 | \$ 1,571,993 | \$ 377,546 |

Note 12 – Pension Plans

A. School Employees Retirement System

The District contributes to the School Employees Retirement System (SERS), a cost sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, OH 43215-3476 or by calling (614) 222-5853.

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Note 12 – Pension Plans (Continued)

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion to be used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004 and 2003 were \$ 488,012, \$ 400,447, and \$ 340,307, respectively; 100 percent has been contributed for fiscal years 2005, 2004 and 2003.

B. State Teachers Retirement System

The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, OH 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one-time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. The 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 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, 2005, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Note 12 – Pension Plans (Continued)

The District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$ 1,021,811, \$ 1,434,060, and \$ 1,437,265, respectively; 100 percent has been contributed for fiscal years 2005, 2004, and 2003. Contributions to the DC and Combined Plans for fiscal year 2005 were \$ 21,925 made by the District and \$ 20,881 made by the Plan members.

Note 13 – Postemployment Benefits

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

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. 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 funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$ 78,600 for fiscal year 2005.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2005, 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. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, prorated for partial service credit. For fiscal year 2005, the minimum pay was established at \$ 27,400. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the District, the amount contributed to fund health care benefits, including the surcharge, during the 2005 fiscal year equaled \$ 228,581.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2005 were \$ 178,221,113 and the target level was \$335.2 million. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has approximately 58,123 participants currently receiving health care benefits.

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Note 14– Other Employee Benefits - Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers and administrators do not earn vacation time. Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. Upon retirement, an employee is paid for 50 percent of accumulated sick days up to a maximum of 270 accumulated sick days.

Note 15 – Long-Term Obligations

Changes in long-term obligations of the District during fiscal year 2005 were as follows:

| | <u>Outstanding June 30, 2004</u> | <u>Additions</u> | <u>Deductions</u> | <u>Outstanding June 30, 2005</u> | <u>Amounts Due in One Year</u> |
|----------------------|--------------------------------------|---------------------|----------------------|--------------------------------------|--|
| Compensated Absences | \$ 3,368,121 | \$ 1,539,764 | \$(1,498,204) | \$ 3,409,681 | \$ 44,507 |
| Capital Lease | 10,233 | - | (10,233) | - | - |
| Total | <u>\$ 3,378,354</u> | <u>\$ 1,539,764</u> | <u>\$(1,508,437)</u> | <u>\$ 3,409,681</u> | <u>\$ 44,507</u> |

Note 16 – Jointly Governed Organizations

A. East Shore Regional Transportation System

The East Shore Regional Transportation System (ESRTS) is a jointly governed organization that was formed for the purpose of providing a transportation system for the handicapped children in the sixteen member school districts. The governing board consists of the superintendents of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the governing board. ESRTS is not accumulating significant financial resources or experiencing fiscal distress, which would cause additional financial benefit or burden on the District. Financial information can be obtained by writing the fiscal agent, Kirtland Board of Education, 9152 Chillicothe Road, Kirtland, OH 44094.

B. East Shore Center

The East Shore Center is a jointly governed organization that was formed for the purpose of providing special education for the handicapped children in the sixteen member school districts. The governing board consists of the superintendents of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the governing board. East Shore Center is not accumulating significant resources or experiencing fiscal distress, which would cause additional financial benefit or burden on the District. Financial information can be obtained by writing the fiscal agent, Lake County Educational Service Center, 30 South Place, Suite 320, Painesville, Ohio 44077.

C. Ohio Schools Council

The Ohio Schools Council Association (Council) is a jointly governed organization among ninety-one school districts. The jointly governed organization was formed to purchase quality products and services at the lowest possible cost to the member districts. Each district supports the Council by paying an annual participation fee. The Council's Board consists of seven superintendents of the participating districts whose term rotates every year. The degree of control exercised by any school district is limited to its representation on the Board. Financial information can be obtained by contacting the Secretary/Treasurer of the Ohio Schools Council at 6133 Rockside Road, Suite 10, Independence, OH 44131.

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Note 16 – Jointly Governed Organizations (Continued)

The District participates in the Council's electric purchase program, which was implemented during fiscal year 1998. This program allows school districts to purchase electricity at reduced rates, if the school districts will commit to participating for an eight-year period. The participants make monthly payments based on estimated usage. Each June these estimated payments are compared to their actual usage for the year and any necessary adjustments are made.

Energy Acquisition Corp., a non-profit corporation with a self-appointing board, issued \$ 119,140,000 in debt to purchase eight years of electricity from Cleveland Electric Illuminating (CEI) for the participants. The participating school districts are not obligated in any manner for this debt. If a participating school district terminates its agreement, the district is required to repay the savings to CEI and CEI will refund the remaining prepayment related to that participant to Energy Acquisition Corp.

The District also participates in the Council's prepaid natural gas program, which was implemented during fiscal year 1999. This program allows school districts to purchase natural gas at reduced rates, if the school districts will commit to participating for a twelve-year period. The participants make monthly payments based on estimated usage. Each month these estimated payments are compared to their actual usage and any necessary adjustments are made.

The City of Hamilton, a municipal corporation and political subdivision duly organized and existing under the laws of the State of Ohio, issued \$ 89,450,000 in debt to purchase twelve years of natural gas from CMS Energy Corporation for the participants. The participating school districts are not obligated in any manner for this debt. If a participating school district terminates its agreement, the district is entitled to recover that amount, if any, of its contributions to the operating fund, which are not encumbered for its share of program administrative costs.

D. Lake-Geauga Computer Association

The Lake-Geauga Computer Association (LGCA) is a jointly governed organization among two county consortium of Ohio school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. Each of the governments of these schools supports LGCA based on a per pupil charge. LGCA is governed by an Assembly consisting of two representatives from each participating school district. The degree of control exercised by any participating school district is limited to its representation on the Assembly. Continued existence of the LGCA Computer Center is not dependent on the District's continued participation. Financial information can be obtained from LGCA, 8221 Auburn Road, Painesville, OH 44077.

E. Auburn Career Center

The Auburn Career Center is a joint vocational school district, which is a jointly governed organization among eleven school districts. Each participating school district appoints one member to the Auburn Career Center's Board of Education. The students of each participating school district may attend classes offered at the vocational facility. Each participant's control over the operation of the Auburn Career Center is limited to representation on the Board. Continued existence of the Auburn Career Center is not dependent on the District's continued participation. Financial information can be obtained by writing the Auburn Career Center, 8140 Auburn Road, Painesville, OH 44077.

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Note 17 – Insurance Purchasing Pool

The District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), and insurance purchasing pool. The GRP's business and affairs are conducted by a three-member Board of Directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

Note 18 – Claims Servicing Pool

The District participates in the Lake County Council of Governments Health Care Benefits (HCBP) Self Insurance Program, a claims servicing pool comprised of eleven Lake County school districts. Each school district has a representative on the assembly (usually the superintendent or designee). Each member pays an administrative fee to the pool. The plan's business and affairs are conducted by a five-member Board of Directors elected by the HCBP's assembly. The assembly elects officers for one-year terms to serve on the Board of Directors.

Note 19 – Contingencies

A. Grants

The District 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 of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2005.

B. Litigation

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

Note 20 – Interfund Transactions

Transfers are primarily from the General Fund to capital projects and special revenue funds within the District.

Transfers made during the year ended June 30, 2005 were as follows:

| | |
|--------------------------------|----------------------|
| <u>Transfer To</u> | <u>Transfer From</u> |
| <u>Governmental Activities</u> | <u>Governmental</u> |
| Capital Projects Fund | <u>Activities</u> |
| Non-major funds | General |
| Total governmental activities | <u>\$ 1,395,061</u> |
| | 175,000 |
| | <u>\$ 1,570,061</u> |

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Note 21 – Set-Asides

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

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

| | Textbooks Instructional Materials <u>Reserve</u> | Capital Improve- ments <u>Reserve</u> | Budget Stabili- zation <u>Reserve</u> |
|---|---|--|--|
| Set-aside reserve balance as of June 30, 2004 | \$ (5,753,057) | \$ - | \$ 25,237 |
| Current year set-aside requirement | 281,629 | 281,629 | - |
| Qualifying disbursements | <u>(378,782)</u> | <u>(1,270,872)</u> | <u>-</u> |
| Totals | <u><u>\$(5,850,210)</u></u> | <u><u>\$ (989,243)</u></u> | <u><u>\$ 25,237</u></u> |
| Set-aside balance as of June 30, 2005 and carried forward to future fiscal years | <u><u>\$(5,850,210)</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 25,237</u></u> |

Although the District had qualifying disbursements during the fiscal year that reduced the set-aside amount to below zero, only the excess expenditures for the textbook reserve can be carried forward to the next fiscal year.

Note 22 – Change in Accounting Principles

For fiscal year 2005, the School District has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures," GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation" and GASB Technical Bulletin No. 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers."

GASB Statement No. 40 establishes disclosure requirements for investment credit risk, interest rate risk, deposit custodial risk and foreign currency risk.

GASB Statement No. 46 clarifies when net assets should be considered restricted based upon enabling legislation.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple employer pension and other postemployment benefit (OPEB) plans.

