



**Auditor of State
Betty Montgomery**

**PERRY LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Perry Local School District
Allen County
2770 East Breese Road
Lima, Ohio 45806

To the Board of Education:

We have audited the accompanying financial statements of Perry Local School District, Allen County, (the School District), as of and for the fiscal year ended June 30, 2004. These financial statements are the responsibility of the School District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

Ohio Administrative Code Section 117-2-03 (B) requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles. However, as discussed in Note 2, the accompanying financial statements and notes have been prepared on a basis of accounting in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare annual reports in accordance with generally accepted accounting principles. This basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash, investments, and combined fund cash balances of the School District, as of June 30, 2004, and its combined cash receipts and disbursements and its combined budgeted and actual receipts and budgeted and actual disbursements and encumbrances, for the year then ended on the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2004 on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of the audit committee, management, the Board of Education and other officials authorized to receive this report under Section 117.26, Ohio Revised Code, and is not intended to be and should not be used by 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

November 23, 2004

**PERRY LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES AND SIMILAR FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<u>Governmental Fund Types</u>				<u>Fiduciary Funds</u>	<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>	
Revenues:						
Taxes	\$2,435,270		\$311,708	\$107,834		\$2,854,812
Tuition	1,222,191					1,222,191
Intergovernmental	1,749,572	389,146	26,668	10,978		2,176,364
Interest	14,283	621	3,202	1,012	644	19,762
Extracurricular Activities		135,512				135,512
Classroom Materials & Fees	74					74
Miscellaneous	4,819	18,579		2,660	156	26,214
Total Revenues	5,426,209	543,858	341,578	122,484	800	6,434,929
Expenditures:						
Current:						
Instruction:						
Regular	2,456,475	113,530		2,819		2,572,824
Special	488,526	239,778				728,304
Vocational	6,248					6,248
Other	482,947	3,510				486,457
Support Services:						
Pupils	121,732	9,255				130,987
Instruction	238,095	12,059			5,832	255,986
Board of Education	23,815					23,815
Administration	505,797	56,098				561,895
Fiscal	190,491	1,140	7,846	2,795		202,272
Operation and Maintenance	596,136					596,136
Transportation	369,652					369,652
Central Services	13,721	6,091				19,812
Non-Instructional Services	13,097					13,097
Extracurricular Activities	204,783	85,068				289,851
Capital Outlay	1,745			149,566		151,311
Debt Payments			331,273			331,273
Total Expenditures	5,713,260	526,529	339,119	155,180	5,832	6,739,920
Excess (Deficiency) of Revenues Over (Under) Expenditures	(287,051)	17,329	2,459	(32,696)	(5,032)	(304,991)
Other Financing Sources (Uses):						
Refund of Prior Year Expenditures	50	15				65
Operating Transfers In	4,236	2,361				6,597
Operating Transfers Out		(6,597)				(6,597)
Total Other Financing Sources (Uses)	4,286	(4,221)				65
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(282,765)	13,108	2,459	(32,696)	(5,032)	(304,926)
Fund Balances (Deficits) at Beginning of Year	776,616	43,617	282,025	150,383	69,540	1,322,181
Fund Balances (Deficits) at End of Year	<u>\$493,851</u>	<u>\$56,725</u>	<u>\$284,484</u>	<u>\$117,687</u>	<u>\$64,508</u>	<u>\$1,017,255</u>

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

**PERRY LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS,
DISBURSEMENTS AND CHANGES IN FUND BALANCES
PROPRIETARY FUND TYPE AND SIMILAR FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<u>Proprietary Fund Type</u>	<u>Fiduciary Funds</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
Operating Revenues:			
Food Services	\$160,616		\$160,616
Extracurricular Activities		29,920	29,920
Classroom Materials & Fees	11,489		11,489
Total Operating Revenue	<u>172,105</u>	<u>29,920</u>	<u>202,025</u>
Operating Expenses:			
Salaries	113,367		113,367
Fringe Benefits	68,715		68,715
Purchased Services	1,122	4,433	5,555
Materials and Supplies	144,197	26,317	170,514
Capital Outlay		1,139	1,139
Other Objects		103	103
Total Operating Expenses	<u>327,401</u>	<u>31,992</u>	<u>359,393</u>
Operating (Loss)	<u>(155,296)</u>	<u>(2,072)</u>	<u>(157,368)</u>
Non-Operating Revenues (Expenses):			
Miscellaneous	641	3,429	4,070
Interest	377	257	634
Federal and State Subsidies	153,540		153,540
Other Sources		78,097	78,097
Other Uses		(103,173)	(103,173)
Total Non-Operating Revenues and (Expenses)	<u>154,558</u>	<u>(21,390)</u>	<u>133,168</u>
Net (Loss)	(738)	(23,462)	(24,200)
Fund Balance at Beginning of Year	<u>24,518</u>	<u>69,740</u>	<u>94,258</u>
Fund Balance at End of Year	<u><u>\$23,780</u></u>	<u><u>\$46,278</u></u>	<u><u>\$70,058</u></u>

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

**PERRY LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**COMBINED STATEMENT OF RECEIPTS-BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2004**

Fund Types/Fund	Budget	Actual	Variance Favorable/ (Unfavorable)
Governmental:			
General Fund	\$5,432,800	\$5,430,495	(\$2,305)
Special Revenue Funds	569,841	546,234	(23,607)
Debt Service Funds	342,200	341,578	(622)
Capital Project Funds	122,850	122,484	(366)
Proprietary:			
Enterprise Funds	347,114	326,663	(20,451)
Fiduciary:			
Expendable Trust Funds	810	800	(10)
Total (Memorandum Only)	<u>\$6,815,615</u>	<u>\$6,768,254</u>	<u>(\$47,361)</u>

The notes to the financial statements are an integral part of this statement.

**PERRY LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**COMBINED STATEMENT OF DISBURSEMENTS AND
ENCUMBRANCES COMPARED WITH EXPENDITURE AUTHORITY
FOR THE YEAR ENDED JUNE 30, 2004**

Fund Types/Fund	Prior Year Carryover Appropriations	2004 Appropriations	Total
Governmental:			
General Fund	\$68,069	\$5,788,540	\$5,856,609
Special Revenue Funds	7,220	549,730	556,950
Debt Service Funds		339,175	339,175
Capital Project Funds	36,526	133,151	169,677
Proprietary:			
Enterprise Funds	777	328,600	329,377
Fiduciary:			
Expendable Trust Funds	7,403		7,403
Total (Memorandum Only)	<u>\$119,995</u>	<u>\$7,139,196</u>	<u>\$7,259,191</u>

The notes to the financial statements are an integral part of this statement.

<u>Actual 2004 Disbursements</u>	<u>Encumbrances Outstanding At 6/30/04</u>	<u>Total</u>	<u>Variance Favorable/ (Unfavorable)</u>
\$5,713,260	\$68,833	\$5,782,093	\$74,516
533,126	2,547	535,673	21,277
339,119		339,119	56
155,180	13,473	168,653	1,024
327,401	24	327,425	1,952
<u>5,832</u>	<u></u>	<u>5,832</u>	<u>1,571</u>
<u><u>\$7,073,918</u></u>	<u><u>\$84,877</u></u>	<u><u>\$7,158,795</u></u>	<u><u>\$100,396</u></u>

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**PERRY LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The District is located in Allen County and includes all of Perry Township. The District is staffed by 25 non-certificated employees, 61 certificated employees and 4 administrative employees who provide services to 843 students and other community members.

Reporting Entity

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

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the 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 organizations 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 does not have any component units.