The implementation of GASB Statement No. 46 and GASB Technical Bulletin No. 2004-2 did not materially affect the presentation of the financial statements of the School District.

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**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(UNAUDITED)**

The management discussion and analysis of Perry Local School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2004. The intent of this management discussion and analysis is to look at the District's financial performance as a whole. Readers should also review the basic financial statements and notes to those respective statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key Financial Highlights for 2004 are as follows:

In total, net assets increased by \$ 10,831,488.

Revenues for governmental activities totaled \$ 42,163,684 in 2004. Of this total, 97 percent consisted of General revenues while Program revenues accounted for the remaining balance of 3 percent.

Program expenses totaled \$ 31,332,196. Instructional expenses made up 46 percent of this total while support services accounted for 44 percent. Other expenses rounded out the remaining 10 percent.

Using the Annual Financial Report

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

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

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains all the funds used by the District to provide programs and activities, the view of the District as a whole considers all financial transactions and asks the question, "How did we do financially during 2004?" The Statement of Net Assets and Statement of Activities answers this question. These statements include all assets and liabilities using the accrual basis of accounting, similar to the accounting used by most private-sector companies. Accrual accounting takes into account all the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's net assets and changes in those net assets. This change in net assets is important because it tells the reader that, for the District as a whole, the financial position of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the District's performance, demographic and socioeconomic factors and willingness of the community to support the District. On the other hand, financial factors may include the District's financial position, liquidity and solvency, fiscal capacity and risk and exposure.

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(UNAUDITED)**

In the Statement of Net Assets and the Statement of Activities, the District is classified as governmental activities. All of the District's programs and services are reported here including instruction, support services, operation of non-instructional services and extracurricular activities.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major funds begins on page 57. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the General Fund and the Capital Projects Fund.

Governmental Funds

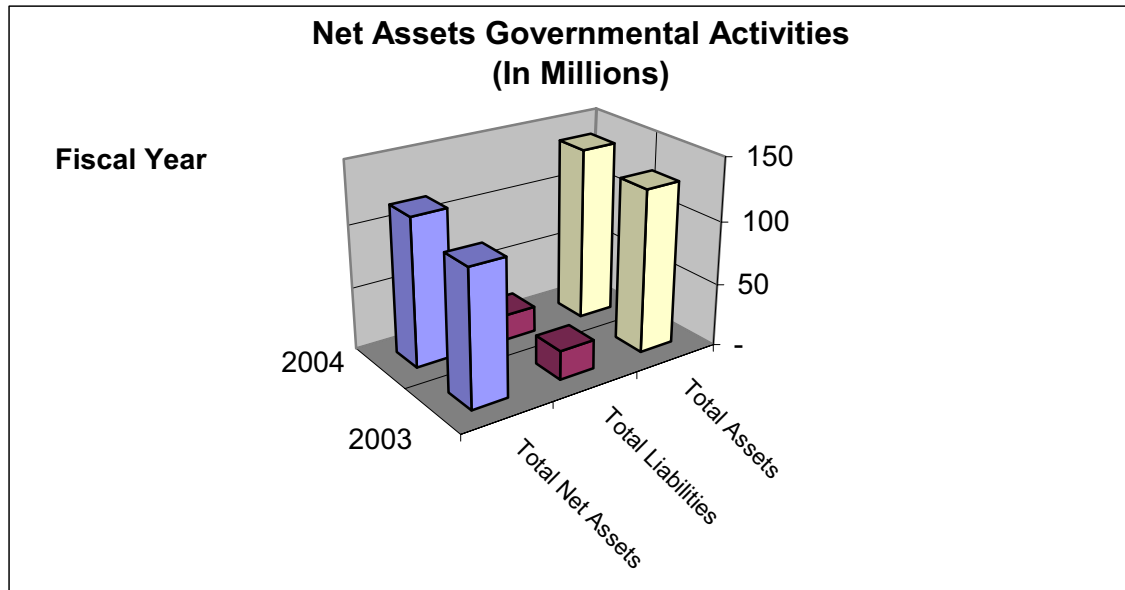
All of the District's activities are reported as governmental funds, which focus on how money flows into and out of these funds and the balances left at year-end that are available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, 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 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.

The District as a Whole

The Statement of Net Assets provides the perspective of the District as a whole. Table 1 provides a summary of the District's net assets for 2004 compared to 2003:

| Table 1 | | | |
|--------------------------------|-----------------------|-----------------------|----------------------|
| Net Assets | | | |
| Governmental Activities | | | |
| Assets | 2004 | 2003 | Variance |
| Current and Other Assets | \$ 45,149,216 | \$ 33,831,098 | \$ 11,318,118 |
| Capital Assets, Net | 92,675,980 | 95,212,336 | (2,536,356) |
| Total Assets | <u>137,825,196</u> | <u>129,043,434</u> | <u>8,781,762</u> |
| Liabilities | | | |
| Current Liabilities | 17,181,625 | 18,907,788 | (1,726,163) |
| Long Term Liabilities | | | |
| Due within one year | 73,033 | 71,480 | 1,553 |
| Due within more than one year | 3,305,321 | 3,630,437 | (325,116) |
| Total Liabilities | <u>20,559,979</u> | <u>22,609,705</u> | <u>(2,049,726)</u> |
| Net Assets | | | |
| Invested in Capital Assets | 92,675,980 | 95,212,336 | (2,536,356) |
| Restricted for: | | | |
| Capital Projects | 8,609,909 | 8,656,228 | (46,319) |
| Set asides | 25,237 | 25,237 | 0 |
| Other purposes | 2,036,169 | 2,134,370 | (98,201) |
| Unrestricted | <u>13,917,922</u> | <u>405,558</u> | <u>13,512,364</u> |
| Total Net Assets | <u>\$ 117,265,217</u> | <u>\$ 106,433,729</u> | <u>\$ 10,831,488</u> |

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(UNAUDITED)**



Total assets increased by \$ 8,781,762. The majority of this increase can be attributed primarily to the increase in taxes receivable.

Total liabilities decreased by \$ 2,049,726. The majority of the decrease can be attributed primarily to the decrease in deferred revenue, accounts payable and long-term liabilities.

The vast majority of revenue supporting all Governmental Activities is General revenues. General revenue totaled \$ 40,956,404 or 97 percent of the total revenue. Two significant portions of the General revenue are local property tax and grants and entitlements not restricted to specific programs, this constitutes 92 percent of total revenue. The remaining amount of revenue was in the form of program revenues that equated to \$ 1,207,280 or only 3 percent of total revenue.

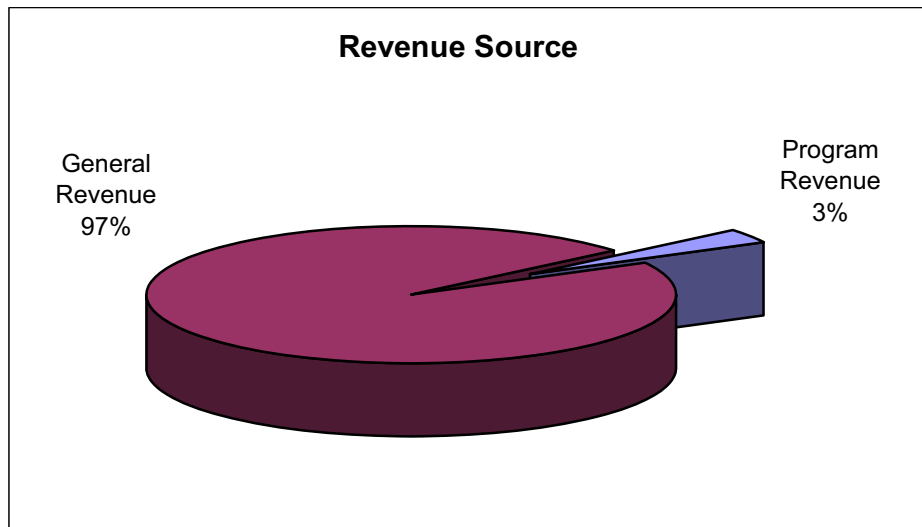
**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(UNAUDITED)**

Table 2 shows the changes in net assets for fiscal year 2004 with comparative totals for fiscal year 2003.

**Table 2
Governmental Activities**

| | <u>2004</u> | <u>2003</u> |
|---|-----------------------------|------------------------------|
| Revenues | | |
| Program Revenues | | |
| Charges for Services and Sales | \$ 805,327 | \$ 350,002 |
| Operating Grants, and Contributions | 401,953 | 543,093 |
| Capital Grants | 0 | 27,562 |
| Total Program Revenues | <u>1,207,280</u> | <u>920,657</u> |
| General Revenue | | |
| Property Taxes | 27,110,348 | 12,445,857 |
| Grants and Entitlements | 11,857,910 | 11,952,691 |
| Interest | 212,009 | 436,900 |
| Gain on Sale of Asset | 0 | 11,779 |
| Miscellaneous | <u>1,776,137</u> | <u>1,125,593</u> |
| Total General Revenues | <u>40,956,404</u> | <u>25,972,820</u> |
| Total Program & General Revenues | <u>\$ 42,163,684</u> | <u>\$ 26,893,477</u> |
| Program Expenses | | |
| Instruction: | | |
| Regular | \$ 13,077,553 | \$ 14,175,032 |
| Special | 1,124,743 | 1,269,402 |
| Vocational | 115,592 | 114,383 |
| Other Instruction | 37,796 | 69,240 |
| Support Services: | | |
| Pupil | 1,081,468 | 950,288 |
| Instructional Staff | 2,837,881 | 2,339,328 |
| Board of Education | 147,150 | 152,511 |
| Administration | 2,242,357 | 2,629,941 |
| Fiscal | 965,298 | 610,539 |
| Business | 33,432 | 46,852 |
| Operation and Maintenance of plant | 4,732,211 | 3,559,262 |
| Pupil Transportation | 1,726,655 | 1,901,163 |
| Central | 98,440 | 36,117 |
| Operation of Non-Instructional Services: | | |
| Food Service | 375,570 | 577,810 |
| Other | 1,434,705 | 363,411 |
| Extracurricular Activities | <u>1,301,345</u> | <u>1,416,734</u> |
| Total Program Expenses | <u>\$ 31,332,196</u> | <u>\$ 30,212,013</u> |
| Increase (decrease) in Net Assets | <u>\$ 10,831,488</u> | <u>\$ (3,318,536)</u> |

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(UNAUDITED)**

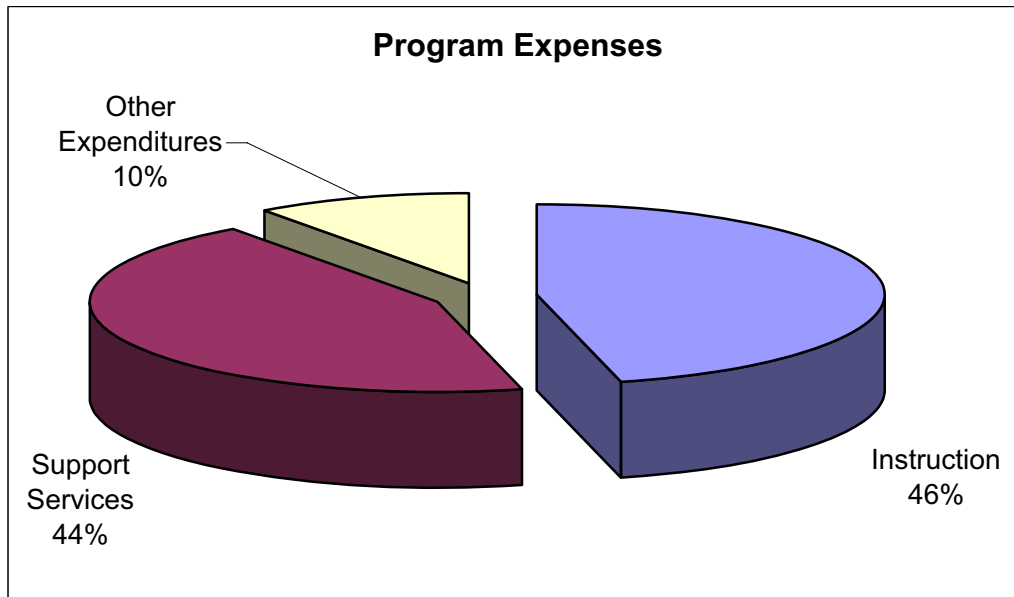


Governmental Activities

The District has carefully planned its financial future by forecasting its revenues and expenditures over the next five years. In October of 2004, the District submitted its yearly five-year forecast to the Ohio Department of Education. Based upon the current five-year financial forecast, the District has adequate operating funds for the next three (2005 – 2007) years. Although the District relies heavily upon local property taxes to support its operations, the District does actively solicit and receive additional grant and entitlement funds to help offset some operating costs.

Approximately 46 percent of the District's program expenses is used to fund instructional expenses. Additional supporting services for pupils, staff and business operations encompass an additional 44 percent. The remaining program expenses of 10 percent are expensed to facilitate other obligations of the District, such as non-instructional services and extracurricular activities.

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(UNAUDITED)**



The Statement of Activities shows the total net cost of program services. Table 3 shows the total cost of services for governmental activities and the net cost of those services. It identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

Table 3

| Governmental Activities | Total Cost of Services 2004 | Net Cost of Services 2004 |
|---------------------------------|--|--|
| Governmental Activities | | |
| Instruction: | | |
| Regular | \$ 13,077,553 | \$ (13,028,547) |
| Special | 1,124,743 | (1,065,797) |
| Vocational | 115,592 | (115,592) |
| Other Instruction | 37,796 | (37,796) |
| Support Services: | | |
| Pupil | 1,081,468 | (951,402) |
| Instructional Staff | 2,837,881 | (2,836,309) |
| Board of Education | 147,150 | (147,150) |
| Administration | 2,242,357 | (2,242,357) |
| Fiscal Services | 965,298 | (965,298) |
| Business | 33,432 | (33,432) |
| Operations & Maintenance | 4,732,211 | (4,727,111) |
| Pupil Transportation | 1,726,655 | (1,726,655) |
| Central | 98,440 | (98,440) |
| Operation of Non-Instructional: | | |
| Extracurricular Activities | 1,301,345 | (967,950) |
| Food Service | 375,570 | 204,150 |
| Other | <u>1,434,705</u> | <u>(1,385,230)</u> |
| Total Program Expenses | <u>\$ 31,332,196</u> | <u>\$ (30,124,916)</u> |

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(UNAUDITED)**

As one can see, the reliance upon local tax revenues for governmental activities is crucial. Over 64 percent of revenues are provided by local property taxes. Grants and entitlements not restricted to specific programs represent 28 percent of revenues. Program revenues provide only 3 percent of all governmental revenues.

The District Funds

Information regarding the District's major funds can be found on page 57. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$ 30,746,639 and expenditures of \$ 28,193,254. The net change in fund balances for the year was as follows: General Fund \$ 3,039,083, Capital Projects Fund (\$ 405,654) and Other Governmental Funds (\$ 80,044).

General Fund Budgeting Highlights

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

During the course of fiscal year 2004, the District amended its General Fund budget several times, none significantly. Fluctuations among the budget base expenditures categories are due to the District's site-based style of budgeting that is designed to tightly control expenses but provide flexibility for managers to redirect funds as conditions develop during the year.

Overall revenue received by the General Fund was more than revised budgetary projections by \$ 2,560. Actual expenditures for the year were \$ 26,140,222 or 0.3 percent under General Fund revised budgetary projections. The decrease was due to lower than anticipated expenditures and management controls to reduce the expenditures. Fund unencumbered cash balance of \$ 8,659,153 was \$ 78,063 higher than revised budgetary projections.

Capital Assets

Capital Assets

All capital assets, except land, are reported net of depreciation. At the end of fiscal 2004, the District had \$ 92,675,980 invested in land, building and improvements, furniture and equipment and vehicles. Table 4 shows fiscal 2004 values compared to 2003. More detailed information is presented in Note 9 of the basic financial statements.

**Table 4
Governmental Activities
(Net of Depreciation)**

| | Capital Assets at June 30, | |
|-----------------------------|----------------------------|----------------------|
| | 2004 | 2003 |
| Land | \$ 12,490,326 | \$ 12,465,307 |
| Building and Improvements | 76,593,476 | 78,657,385 |
| Furniture and Equipment | 3,274,057 | 3,640,619 |
| Vehicles | 318,121 | 449,025 |
| Total Capital Assets | \$ 92,675,980 | \$ 95,212,336 |

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(UNAUDITED)**

During fiscal year 2004, the District purchased \$ 339,887 of capital assets. Approximately 8 percent or \$ 25,019 of the purchases were for land, 89 percent or \$ 303,421 for furniture and equipment with the remaining 3 percent or \$ 11,447 for building improvements.

District Outlook

The District has a strong financial position. The Board of Education and the administration closely monitor the District's revenues and expenditures in accordance with its financial forecast and the District's Continuous Improvement Plan.

The District's financial future is not without challenges, though. The nature of school funding in Ohio severely restricts the growth in the District's operating revenues and requires the District to periodically seek additional funds from the taxpayers to offset rising operating costs.

In addition, with the problem of limited growth in revenue, school districts are faced with the challenge of losing traditional sources of tax revenue through the Ohio General Assembly legislative actions. In 2003, the Ohio General Assembly passed Amended Substitute House Bill 95 that will phase-out, the taxation on business inventories. Once fully implemented, the District's operating revenue will be reduced by approximately \$ 282,000 annually.

In June 1999, the Ohio General Assembly passed Senate Bill 3 to deregulate the electric utility industry in Ohio. Under this legislation, the assessment rate on electric utility property was dramatically reduced but this district will remain revenue neutral due to the Property Tax Replacement Fund. This fund derives its revenue from a special users tax on electricity. Our district receives approximately \$ 10.16 million annually from this fund, however it will sunset in 2017.

Financial aid from the State of Ohio through the State Foundation Program has not been the major source of operating revenue for the Perry Local School District. Because Perry Local School is considered a wealthy district in terms of property values, it receives a relatively small amount of revenue from the State to fund operating expenses.