The District is associated with six organizations which are defined as jointly governed organizations, and three insurance purchasing pools. These organizations include the Northwest Ohio Area Computer Services Cooperative, Apollo Joint Vocational School, the Spencerville, Perry and Bath Local Professional Development Committee, West Central Ohio Special Education Regional Resource Center, West Central Ohio Regional Professional Development Center, the Northwestern Ohio Educational Research Council, the Allen County Schools Health Benefit Plan, the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (Plan) and the Ohio School Plan. These organizations are presented in Notes 9 and 10 of the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

Although required by Ohio Administrative Code Section 117-2-03 (B) to prepare its annual financial report in accordance with generally accepted accounting principles, the District chooses to prepare its financial statements on the basis of accounting formerly prescribed or permitted for school districts by the Auditor of State. This comprehensive basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as formerly prescribed or permitted for school districts by the Auditor of State.

**PERRY LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Fund Accounting

The District maintains its accounting records in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts, an accounting entity which stands separate from the activities reported in other funds. The restrictions associated with each class of funds are as follows:

1. Governmental Fund Types:

Governmental funds are those through which most governmental functions of the District are financed. The acquisition, use and balances of the District's expendable financial resources and the related current liabilities (except those accounted for in proprietary funds and trust funds) are accounted for through governmental funds. The following are the District's governmental fund types:

General Fund - The general fund is the general operating fund of the District. It is used to account for all financial resources except those required by law or contract to be accounted for in another fund.

Special Revenue Funds - The special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trusts, or major capital projects) that are legally restricted to disbursements for specified purposes.

Debt Service Funds - The debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs. According to governmental accounting principles, the debt service fund accounts for the payment of long-term debt for governmental funds only. Under Ohio law, the debt service fund might also be used to account for the payment of the long-term debt of proprietary funds and the short-term debt of both governmental and proprietary funds.

Capital Projects Funds - The capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary or trust funds).

2. Proprietary Fund Types

Proprietary funds are used to account for the Districts ongoing activities which are similar to those found in the private sector. The following is the Districts proprietary fund types:

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

**PERRY LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Fiduciary Fund Type

Fiduciary Funds - are used to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include expendable trust and agency funds.

C. Budgetary Process

1. Budget

A budget of estimated cash receipts and disbursements is submitted to the County Auditor, as Secretary of the County Budget Commission, by January 20 of each year, for the period July 1 to June 30 of the following fiscal year.

2. Estimated Resources

The County Budget Commission certifies its actions to the District by March 1. As part of this certification, the District receives the official certificate of estimated resources which states the projected receipts of each fund. On or about July 1 this certificate is amended to include any unencumbered balances from the preceding fiscal year. Prior to June 30, the District must revise its budget so that the total contemplated expenditures from a fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. Budget receipts as shown in the accompanying financial statements do not include July 1, 2003 unencumbered fund balances. However, those fund balances are available for appropriations.

3. Appropriations

A temporary appropriation measure to control cash disbursements may be passed on or about July 1 of each year for the period July 1 to September 30. An annual appropriation measure must be passed by October 1 of each year for the period July 1 to June 30. The appropriation measure may be amended or supplemented during the year as new information becomes available. Appropriations may not exceed estimated resources.

4. Encumbrances

The District is required to use the encumbrance method of accounting by virtue of Ohio law. Under this system, purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve the portion of the applicable appropriation. At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated.

D. Cash and Investments

To improve cash management, all cash received by the District Treasurer is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through District accounting records.

Money market mutual funds (including STAR Ohio) are recorded at share values reported by the mutual fund. Investment earnings are allocated as authorized by State statute based upon District policy.

**PERRY LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Unpaid Vacation and Sick Leave

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the District.

F. Property, Plant and Equipment

Fixed assets acquired or constructed for general governmental service are recorded as expenditures. Depreciation is not recorded for these fixed assets.

G. Total Columns on Financial Statements

Total columns on the financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. This data is not comparable to a consolidation. Interfund-type eliminations have not been made in the aggregation of this data.