As a result of the challenges mentioned above, the District's administration continues to carefully plan its expenditures to provide adequate resources to meet student needs over the next several years. The administration and the District's Task Force is currently reviewing all programs and services provided to students with the goal of reducing operating costs.

Contacting the District's Financial Management

This report is designed to provide our citizens, taxpayers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Lewis Galante, Chief Financial Officer at Perry Local School District, 4325 Manchester Avenue, Perry, Ohio 44081.

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
STATEMENT OF NET ASSETS
JUNE 30, 2004**

| | Governmental Activities |
|--|----------------------------|
| Assets | |
| Equity in Pool Cash and Cash Equivalents | \$ 19,330,301 |
| Restricted Cash | 25,237 |
| Cash with Fiscal Agent | 594,634 |
| Accounts Receivable | 2,522 |
| Accrued Interest | 212,116 |
| Intergovernmental Receivable | 38,635 |
| Materials and Supplies Inventory | 139,802 |
| Prepaid Items | 133,190 |
| Taxes Receivable | 24,672,779 |
| Nondepreciable Capital Assets | 12,490,326 |
| Depreciable Capital Assets, Net | 80,185,654 |
| Total Assets | \$ 137,825,196 |
| Liabilities | |
| Accounts Payable | \$ 61,334 |
| Accrued Wages | 2,645,138 |
| Intergovernmental Payable | 293,379 |
| Claims Payable | 334,657 |
| Deferred Revenue | 13,847,117 |
| Long-term Liabilities: | |
| Due Within One Year | 73,033 |
| Due in More than One Year | 3,305,321 |
| Total Liabilities | 20,559,979 |
| Net Assets | |
| Invested in Capital Assets | 92,675,980 |
| Restricted for: | |
| Capital Projects | 8,609,909 |
| Set Asides | 25,237 |
| Other Purposes | 2,036,169 |
| Unrestricted | 13,917,922 |
| Total Net Assets | 117,265,217 |
| Total Liabilities and Net Assets | \$ 137,825,196 |

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

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

| | Expenses | Program Revenues | | Net |
|---|----------------------|--------------------------------------|--|--|
| | | Charges for Services and Sales | Operating Grants and Contributions | (Expense) Revenue and Changes in Net Assets |
| Governmental Activities | | | | |
| Instruction: | | | | |
| Regular | \$ 13,077,553 | \$ - | \$ 49,006 | \$ (13,028,547) |
| Special | 1,124,743 | - | 58,946 | (1,065,797) |
| Vocational | 115,592 | - | - | (115,592) |
| Other Instruction | 37,796 | - | - | (37,796) |
| Support Services: | | | | |
| Pupil | 1,081,468 | - | 130,066 | (951,402) |
| Instruction Staff | 2,837,881 | - | 1,572 | (2,836,309) |
| Board of Education | 147,150 | - | - | (147,150) |
| Administration | 2,242,357 | - | - | (2,242,357) |
| Fiscal | 965,298 | - | - | (965,298) |
| Business | 33,432 | - | - | (33,432) |
| Operation and Maintenance of Plant | 4,732,211 | - | 5,100 | (4,727,111) |
| Pupil Transportation | 1,726,655 | - | - | (1,726,655) |
| Central | 98,440 | - | - | (98,440) |
| Operation of Non-Instructional Services | | | | |
| Food Service | 375,570 | 485,823 | 93,897 | 204,150 |
| Other | 1,434,705 | 49,475 | - | (1,385,230) |
| Extracurricular Activities | 1,301,345 | 270,029 | 63,366 | (967,950) |
| Totals | <u>\$ 31,332,196</u> | <u>\$ 805,327</u> | <u>\$ 401,953</u> | <u>\$ (30,124,916)</u> |

General Revenues

Property taxes levied for:

General purpose \$ 27,110,348

Grants and entitlements not restricted

to specific program 11,857,910

Interest 212,009

Miscellaneous 1,776,137

Total General Revenues 40,956,404

Change in Net Assets 10,831,488

Net Assets Beginning of Year 106,433,729

Net Assets End of Year \$ 117,265,217

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

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004**

| | General | Capital Projects Fund | Other Governmental Funds | Total Governmental Funds |
|--|----------------------|-----------------------------|--------------------------------|--------------------------------|
| Assets | | | | |
| Equity in Pooled Cash and Cash Equivalents | \$ 9,160,759 | \$ 8,617,558 | \$ 1,386,984 | \$ 19,165,301 |
| Restricted Assets: | | | | |
| Equity in Pooled Cash and Cash Equivalents | 25,237 | - | - | 25,237 |
| Taxes Receivable | 24,672,779 | - | - | 24,672,779 |
| Accounts Receivable | 1,122 | - | 1,400 | 2,522 |
| Materials and Supplies Inventory | 98,521 | - | 41,281 | 139,802 |
| Intergovernmental Receivable | - | - | 38,635 | 38,635 |
| Interest Receivable | 212,116 | - | - | 212,116 |
| Prepaid Items | 133,190 | - | - | 133,190 |
| Total Assets | \$ 34,303,724 | \$ 8,617,558 | \$ 1,468,300 | \$ 44,389,582 |
| Liabilities and Fund Balances | | | | |
| Liabilities | | | | |
| Accounts Payable | \$ 51,677 | \$ 7,649 | \$ 2,008 | \$ 61,334 |
| Accrued Wages and Benefits | 2,499,867 | - | 145,271 | 2,645,138 |
| Intergovernmental Payable | 282,607 | - | 10,772 | 293,379 |
| Deferred Revenue | 24,378,184 | - | 60,676 | 24,438,860 |
| Total Liabilities | 27,212,335 | 7,649 | 218,727 | 27,438,711 |
| Fund Balances | | | | |
| Reserved for Encumbrances | 697,063 | 181,537 | 53,193 | 931,793 |
| Reserved for Property Taxes | 294,595 | - | - | 294,595 |
| Budget Stabilization Reserve | 25,237 | - | - | 25,237 |
| Unreserved: | | | | |
| Undesignated, reported in: | | | | |
| General Fund | 6,074,494 | - | - | 6,074,494 |
| Special Revenue Funds | - | - | 1,196,380 | 1,196,380 |
| Capital Projects Funds | - | 8,428,372 | - | 8,428,372 |
| Total Fund Balances | 7,091,389 | 8,609,909 | 1,249,573 | 16,950,871 |
| Total Liabilities and Fund Balances | \$ 34,303,724 | \$ 8,617,558 | \$ 1,468,300 | \$ 44,389,582 |

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

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2004**

| | | |
|---|-------------|------------------------------|
| Total Governmental Fund Balances | | \$ 16,950,871 |
| <i>Amounts reported for governmental activities in the statement of net assets are different because:</i> | | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds | | 92,675,980 |
| Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds: | | |
| Delinquent Property Taxes | 10,549,952 | |
| Grants | 41,791 | |
| Total | 10,591,743 | 10,591,743 |
| One internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets. | | 424,977 |
| Certain long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds: | | |
| Capital Leases | (10,233) | |
| Compensated Absences | (3,368,121) | |
| Total | (3,378,354) | (3,378,354) |
| <i>Net Assets of Governmental Activities</i> | | <u><u>\$ 117,265,217</u></u> |

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

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

| | General | Capital Projects Fund | Other Governmental Funds | Total Governmental Funds |
|---|---------------------|-----------------------------|--------------------------------|--------------------------------|
| Revenues | | | | |
| Taxes | \$ 16,560,396 | \$ - | \$ - | \$ 16,560,396 |
| Intergovernmental | 11,739,668 | | 547,229 | 12,286,897 |
| Interest | 129,302 | 82,707 | - | 212,009 |
| Tuition and Fees | 27,474 | - | 22,001 | 49,475 |
| Extracurricular Activities | - | - | 270,029 | 270,029 |
| Charges for Services | - | - | 485,823 | 485,823 |
| Miscellaneous | 553,367 | 100,539 | 228,104 | 882,010 |
| Total Revenues | <u>29,010,207</u> | <u>183,246</u> | <u>1,553,186</u> | <u>30,746,639</u> |
| Expenditures | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 10,895,282 | - | 91,731 | 10,987,013 |
| Special | 1,099,209 | - | 55,155 | 1,154,364 |
| Vocational | 116,348 | - | - | 116,348 |
| Other | 37,796 | - | 55,551 | 93,347 |
| Support Services: | | | | |
| Pupil | 843,568 | - | 266,842 | 1,110,410 |
| Instructional Staff | 2,668,980 | 601 | 60,503 | 2,730,084 |
| Board of Education | 147,150 | - | - | 147,150 |
| Administration | 2,252,631 | - | 800 | 2,253,431 |
| Fiscal | 959,051 | - | - | 959,051 |
| Business | 32,489 | - | - | 32,489 |
| Operation and Maintenance of Plant | 3,835,714 | - | 2,460 | 3,838,174 |
| Pupil Transportation | 1,605,915 | - | - | 1,605,915 |
| Central | 94,401 | - | - | 94,401 |
| Operation of Non-instructional Services: | | | | |
| Food Service | - | - | 1,020,241 | 1,020,241 |
| Other | 37,770 | - | 336,481 | 374,251 |
| Extracurricular Activities | 829,659 | - | 256,920 | 1,086,579 |
| Capital Outlay | 1,707 | 588,299 | - | 590,006 |
| Total Expenditures | <u>25,457,670</u> | <u>588,900</u> | <u>2,146,684</u> | <u>28,193,254</u> |
| Excess of Revenues Over (Under) Expenditures | <u>3,552,537</u> | <u>(405,654)</u> | <u>(593,498)</u> | <u>2,553,385</u> |
| Other Financing Sources (Uses) | | | | |
| Transfers In | - | - | 513,454 | 513,454 |
| Transfers Out | (513,454) | - | - | (513,454) |
| Total Other Financing Sources (Uses) | <u>(513,454)</u> | <u>-</u> | <u>513,454</u> | <u>-</u> |
| Net Change in Fund Balances | 3,039,083 | (405,654) | (80,044) | 2,553,385 |
| Fund Balances Beginning of Year | <u>4,052,306</u> | <u>9,015,563</u> | <u>1,329,617</u> | <u>14,397,486</u> |
| Fund Balances End of Year | <u>\$ 7,091,389</u> | <u>\$ 8,609,909</u> | <u>\$ 1,249,573</u> | <u>\$ 16,950,871</u> |

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

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Net Change in Fund Balances - Total Governmental Funds \$ 2,553,385

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

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

| | | |
|---------------------------|--------------------|-------------|
| Capital Asset Additions | 333,800 | |
| Current Year Depreciation | <u>(2,870,156)</u> | |
| Total | | (2,536,356) |

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

| | | |
|---------------------------|-------------------|------------|
| Grants | (27,034) | |
| Delinquent Property Taxes | <u>10,549,952</u> | |
| Total | | 10,522,918 |

The internal service fund used by management to charge the costs of insurance to individual funds are not reported in the district-wide statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund are allocated among the governmental activities

(32,022)

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 | 305,187 | |
| Capital Lease | <u>18,376</u> | |
| Total | | <u>323,563</u> |

Changes in Net Assets of Governmental Activities \$ 10,831,488

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

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET (NON-GAAP BASIS) AND ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

| Revenue | Budgeted Amounts | | | Variance with Final Budget |
|---|---------------------|---------------------|---------------------|-------------------------------|
| | Original | Final | Actual | Positive (Negative) |
| Taxes | \$ 17,046,774 | \$ 16,470,728 | \$ 16,470,728 | \$ - |
| Intergovernmental | 11,056,401 | 11,739,668 | 11,739,668 | - |
| Interest | 350,000 | 222,215 | 222,542 | 327 |
| Tuition and Fees | 68,700 | 25,649 | 27,836 | 2,187 |
| Rentals | 12,000 | - | - | - |
| Miscellaneous | 28,100 | 13,743 | 13,789 | 46 |
| Total Revenues | 28,561,975 | 28,472,003 | 28,474,563 | 2,560 |
| Expenditures | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 10,787,855 | 10,908,925 | 10,897,021 | 11,904 |
| Special | 1,145,918 | 1,254,578 | 1,253,921 | 657 |
| Vocational | 116,136 | 118,868 | 118,868 | - |
| Other | 38,761 | 38,761 | 37,796 | 965 |
| Support Services: | | | | |
| Pupil | 746,881 | 775,596 | 774,564 | 1,032 |
| Instructional Staff | 2,696,271 | 2,790,963 | 2,789,972 | 991 |
| Board of Education | 147,683 | 151,957 | 151,257 | 700 |
| Administration | 2,245,340 | 2,386,799 | 2,380,195 | 6,604 |
| Fiscal | 890,492 | 924,631 | 922,776 | 1,855 |
| Business | 43,430 | 49,007 | 46,007 | 3,000 |
| Operation and Maintenance of Plant | 3,638,051 | 4,134,369 | 4,089,972 | 44,397 |
| Pupil Transportation | 1,641,637 | 1,703,032 | 1,703,032 | - |
| Central | 101,637 | 113,647 | 110,449 | 3,198 |
| Operation of Non-instructional Services | 37,244 | 39,017 | 38,817 | 200 |
| Extracurricular Activities | 791,397 | 823,367 | 823,367 | - |
| Capital Outlay | (3,687) | 2,208 | 2,208 | - |
| Total Expenditures | 25,065,046 | 26,215,725 | 26,140,222 | 75,503 |
| Excess of Revenues Over (Under) Expenditures | 3,496,929 | 2,256,278 | 2,334,341 | 78,063 |
| Other Financing Sources (Uses) | | | | |
| Transfers Out | (522,910) | (522,910) | (522,910) | - |
| Refund of Prior Years Expenditures | 402,000 | 541,601 | 541,601 | - |
| Sale of Assets | 2,000 | - | - | - |
| Total Other Financing Sources (Uses) | (118,910) | 18,691 | 18,691 | - |
| Net Change in Fund Balance | 3,378,019 | 2,274,969 | 2,353,032 | 78,063 |
| FUND BALANCES - BEGINNING OF YEAR | 5,155,442 | 5,155,442 | 5,155,442 | - |
| PRIOR YEAR ENCUMBRANCES - APPROPRIATED | 1,150,679 | 1,150,679 | 1,150,679 | - |
| FUND BALANCES - END OF YEAR | \$ 9,684,140 | \$ 8,581,090 | \$ 8,659,153 | \$ 78,063 |

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

PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
STATEMENT OF FUND NET ASSETS
INTERNAL SERVICE FUND
JUNE 30, 2004

| | Governmental Activities - Internal Service Fund <hr style="width: 100%;"/> |
|------------------------|--|
| Assets | |
| Cash | \$ 165,000 |
| Cash with Fiscal Agent | <u>594,634</u> |
| Total Assets | <u>759,634</u> |
| Liabilities | |
| Claims Payable | <u>334,657</u> |
| Total Liabilities | <u>334,657</u> |
| Net Assets | |
| Unrestricted | <u>424,977</u> |
| Total Net Assets | <u><u>\$ 424,977</u></u> |

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

PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
INTERNAL SERVICE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

| | Governmental Activities - Internal Service Fund <hr style="width: 100%;"/> |
|----------------------------------|--|
| Operating Revenues | |
| Charges for Services | \$ 1,435,728 |
| Operating Expenses | |
| Claims | <hr style="width: 100%;"/> 1,467,750 |
| Change in Net Assets | (32,022) |
| Net Assets Beginning Year | <hr style="width: 100%;"/> 456,999 |
| Net Assets End of Year | <hr style="width: 100%;"/> \$ 424,977 <hr style="width: 100%;"/> |

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

PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

| | Governmental Activities Internal Service Fund <hr/> |
|--|---|
| Increase (Decrease) in Cash and Cash Equivalents | |
| Cash Flows from Operating Activities | |
| Cash Received from Interfund Services | \$ 1,435,728 |
| Cash Payments for Claims | <u>(1,384,597)</u> |
| Net Cash Provided by Operating Activities | <u>51,131</u> |
| Net Increase in Cash and Cash Equivalents | 51,131 |
| Cash and Cash Equivalents - Beginning of Year | <u>708,503</u> |
| Cash and Cash Equivalents - End of Year | <u><u>\$ 759,634</u></u> |
| | |
| Reconciliation of Operating Income to Net Cash Provided by Operating Activities | |
| Operating Income | \$ (32,022) |
| Adjustments | |
| Increase in Claims Payable | <u>83,153</u> |
| Net Cash Provided by Operating Activities | <u><u>\$ 51,131</u></u> |

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

PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
JUNE 30, 2004

| | Agency | Private Purpose Trust | Total |
|--|-----------|-----------------------------|-----------|
| Assets | | | |
| Equity in Pooled Cash and Cash Equivalents | \$ 69,889 | \$ 7,421 | \$ 77,310 |
| Total Assets | \$ 69,889 | 7,421 | 77,310 |
| Liabilities | | | |
| Accounts Payable | \$ 1,432 | - | 1,432 |
| Due to Students | 68,457 | - | 68,457 |
| Total Liabilities | \$ 69,889 | - | 69,889 |
| Net Assets | | | |
| Held in trust for scholarships | | 7,421 | 7,421 |
| Total Net Assets | | \$ 7,421 | \$ 7,421 |

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

PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

| | Private Purpose Trust <hr style="border: 0.5px solid black;"/> |
|-------------------------------------|---|
| Additions | |
| Investment Earnings | \$ 139 |
| Other | 1,316 |
| Total Additions | <hr style="border: 0.5px solid black;"/> 1,455 |
| Deductions | |
| Scholarships | <hr style="border: 0.5px solid black;"/> 3,000 |
| Total Deductions | <hr style="border: 0.5px solid black;"/> 3,000 |
| Changes in Net Assets | (1,545) |
| Net Assets Beginning of Year | <hr style="border: 0.5px solid black;"/> 8,966 |
| Net Assets End of Year | <hr style="border: 1px solid black;"/> \$ 7,421 |

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

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Note 1 – Description of the District and Reporting Entity

The Perry Local School District (the "District") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The District operates under a locally elected five-member Board and provides education services as mandated by State or Federal agencies. The Board controls the District's three instructional facilities, staffed by 117 classified personnel, 121 certified full-time teaching personnel and 14 administrative employees to provide services to students and other community members.