3. 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 two year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories or by savings or deposit accounts including, but not limited to passbook accounts.

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

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation, 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 moneys deposited with the institution.

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

1. United States treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal or interest by the United States;

**PERRY LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

2. Bonds, notes debentures or any other obligations or security 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; and
6. The State Treasurer's investment pool (STAR Ohio)
7. Certain banker's acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.
8. Under certain circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligation, 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. 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.

As of June 30, 2004, the District had \$50 in undeposited cash on hand which is included in the fund balance.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements".

Deposits: At June 30, 2003, the carrying amount of the District's deposits was \$816,258 and the bank balance was \$852,834. Of the bank balance, \$246,748 was covered by federal depository insurance and \$606,086 was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the Federal Deposit Insurance Corporation.

At fiscal year end, the District's agency funds had a balance of \$18,849 consisting of cash with CoreSource for a Section 125 cafeteria plan. The cash is held by CoreSource in a pooled account which is representative of numerous funds, therefore, it cannot be classified by risk under GASB Statement 3.

**PERRY LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

Investments: The District's investments are categorized below 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 or agent but not in the District's name. At year end, the District's only investment was in STAR Ohio, and had a value of \$252,156. STAR Ohio is an investment pool operated by the Ohio Treasurer. It is unclassified since it is not evidenced by securities that exist in physical or book entry form.

4. PROPERTY TAX

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the school district. Real property tax revenue received in calendar 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, 2003, 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 School District prior to June 30.

The School District receives property taxes from Allen County. The County Auditors periodically advance to the School 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.

**PERRY LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

4. PROPERTY TAX (Continued)

The assessed values upon which fiscal year 2003 taxes were collected are:

	2003 Second- Half Collections		2004 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential And Other Real Estate	\$63,812,930	68.44%	\$75,001,540	74.39%
Public Utility Personal	6,696,400	7.19	6,191,740	6.14
Tangible Personal Property	22,722,709	24.37	19,638,256	19.47
Total Assessed Value	\$93,232,039	100.00%	\$100,831,536	100.00%
 Tax rate per \$1,000 of Assessed Valuation	 \$40.60		 \$40.36	

5. DEBT OBLIGATIONS

General Obligation Bonds - On March 1, 2001, the School District issued \$4,999,999 in voted general obligation bonds for constructing, improving, and making additions to school buildings and related site development. The bond issue included serial, term, and capital appreciation bonds in the amount of \$1,485,000, \$2,905,000 and \$109,999, respectively. The bonds will be retired with a voted property tax levy from the debt service fund.

As of June 30, 2004 the principal amounts outstanding for the bonds were as follows:

	Balance 6/30/2004	Interest Rate
General Obligation Bonds 3.40 – 10.19%		
Term Bonds	\$2,905,000	5.0 – 5.25%
Serial Bonds	1,230,000	3.4 – 4.4
Capital Appreciation Bonds	109,999	10.19
Total General Obligation Bonds	4,244,999	

The term bonds maturing on December 1, 2018, are subject to mandatory sinking fund redemption, in part by lot, pursuant to the terms of the mandatory sinking fund redemption requirements of the School District. The mandatory redemption is to occur on December 1, in each of the years 2014 through 2016 (with the balance of \$215,000 to be paid at stated maturity on December 1, 2018) at a redemption price equal to 100 percent of the principal amount redeemed, plus accrued interest to the redemption date, according to the following schedule:

Year	Amount
2014	\$180,000
2015	190,000
2016	205,000
2017	210,000

**PERRY LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

5. DEBT OBLIGATIONS (Continued)

The term bonds maturing on December 1, 2021, are subject to mandatory sinking fund redemption, in part by lot, pursuant to the terms of the mandatory sinking fund redemption requirements of the School District. The mandatory redemption is to occur on December 1, in each of the years 2019 through 2020 (with the balance of \$255,000 to be paid at stated maturity on December 1, 2021) at a redemption price equal to 100 percent of the principal amount redeemed, plus accrued interest to the redemption date, according to the following schedule:

<u>Year</u>	<u>Amount</u>
2019	\$245,000
2020	250,000

The term bonds maturing on December 1, 2025, are subject to mandatory sinking fund redemption, in part by lot, pursuant to the terms of the mandatory sinking fund redemption requirements of the School District. The mandatory redemption is to occur on December 1, in each of the years 2022 through 2024 (with the balance of \$305,000 to be paid at stated maturity on December 1, 2025) at a redemption price equal to 100 percent of the principal amount redeemed, plus accrued interest to the redemption date, according to the following schedule:

<u>Year</u>	<u>Amount</u>
2022	\$270,000
2023	280,000
2024	300,000

Current serial bonds redeemed by other than mandatory redemption, or purchased for cancellation, may be credited against the applicable mandatory redemption requirement.

The serial bonds maturing after December 1, 2012, are subject to optional redemption, in whole or in part on any date in inverse order of maturity and by lot within a maturity, in integral multiples of \$5,000, at the option of the School District on or after December 1, at the redemption prices (expressed as percentages of the principal amount to be redeemed) set forth below, plus accrued interest to the redemption date:

<u>Redemption Dates (Dates Inclusive)</u>	<u>Redemption Prices</u>
December 1, 2011 through November 30, 2012	101%
December 1, 2012 and thereafter	100

The capital appreciation bonds will mature in fiscal years 2012 and 2013. The maturity amounts of the bonds are \$185,000 for fiscal year 2012 and \$185,000 for fiscal year 2013. Capital appreciation bonds are not subject to redemption prior to maturity.

Principal and interest requirements to retire the bonds outstanding at June 30, 2004 are as follows:

**PERRY LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

5. DEBT OBLIGATIONS (Continued)

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 135,000	\$ 196,435	\$ 331,435
2006	140,000	191,278	331,278
2007	150,000	185,692	335,692
2008	150,000	179,768	329,768
2009	150,000	173,693	323,693
2010 – 2014	614,999	1,038,013	1,653,012
2015 – 2019	1,000,000	623,938	1,623,938
2020 – 2024	1,300,000	332,460	1,632,460
2025 – 2026	605,000	318,934	923,934
Total	<u>\$4,244,999</u>	<u>\$3,240,211</u>	<u>\$7,485,210</u>

Special Assessment Debt - In October 1995, the School District entered into a contract with the Allen Water District to construct a water main to supply city water services to the School District's facilities. Installation was completed in September 1996. The cost to the School District was \$225,000. The unpaid balance under the contract was certified to Allen County Auditor for collection as a special assessment in fiscal year 1998.

The special assessments will be paid semi-annually from the permanent improvement capital projects fund. The contract with the Water District also allows the School District to receive from the Allen Water District, 95 percent of any tap fees collected for a period of ten years or a maximum of \$170,000.

Principal and interest requirements to retire the special assessment outstanding at June 30, 2004, are as follows:

<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Amount</u>
2004	\$3,510	\$6,407	\$9,917
2005	3,718	6,199	9,917
2006	3,940	5,977	9,917
2007	4,173	5,744	9,917
2008	4,421	5,496	9,917
2009-2013	26,372	23,213	49,585
2014-2018	35,191	14,394	49,585
2019-2022	26,538	3,213	29,751
Total	<u>\$107,863</u>	<u>\$70,643</u>	<u>\$178,806</u>

6. RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, the School District contracted with the Ohio School Plan for general liability, educational legal liability and fleet insurance, and with Indiana Insurance Company for property insurance. Coverages provided by the various insurances are as follows:

**PERRY LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

6. RISK MANAGEMENT (Continued)

Building and Contents-replacement cost	\$18,104,100
Automobile Liability (\$250 to \$1000 deductible)	1,000,000
Uninsured Motorists	50,000
General Liability	
Per occurrence	1,000,000
Total per year	3,000,000
Educational Legal Liability	
Per occurrence	1,000,000
Total per year	2,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years. There have been no significant reductions in insurance coverage from last year.