Reporting Entity

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the general purpose financial statements are not misleading. The primary government of the District consists of only the funds and account groups of those organizational entities for which its elected governing body is financially accountable. For the District, this includes education, pupil transportation, food service and maintenance of the District facilities.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. The District has no component units.

The District participates in five jointly governed organizations, a claims servicing pool and an insurance purchasing pool. These organizations are the East Shore Regional Transportation System, the East Shore Center, the Ohio Schools Council, the Ohio School Boards Association Workers' Compensation Group Rating Program, the Auburn Career Center, the Lake-Geauga Computer Association and Lake County Council of Governments Health Care Benefits Program. These organizations are discussed in Notes 16, 17 and 18 to the basic financial statements.

Note 2 – Summary of Significant Accounting Policies

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

A. Basis of Presentation

The 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.

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Note 2 – Summary of Significant Accounting Policies (Continued)

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

The statement of net assets presents the financial condition of the governmental activities of the 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 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 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 District.

Fund Financial Statements – During the year, the District segregates transactions related to certain 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 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. Non-major funds are aggregated and presented in a single column. The internal service fund is presented on the face of the Statement of Fund Net Assets - Internal Service. The fiduciary funds are reported by type.

B. Fund Accounting

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

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

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

Capital Projects Fund – The capital projects fund is used to account for revenues and expenditures related to the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Note 2 – Summary of Significant Accounting Policies (Continued)

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

Proprietary Funds – Proprietary funds focus on the determination of operating income, changes in net assets, financial position and cash flows and are either classified as enterprise or internal service. The District only has an Internal Service Fund. The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the District on a cost reimbursement basis. The District's only internal service fund accounts for the self-insurance.

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

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 District are included on the statement of net assets. The statement of activities present increases (i.e., revenues) and decreases (i.e., expenses) in total net assets.

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

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

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2004**

Note 2 – Summary of Significant Accounting Policies (Continued)

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 the statement for the fiduciary funds are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Differences in the accrual and 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 District, available means expected to be received within sixty days of fiscal year end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 6). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange 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 year-end: property taxes available as an advance, interest, tuition, grants, fees and rentals.

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

Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Note 2 – Summary of Significant Accounting Policies (Continued)

E. Cash and Investments

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

During fiscal year 2004, investments were limited to STAROhio and Federal Securities. Except for non-participating investment contracts, investments are reported at fair value, which is based on quoted market prices. Non-participating investment contracts 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, 2004.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during the fiscal year 2004 amounted to \$ 129,302.

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

F. Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws or other governments or imposed by enabling legislation. Restricted assets in the General Fund represent amounts required by State statute to be set aside for budget stabilization. See Note 22 for additional information regarding set-asides.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2004 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

H. Inventory

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

Inventories consist of donated foods, purchased foods and school supplies held for resale and material and supplies for consumption.

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Note 2 – Summary of Significant Accounting Policies (Continued)

I. Capital Assets

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

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$ 1,500. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets except land 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>Governmental Activities Estimated Lives</u> |
|---------------------------|--|
| Building and improvements | 10 - 50 years |
| Furniture and equipment | 5 - 10 years |
| Vehicles | 10 years |

J. 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 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 vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at year end, taking into consideration any limits specified in the District's termination policy. The District records a liability for accumulated unused sick leave for classified, certified and administrative employees after fifteen years of service with the District.

K. Accrued Liabilities and Long-Term Obligations

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

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

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Note 2 – Summary of Significant Accounting Policies (Continued)

L. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

M. Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for 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 budget stabilization.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles, but not available for appropriations under State statute. The reserve for budget stabilization represents money required to be set-aside by statute to protect against cyclical changes in revenues and expenditures.

N. Operating Revenues and Expenses

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

O. 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 and after non-operating revenues/expenses in internal service funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

P. 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.

Q. 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.

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2004**

Note 2 – Summary of Significant Accounting Policies (Continued)

R. Budgetary Data

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount that the Board of Education may appropriate. The 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 major object level within the General Fund and the fund level for all other funds.

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

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, including all supplemental appropriations.

Note 3 – Compliance and Accountability

Fund Deficits

The following funds had a deficit fund balance or deficit net assets as of June 30, 2004:

| | <u>Deficit Fund Balance</u> |
|------------------------|---------------------------------|
| Special Revenue Funds: | |
| Idea B | \$ 31,748 |
| Title I | \$ 3,385 |
| Title II | \$ 17 |

The deficit in the special revenue funds resulted from the recognition of accrued liabilities. The General Fund is responsible to cover deficit fund balances by means of a transfer. However, this is done when cash is needed rather than when accruals occur.

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Note 4 – Budgetary Basis of Accounting

While the District is reporting financial position, results of operations and changes in fund balance/retained earnings 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 Balances – Budget (Non-GAAP Basis) and Actual presented for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are as follows:

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. Investments are reported at fair value (GAAP basis) rather than cost (budget basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund.

| | <u>Net Change in Fund Balance</u> |
|---|---------------------------------------|
| GAAP basis | \$ 3,039,083 |
| Net adjustment for revenue accruals | 5,957 |
| Net adjustment for expenditure accruals | 458,671 |
| Adjustment for encumbrances | <u>(1,150,679)</u> |
| Budget basis | <u>\$ 2,353,032</u> |

Note 5 – Deposits and Investments

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

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

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

Interim deposits are deposits of interim monies. Interim 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.

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

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Note 5 – Deposits and Investments (Continued)

Interim monies may be deposited or invested in the following securities:

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

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

At June 30, 2004, the District's self-insurance internal service fund had a balance of \$ 594,634 with Lake County Council of Governments Health Care Benefits Program, a claims servicing pool. The District's share was determined based on the percentage of the District's participants to total pool participants (See Note 18). The money is held by the claims servicer in a pooled account which is representative of numerous entities and therefore cannot be classified by risk under GASB No. 3. The classification of cash and cash equivalents and investments for the Lake County Council of Governments Health Care Benefits Program Self Insurance Plan as a whole may be obtained from the Lake County Educational Service Center. To obtain financial information, write to the Lake County Educational Service Center, 30 South Park Place, Suite 320, Painesville, OH 44077.

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Note 5 - Deposits and Investments (Continued)

Cash on Hand – At fiscal year end, the District had \$ 1,000 in undeposited cash on hand, which is included in the balance sheet of the District as part of equity in pooled cash and cash equivalents.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements".

Deposits – At fiscal year end, the carrying amount of the District's deposits was \$ 97,796 and bank balance was \$ 485,166. \$ 100,000 of the bank balance was covered by federal depository insurance. \$ 385,166 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging institution in the pledging institution's name, and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

Investments – The District's investments are required to be categorized to give an indication of the level of risk assumed by the District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments, which are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department of agency but not in the District's name. The District investments in STAROhio, the State Treasurer's Investment Pool, which is not classified by degree of credit risk since it is not evidence by securities that exist in physical or book entry form.

| | <u>Category 2</u> | <u>Category 3</u> | <u>Carrying Amount</u> |
|---|---------------------|---------------------|----------------------------|
| Federal Home Loan Mortgage Corporation | \$ 978,800 | \$ -- | \$ 978,800 |
| Federal National Mortgage Association notes | 1,962,500 | 2,966,000 | 4,928,500 |
| Federal Home Loan Bank notes | -- | 3,969,000 | 3,969,000 |
| Corporate cash | -- | 133,883 | 133,883 |
| STAROhio | -- | -- | 9,323,869 |
| | <u>\$ 2,941,300</u> | <u>\$ 7,068,883</u> | <u>\$19,334,052</u> |

The classification of cash and cash equivalents and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the basic financial statements and the classification per GASB Statement No. 3 is as follows:

| | <u>Cash and Cash Equivalents</u> | <u>Investments</u> |
|---|--|---------------------|
| GASB Statement No. 9 | \$ 20,027,482 | \$ - |
| Money held by health care program's Fiscal agent | (594,634) | - |
| Cash on hand | (1,000) | - |
| Investments of cash management pool: | | |
| Federal Home Loan Mortgage Corp. | (978,800) | 978,800 |
| Federal National Mortgage Association notes | (4,928,500) | 4,928,500 |
| Federal home loan bank notes | (3,969,000) | 3,969,000 |
| Corporate cash | (133,883) | 133,883 |
| STAROhio | <u>(9,323,869)</u> | <u>9,323,869</u> |
| GASB Statement No. 3 | <u>\$ 97,796</u> | <u>\$19,334,052</u> |

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Note 6 – Property Taxes

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed value listed as of January 1, 2003, 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 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 2002, were levied after April 1, 2003 and are collected in 2004 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 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2004, on the value as of December 31, 2003. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Lake County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2004 are available to finance fiscal year 2004 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, 2004 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2004 was \$ 294,595 in the General Fund. The amount available as an advance at June 30, 2003 was \$204,927 in the General Fund.