Starting in fiscal year 2004, the School District participated in the Ohio School Plan (Plan), an insurance purchasing pool. Each participant enters into an individual agreement with the Plan for insurance coverage and pays annual premiums to the Plan based on the types and limits of coverage and deductibles selected by the participant.

The School District participates in the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (Plan), an insurance purchasing pool. The intent of the Plan is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the Plan. The third party administrator, Sheakley Uniservice, Inc., reviews each participant's claims experience and determines the rating tier for that participant. A common premium rate is applied to all participants in a given rate for their rating tier rather than its individual rate. Sheakly Uniservice, Inc. provides administrative, cost control, and actuarial services to the Plan.

The School District participates in the Allen County Schools Health Benefit Plan (the Plan), a public entity shared risk pool consisting of the school districts within Allen County. The School District pays monthly premiums to the Plan for employee medical and dental benefits. The Plan is responsible for the management and operations of the program. Upon withdrawal from the Plan, a participant is responsible for the payment of all Plan liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

7. PENSION PLANS

A. School Employees Retirement System

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

**PERRY LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

7. PENSION PLANS (Continued)

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School 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 used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003 and 2002 were \$68,842, \$64,307 and \$41,407 respectively.

B. State Teachers Retirement System

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2003, the portion used to fund pension obligations was 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations for the fiscal years ended June 30, 2004, 2003, and 2002 were \$343,327, \$342,490 and \$238,545 respectively.

**PERRY LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

7. PENSION PLANS (Continued)

C. Social Security System

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

8. POST RETIREMENT BENEFITS

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

For STRS, all benefit recipients are required to pay a portion of health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For the year ended June 30, 2004, the board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund for which payments for health care benefits are paid. For the School District the amount to fund health care benefits equaled \$26,410 during the 2004 fiscal year. As of June 30, 2003, eligible benefit recipients totaled 108,294. For the fiscal year ended June 30, 2003, net health care costs paid by STRS were \$352,301,000. The balance in the fund was \$2.8 billion at June 30, 2003.

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

At June 30, 2004, the 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, pro-rated for partial service credit. For fiscal year 2003, the minimum pay has been established at \$14,500. For the School District the amount to fund health care equaled \$52,353 during the 2004 fiscal year. The number of participants currently receiving health care benefits is approximately 50,000. For the fiscal year ended June 30, 2003, net health care costs paid by SERS were \$204,930,737. At June 30, 2003 STRS had net assets available for payment of healthcare benefits of \$303.6 million.

9. JOINTLY GOVERNED ORGANIZATIONS

Northwest Ohio Area Computer Services Cooperative - The School District is a participant in the Northwest Ohio Area Computer Services Cooperative (NOACSC) which is a computer consortium. NOACSC is an association of public school districts within the boundaries of Allen, Putnam, Mercer, Hancock, Van Wert, and Paulding Counties and Cities of Wapakoneta and St. Marys. The 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 school districts. Financial information can be obtained from Michael Wildermuth, who serves as director, at 645 South Main Street, Lima, Ohio 45804.

**PERRY LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

9. JOINTLY GOVERNED ORGANIZATIONS (Continued)

Apollo Joint Vocational School - The Apollo Joint Vocational School is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the participating school districts' elected boards, which possesses its own budgeting and taxing authority. To obtain financial information write to the Apollo Joint Vocational School, Greg Bukowski, who serves as Treasurer, at 3325 Shawnee Road, Lima, Ohio 45806.

Spencerville, Perry, and Bath Local Professional Development Committee - The Spencerville, Perry, and Bath Local Professional Development Committee is a consortium operated under the direction of a Board consisting of one representative from the educators of each school, along with two administrators from the member schools chosen by the superintendents. The Committee was formed to review coursework and other professional development activities completed by educators within the school districts and used for the renewal of certificates and licenses. As of June 30, 2004, there was no financial activity for this Committee.

West Central Ohio Special Education Regional Resource Center - The West Central Ohio Special Education Regional Resource Center (SERRC) is a special education service center which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents. The SERRC is governed by a board of 52 members made up the 50 superintendents of the participating districts, one non-public school, and Wright State University whose term rotates every year. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained by contacting the Krista Hart, Treasurer, at the Hardin County Educational Service Center, 1 Court House Square, Suite 50, Kenton, Ohio 43326-2385.

West Central Regional Professional Development Center (Center) - The Center is a jointly governed organization among the school districts located in Allen, Auglaize, Hancock, Hardin, Mercer, Paulding, Putnam and Van Wert counties. The jointly governed organization was formed for the purpose of establishing an articulated, regional structure for professional development, in which school districts, the business community, higher education and other groups cooperatively plan and implement effective professional development activities than are tied directly to school improvement, and in particular, to improvements in instructional programs. The Center is governed by a board made up of fifty-two representatives of the participating school districts, the business community, and two institutions of higher learning whose term rotates every two years. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information may be obtained by contacting Bradley Brown, Treasurer, Hancock County Educational Service Center, 7746 Co. Rd. 140, Findlay, Ohio 45840-3087.

Northwestern Ohio Educational Research Council, Inc. (NORC) – NOERC is a jointly governed organization formed to bring educational entities into a better understanding of their common educational problems, facilitate and conduct practical educational research, coordinate educational research among members, provide a means for evaluating and disseminating the results of research, serve as a repository for research and legislative materials, and provide opportunities for training. The NOERC serves a twenty-five county area in Northwest Ohio. The Board of Directors consists of superintendents from two educational service centers, two exempted village school districts, five local school districts, and five city school districts, as well as representatives from two private or parochial schools and three institutions of higher education. Each active member is entitled to one vote on all issues addressed by the Board of Directors. Financial information can be obtained from the Northwestern Ohio Educational Research Council, Inc., Box 456, Ashland, Ohio 44805.

**PERRY LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

10. GROUP INSURANCE PURCHASING POOL

Allen County Schools Health Benefit Plan - The School District participates in the Allen County Schools Health Benefit Plan (the Program), a public entity shared risk pool consisting of the school districts within Allen County. The Trust is organized as a Voluntary Employee Benefit Association under Section 501(c)(9) of the Internal Revenue Code and provides sick, accident and other benefits to the employees of the participating school districts. Each participating school district's superintendent is appointed to a Board of Trustees which advises the Trustee, Allied Benefit Systems, Inc., concerning aspects of the administration of the Trust.

Each school district decides which plans offered the Board of Trustees will be extended to its employees. Participation in the Trust is by written application subject to acceptance by the Board of Trustees and payment of the monthly premiums. Financial information can be obtained from Don Smith, who serves as Chairman, at 204 North Main Street, Lima, Ohio 45801.

Ohio Association of School Business Officials (OASBO) Workers' Compensation Group Rating Plan - The School District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The OASBO Workers' Compensation Group Rating Plan (Plan) was established through the Ohio Association of School Business Officials as an insurance purchasing pool. The Plan's business and affairs are conducted by a five member OASBO Board of Directors. Each year, the participants pay an enrollment fee to the Plan to cover the costs of administering the program.

Ohio School Plan – The School District participates in the Ohio School Plan (Plan), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. The Plan is an unincorporated nonprofit association of its member which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services. The Plan's business and affairs are conducted by a fifteen member board consisting of superintendents, treasurers, the president of Harcum-Hyre Insurance Agency, Inc., and a member of the Hylant Group, Inc. the Hylant Group, Inc. is the Plan's administrator and is responsible for processing claims. Harcum-Hyre Insurance Agency serves as the sales and marketing representative which establishes agreements between the Plan and its members. Financial information can be obtained from Harcum-Hyre Insurance Agency, 246 East Sycamore Street, Columbus, Ohio 43206.