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Note 6 – Property Taxes (Continued)

The assessed values upon which fiscal year 2004 taxes were collected are:

| | <u>2003 Second Half Collections</u> | | <u>2004 First Half Collections</u> | |
|--|-------------------------------------|----------------|------------------------------------|----------------|
| | <u>Amount</u> | <u>Percent</u> | <u>Amount</u> | <u>Percent</u> |
| Agriculture/residential and Other real estate | \$ 266,286,160 | 53% | \$ 250,453,480 | 57% |
| Public utility personal | 210,365,000 | 42 | 177,833,610 | 40 |
| Tangible personal property | <u>24,218,272</u> | <u>5</u> | <u>13,710,656</u> | <u>3</u> |
| | <u>\$ 500,869,432</u> | <u>100%</u> | <u>\$ 441,997,746</u> | <u>100%</u> |
| Tax rate per \$ 1,000 of Assessed valuation | \$ 44.20 | | \$ 45.70 | |

In October 2003, an agreement was reached to settle a property tax dispute based on the value of the Perry Nuclear Plant. Based on this agreement, repayment of delinquent property taxes to the District would amount to approximately \$ 9.2 million and would be paid in ten installments over five years.

The remaining property tax receivable was \$ 7,384,920 at June 30, 2004.

Note 7 – Receivables

Receivables at June 30, 2004 consisted of accounts 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 State programs and the current fiscal year guarantee of Federal funds. All receivables are expected to be collected within one year. The following is a summary of the intergovernmental receivables.

| | <u>Amount</u> |
|-------------------------------------|------------------|
| Governmental Activities: | |
| Instruction | \$ 6,887 |
| Support services | <u>31,748</u> |
| Total intergovernmental receivables | <u>\$ 38,635</u> |

Note 8 – LAKE COUNTY SCHOOL FINANCING DISTRICT

The Board of Education of the Lake County Educational Service Center has, by a resolution adopted February 6, 1990, pursuant to section 3311.50 of the Revised Code, created a county school financing district known as the Lake County School Financing District (the "Financing District") for the purpose of levying taxes for the provision of the following specified educational programs and services by the school districts that are part of the District: the provision of necessary personnel, materials, supplies and transportation for instruction in language arts, social studies, mathematics, fine and practical arts, health and physical education, science and business education.

The Board of Education of the Lake County Educational Service Center acts as the taxing authority of the Financing District pursuant to Section 3311.50 of the Revised Code. The Financing District receives settlements of taxes levied and distributes within ten days to each of the Member Districts (including Perry Local School District) each of such Member District's proportionate share of that tax settlement. Each Member District's proportionate share is a fraction, the numerator being Member District's total pupil population and the denominator being the aggregate pupil population of all Member Districts as of that date. Taxes collected by the Financing District available to the District at June 30 are recorded as receivables and revenue for the current fiscal year. Uncollected taxes outstanding received by the Financing District within sixty days after the fiscal year are recorded as a receivable and deferred revenue for they are measurable but not available to the District. The receivable is included in the account "Receivables-Taxes".

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Note 9 – Capital Assets

Capital asset activity for the fiscal year ended June 30, 2004 was as follows:

| | Balance June 30, 2003 | Additions | Deductions | Balance June 30, 2004 |
|---|-----------------------------|---------------|------------|-----------------------------|
| Governmental Activities | | | | |
| Capital assets not being depreciated | | | | |
| Land | \$ 12,465,307 | \$ 25,019 | \$ - | \$ 12,490,326 |
| Capital assets, being depreciated | | | | |
| Building and improvements | 96,867,991 | 11,447 | - | 96,879,438 |
| Furniture and equipment | 12,629,964 | 303,421 | (6,087) | 12,927,298 |
| Vehicles | 2,261,725 | - | - | 2,261,725 |
| Total | 111,759,680 | 314,868 | (6,087) | 112,068,461 |
| Less accumulated depreciation | | | | |
| Buildings and improvements | (18,210,606) | (2,075,356) | - | (20,285,962) |
| Furniture and Equipment | (8,989,345) | (669,983) | 6,087 | (9,653,241) |
| Vehicles | (1,812,700) | (130,904) | - | (1,943,604) |
| Total | (29,012,651) | (2,876,243) | 6,087 | (31,882,807) |
| Total capital assets being depreciated, net | 82,747,029 | (2,561,375) | - | 80,185,654 |
| Government activities capital assets, net | \$ 95,212,336 | \$(2,536,356) | \$ - | \$92,675,980 |

Depreciation expense was charged to governmental functions as follows:

| | |
|---|---------------------|
| Instruction: | |
| Regular | \$ 2,242,699 |
| Special | 1,006 |
| Vocational | 793 |
| Support Services: | 1,311 |
| Pupil | 142,731 |
| Instructional staff | 20,589 |
| Administration | 2,919 |
| Fiscal | 943 |
| Business | 272,346 |
| Operation and maintenance of plant | 128,055 |
| Pupil transportation | 519 |
| Central | 27,563 |
| Operation of non-instructional services | 5,526 |
| Food services | 2,227 |
| Extracurricular activities | 24,728 |
| Other | 2,288 |
| Total depreciation expense | <u>\$ 2,876,243</u> |

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Note 10 - Capitalized Leases - Equipment

The District has entered into several capitalized leases for the acquisition of copiers. The terms of each agreement provide options to purchase the equipment. Each 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 at the conclusion of the lease term. Lease payments will be made from the General Fund.

The following is a schedule of future minimum lease payments required under the capital leases as of June 30, 2004:

| <u>Year Ending June 30,</u> | | | | <u>Amount</u> |
|---|--|------------------|------------------|---|
| 2005 | | | | <u>\$ 10,494</u> |
| Total payments | | | | 10,494 |
| Less: amount representing interest | | | | (261) |
| Present value of minimum lease payments | | | | <u>\$ 10,233</u> |
| | | | | |
| | <u>Balance at July 1, 2003</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance at June 30, 2004</u> |
| Lease obligations | <u>\$ 28,609</u> | <u>\$ --</u> | <u>\$ 18,376</u> | <u>\$ 10,233</u> |

Note 11 – Risk Management

A. Property and Liability

The District is a member of the Ohio Schools Council Insurance Company property and fleet insurance purchasing group. On behalf of member school districts, the Ohio Schools Council prepares specifications and solicits quotations from insurance companies. The District fleet was insured with Republic Franklin Insurance with a \$ 1,000,000 liability limit per loss. Indiana Insurance carried the property insurance (which includes inland, marine, earthquake and crime), and also covered the boilers and machinery.

Since school districts are not protected by the doctrine of sovereign immunity, the District contracted with Ohio School Plan (through the Ohio School Boards Association/Nationwide Ohio Educational Liability Insurance program) for coverage with limits of liability of \$ 2,000,000 per claim and \$ 5,000,000 aggregate to insure the District, the board, all board members, all administrators, certified and classified employees and volunteers.

Settled claims have not exceeded this commercial coverage in any of the last three years. There has not been a significant reduction in coverage from the prior year.

B. Workers' Compensation

The District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 17). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP.

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Note 11 – Risk Management (Continued)

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

C. Employee Medical Benefits

The District has elected to provide medical coverage through a self-insurance program. The District uses the General Fund on the Budgetary Basis and the Self Insurance Internal Service Fund on a GAAP Basis to account for and finance its uninsured risks of loss in this program. Prior to fiscal year 2003, the District utilized the General Fund to account for the self-insurance program. The claims are serviced through the Lake County Council of Governments Health Care Benefit Program. The Lake County Council of Governments Health Care Benefits Program has stop loss coverage of 110 percent of expected claims. The claims liability as reported in the Self Insurance internal service fund was provided by the third party administrator and is based on the requirements of Government Accounting Standards Board, Statement No. 30, which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses.

The June 30, 2004 claim's liability was determined based on the percentage of the District’s participants to total pool participants. For the year ended June 30, 2004, the pool’s cash reserves and claims liability were \$ 6,636,537 and \$ 3,735,014, respectively. The District's allocated pool percentage for the year ended June 30, 2004 was 9 percent, which represents \$ 594,634 and \$ 334,657 of pool cash reserves and claims liability, respectively.

| | Balance at Beginning of Year | Current Year Claims | Current Year Payments | Balance at End of Year |
|------|------------------------------------|---------------------------|-----------------------------|------------------------------|
| 2003 | \$ 221,359 | \$ 1,225,053 | \$ 1,194,908 | \$ 251,504 |
| 2004 | \$ 251,504 | \$ 1,467,750 | \$ 1,384,597 | \$ 334,657 |

Note 12 – Pension Plans

A. School Employees Retirement System

The District contributes to the School Employees Retirement System (SERS), a cost sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, OH 43215-3476 or by calling (614) 222-5853.

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Note 12 – Pension Plans (Continued)

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 percent of annual covered salary was the portion to be used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003 and 2002 were \$ 400,447, \$ 340,307 and \$ 249,147, respectively; 100 percent has been contributed for fiscal year 2004, 2003, and 2002.