11. STATUTORY RESERVES

The School District if required by state law to set aside certain general fund revenue amounts, as defined, into various reserves. For fiscal year ended June 30, 2004, the reserve activity was as follows:

	Textbook	Capital
Set-Aside Balance as of June 30, 2003	(\$125,907)	(\$4,499,999)
Revenue Required to be Set-Aside	112,367	112,367
Qualifying Expenditures (Paid in Cash)	(45,172)	0
Off-set for the Current Year	0	(115,917)
Total	(\$58,712)	(\$4,503,549)
Set Aside Balance to be carried forward	(\$58,712)	(\$4,499,999)

**PERRY LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

11. STATUTORY RESERVES

Qualifying expenditures in excess of the current year requirement for the Textbook reserve may be used to reduce the set aside requirement of future years. Although the School District had offsets and qualifying expenditures during the year that reduced the set-aside amounts for the capital reserve, only the proceeds of securities whose use is restricted to expenditures for the acquisition, replacement, enhancement, maintenance, or repair of permanent improvements, capital expenditures in excess of current year of accumulated set-aside requirements from bond or note proceeds in the capital reserve or the proceeds from the related permanent improvement levy or other levy to pay the debt may be carried forward to offset future years' capital reserve set-aside requirements.

12. 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 School District is of the opinion that any current or future claims will either result in a favorable outcome or be covered by current insurance policies, so as not to materially affect the overall financial position of the School District.

C. 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 plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...". The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

13. SUBSEQUENT EVENTS

On November 2, 2004 the voters passed a 4.96 emergency operating levy for 5 years. The levy will raise \$500,000 per year.

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**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND
ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

Perry Local School District
Allen County
2770 East Breese Road
Lima, Ohio 45806

To the Board of Education:

We have audited the financial statements of Perry Local School District, Allen County, (School District), as of and for the fiscal year ended June 30, 2004, and have issued our report thereon dated November 23, 2004, wherein we noted that the School District reports on the basis of accounting previously prescribed by the Auditor of State for financial reporting rather than generally accepted accounting principles which is now required. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could directly and materially effect determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2004-001.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted others matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the School District in a separate letter dated November 23, 2004

Perry Local School District
Allen County
Independent Accountants' Report on Compliance and on Internal Control
Required by *Government Auditing Standards*
Page 2

This report is intended solely for the information and use of the audit committee, management, the Board of Education and other officials authorized to receive this report under Section 117.26, Ohio Revised Code, and is not intended to be and should not be used by 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

November 23, 2004

PERRY LOCAL SCHOOL DISTRICT
ALLEN COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2004

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

FINDING NUMBER 2004- 001

Ohio Rev. Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the auditor of state has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Rev. Code Section 117.38.

Ohio Admin. Code Section 117-2-03 (B) requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP). However, the School District prepares its financial statements in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with generally accepted accounting principles. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code Section 117.38 the School District may be fined and subject to various other administrative remedies for its failure to file the required financial report.

The School District should prepare their financial statements in accordance with GAAP.

PERRY LOCAL SCHOOL DISTRICT
ALLEN COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2004

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2003-001	ORC Sec. 117.38 & OAC Sec. 117-2-03 (B) – District failed to prepare GAAP financial statements	No	Not Corrected. See Finding # 2004-001



**Auditor of State
Betty Montgomery**

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P.O. Box 1140
Columbus, Ohio 43216-1140

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800-282-0370

Facsimile 614-466-4490

**PERRY LOCAL SCHOOL DISTRICT
ALLEN 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
JANUARY 18, 2005**