B. State Teachers Retirement System

The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, OH 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% 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. The 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 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, 2004, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2003, the portion used to fund pension obligations was 9.3 percent. Contribution rates are established by State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Note 12 – Pension Plans (Continued)

The District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2004, 2003, and 2002 were \$ 1,434,060, \$ 1,437,265 and \$ 994,102, respectively; 100 percent has been contributed for fiscal year 2004, 2003, and 2002. Contributions to the DC and Combined Plans for fiscal year 2004 were \$ 11,383 made by the District and \$ 13,477 made by the Plan members.

Note 13 – Postemployment Benefits

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

All STRS benefit recipients and sponsored 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. 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 funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$ 110,312 for fiscal year 2004.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2004, the balance in the Fund was \$ 3.1 billion. For the year ended June 30, 2004, net health care costs paid by STRS were \$ 268,739,000 and STRS had 111,853 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 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, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, prorated for partial service credit. For fiscal year 2004, the minimum pay was established at \$ 25,400. For the District, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$ 283,819.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004 were \$ 223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Note 14– Other Employee Benefits - Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers and administrators do not earn vacation time. Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. Upon retirement, an employee is paid for 50 percent of accumulated sick days up to a maximum of 270 accumulated sick days.

Note 15 – Long-Term Obligations

Changes in long-term obligations of the District during fiscal year 2004 were as follows:

| | <u>Outstanding June 30, 2003</u> | <u>Additions</u> | <u>Deductions</u> | <u>Outstanding June 30, 2004</u> | <u>Amounts Due in One Year</u> |
|----------------------|--------------------------------------|---------------------|----------------------|--------------------------------------|--|
| Compensated Absences | \$ 3,673,308 | \$ 1,276,181 | \$(1,581,368) | \$ 3,368,121 | \$ 62,800 |
| Capital Lease | 28,609 | - | (18,376) | 10,233 | 10,233 |
| Total | <u>\$ 3,701,917</u> | <u>\$ 1,276,181</u> | <u>\$(1,599,744)</u> | <u>\$ 3,378,354</u> | <u>\$ 73,033</u> |

Note 16 – Jointly Governed Organizations

A. East Shore Regional Transportation System

The East Shore Regional Transportation System (ESRTS) is a jointly governed organization that was formed for the purpose of providing a transportation system for the handicapped children in the sixteen member school districts. The governing board consists of the superintendents of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the governing board. ESRTS is not accumulating significant financial resources or experiencing fiscal distress, which would cause additional financial benefit or burden on the District. Financial information can be obtained by writing the fiscal agent, Kirtland Board of Education, 9152 Chillicothe Road, Kirtland, OH 44094.

B. East Shore Center

The East Shore Center is a jointly governed organization that was formed for the purpose of providing special education for the handicapped children in the sixteen member school districts. The governing board consists of the superintendents of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the governing board. East Shore Center is not accumulating significant resources or experiencing fiscal distress, which would cause additional financial benefit or burden on the District. Financial information can be obtained by writing the fiscal agent, Lake County Educational Service Center, 30 South Place, Suite 320, Painesville, Ohio 44077.

C. Ohio Schools Council

The Ohio Schools Council Association (Council) is a jointly governed organization among ninety-one school districts. The jointly governed organization was formed to purchase quality products and services at the lowest possible cost to the member districts. Each district supports the Council by paying an annual participation fee. The Council's Board consists of seven superintendents of the participating districts whose term rotates every year. The degree of control exercised by any school district is limited to its representation on the Board. Financial information can be obtained by contacting the Secretary/Treasurer of the Ohio Schools Council at 6133 Rockside Road, Suite 10, Independence, OH 44131.

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Note 16 – Jointly Governed Organizations (Continued)

The District participates in the Council's electric purchase program, which was implemented during fiscal year 1998. This program allows school districts to purchase electricity at reduced rates, if the school districts will commit to participating for an eight-year period. The participants make monthly payments based on estimated usage. Each June these estimated payments are compared to their actual usage for the year and any necessary adjustments are made.

Energy Acquisition Corp., a non-profit corporation with a self-appointing board, issued \$ 119,140,000 in debt to purchase eight years of electricity from Cleveland Electric Illuminating (CEI) for the participants. The participating school districts are not obligated in any manner for this debt. If a participating school district terminates its agreement, the district is required to repay the savings to CEI and CEI will refund the remaining prepayment related to that participant to Energy Acquisition Corp.

The District also participates in the Council's prepaid natural gas program, which was implemented during fiscal year 1999. This program allows school districts to purchase natural gas at reduced rates, if the school districts will commit to participating for a twelve-year period. The participants make monthly payments based on estimated usage. Each month these estimated payments are compared to their actual usage and any necessary adjustments are made.

The City of Hamilton, a municipal corporation and political subdivision duly organized and existing under the laws of the State of Ohio, issued \$ 89,450,000 in debt to purchase twelve years of natural gas from CMS Energy Corporation for the participants. The participating school districts are not obligated in any manner for this debt. If a participating school district terminates its agreement, the district is entitled to recover that amount, if any, of its contributions to the operating fund, which are not encumbered for its share of program administrative costs.

D. Lake-Geauga Computer Association

The Lake-Geauga Computer Association (LGCA) is a jointly governed organization among two county consortium of Ohio school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. Each of the governments of these schools supports LGCA based on a per pupil charge. LGCA is governed by an Assembly consisting of two representatives from each participating school district. The degree of control exercised by any participating school district is limited to its representation on the Assembly. Continued existence of the LGCA Computer Center is not dependent on the District's continued participation. Financial information can be obtained from LGCA, 8221 Auburn Road, Painesville, OH 44077.

E. Auburn Career Center

The Auburn Career Center is a joint vocational school district, which is a jointly governed organization among eleven school districts. Each participating school district appoints one member to the Auburn Career Center's Board of Education. The students of each participating school district may attend classes offered at the vocational facility. Each participant's control over the operation of the Auburn Career Center is limited to representation on the Board. Continued existence of the Auburn Career Center is not dependent on the District's continued participation. Financial information can be obtained by writing the Auburn Career Center, 8140 Auburn Road, Painesville, OH 44077.

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Note 17 – Insurance Purchasing Pool

The District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), and insurance purchasing pool. The GRP's business and affairs are conducted by a three-member Board of Directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

Note 18 – Claims Servicing Pool

The District participates in the Lake County Council of Governments Health Care Benefits (HCBP) Self Insurance Program, a claims servicing pool comprised of eleven Lake County school districts. Each school district has a representative on the assembly (usually the superintendent or designee). Each member pays an administrative fee to the pool. The plan's business and affairs are conducted by a five-member Board of Directors elected by the HCBP's assembly. The assembly elects officers for one-year terms to serve on the Board of Directors.

Note 19 – Contingencies

A. Grants

The District 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 of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2004.

B. Litigation

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

Note 20 – Interfund Transactions

Transfers are primarily from the General Fund to various special revenue funds within the District.

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Note 20 – Interfund Transactions (Continued)

Transfers made during the year ended June 30, 2004 were as follows:

| <u>Transfer To</u> <u>Governmental Activities</u> | <u>Transfer From</u> <u>Governmental</u> <u>Activities</u> <u>General</u> |
|--|--|
| Non-major funds | \$ 513,454 |
| Total governmental activities | <u>\$ 513,454</u> |

Note 21 – State School Funding Decision

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding decision is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..."

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

Note 22 – Set-Asides

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

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

| | <u>Textbooks</u> <u>Instructional</u> <u>Materials</u> <u>Reserve</u> | <u>Capital</u> <u>Improve-</u> <u>ments</u> <u>Reserve</u> | <u>Budget</u> <u>Stabili-</u> <u>zation</u> <u>Reserve</u> |
|---|--|---|---|
| Set-aside reserve balance as of June 30, 2003 | \$ (5,055,960) | \$ -- | \$ 25,237 |
| Current year set-aside requirement | 275,709 | 275,709 | -- |
| Qualifying disbursements | <u>(972,806)</u> | <u>(804,242)</u> | <u>--</u> |
| Totals | <u>\$ (5,753,057)</u> | <u>\$ (528,533)</u> | <u>\$ 25,237</u> |
| Set-aside balance as of June 30, 2004 and carried forward to future fiscal years | <u>\$ (5,753,507)</u> | <u>\$ --</u> | <u>\$ 25,237</u> |

Although the District had qualifying disbursements during the fiscal year that reduced the set-aside amount to below zero, only the excess expenditures for the textbook reserve can be carried forward to the next fiscal year.



**Auditor of State
Betty Montgomery**

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

Perry Local School District
Lake County
4325 Manchester Street
Perry, Ohio 44081

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Perry Local School District, Lake County, Ohio, (the District) as of and for the years ended June 30, 2005 and June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 20, 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated March 20, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the District's management dated March 20, 2006, we reported a matter related to noncompliance we deemed immaterial.

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www.auditor.state.oh.us

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

We intend this report solely for the information and use of the audit committee, management, and the Board of Education. It is not intended for anyone other than these specified parties

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

Betty Montgomery
Auditor of State

March 20, 2006



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

PERRY LOCAL SCHOOL DISTRICT

LAKE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 15, 2006**