



**Auditor of State
Betty Montgomery**

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

We have audited the accompanying 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 year ended June 30, 2003, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Perry Local School District, Lake County, Ohio, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2003, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statement – Management Discussion and Analysis – for State and Local Governments* and changed its capitalization threshold for capital assets.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2004 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 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.

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

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

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

Betty Montgomery
Auditor of State

December 9, 2004

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(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, 2003. 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 2003 are as follows:

In total, net assets decreased by \$ 3,318,536.

Revenues for governmental activities totaled \$ 26,893,477 in 2003. Of this total, 97 percent consisted of General revenues while Program revenues accounted for the remaining balance of 3 percent.

Program expenses totaled \$ 30,176,838. Instructional expenses made up 52 percent of this total while support services accounted for 40 percent. Other expenses rounded out the remaining 8 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 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 Fund is 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 2003?" 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, 2003
(Unaudited)**

In the Statement of Net Assets and the Statement of Activities, the District is classified into 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 9. 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.

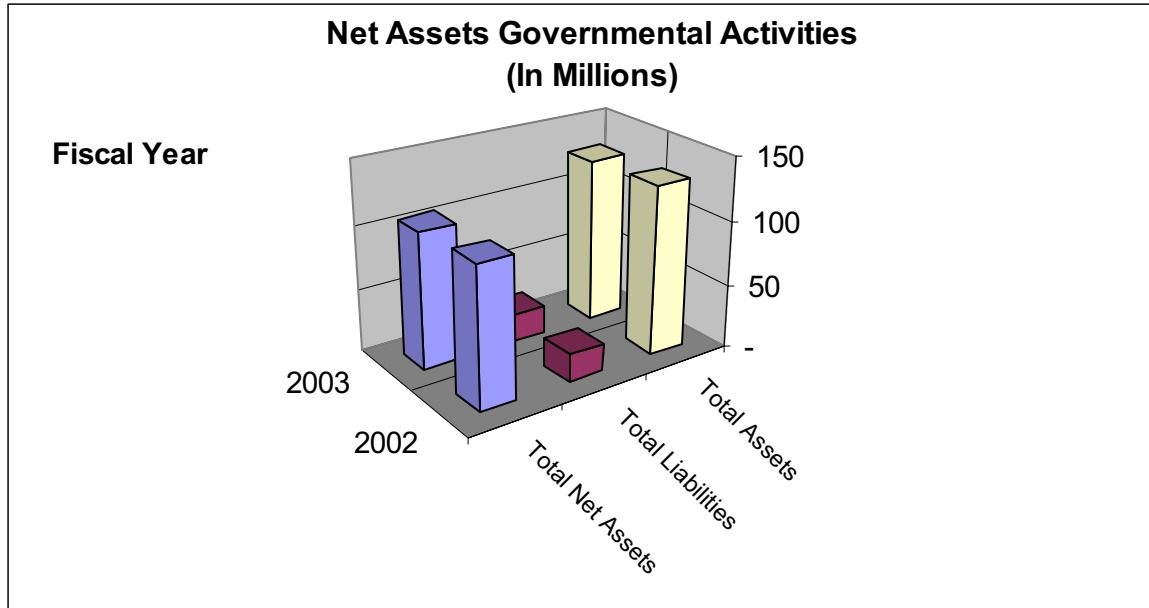
The District as a Whole

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 2003 compared to 2002:

**Table 1
Net Assets
Governmental Activities**

Assets	2003	2002	Variance
Current and Other Assets	\$ 33,831,098	\$ 33,310,814	\$ 520,284
Capital Assets, Net	<u>95,212,336</u>	<u>97,750,454</u>	<u>(2,538,118)</u>
Total Assets	<u>129,043,434</u>	<u>131,061,268</u>	<u>(2,017,834)</u>
Liabilities			
Current Liabilities	18,907,788	17,886,116	(1,021,672)
Long Term Liabilities			
Due within One Year	71,480	548,946	477,466
Due within More Than One Year	<u>3,630,437</u>	<u>2,873,941</u>	<u>(756,496)</u>
Total Liabilities	<u>22,609,705</u>	<u>21,309,003</u>	<u>(1,300,702)</u>
Net Assets			
Invested in Capital Assets	95,212,336	97,750,454	(2,538,118)
Restricted for:			
Capital Projects	8,656,228	8,560,922	95,306
Set Asides	25,237	25,237	0
Other Purposes	2,134,370	1,931,252	203,118
Unrestricted	<u>405,558</u>	<u>1,484,400</u>	<u>(1,078,842)</u>
Total Net Assets	<u>\$106,433,729</u>	<u>\$109,752,265</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, 2003
(Unaudited)



Total assets decreased by \$ 2,017,834. The decrease is softened by an increase in cash, prepaids, taxes received and inventory of \$ 1,298,372. The decrease in accounts receivable, due from other governments, interest receivable and capital assets, accounted for a decrease of \$ 3,316,206. The net result was a decrease in total assets.

Total liabilities increased by \$ 1,300,702. The majority of the increase can be attributed primarily to the increase in compensated absences as a liability in 2003.

The vast majority of revenue supporting all Governmental Activities is General revenues. General revenue totaled \$ 25,972,820 or 97 percent of the total revenue. Two significant portions of the General revenue are local property tax and grants and entitlements, this constitutes 91% of total revenue. The remaining amount of revenue was in the form of program revenues that equated to \$ 920,657 or only 3 percent of total revenue.

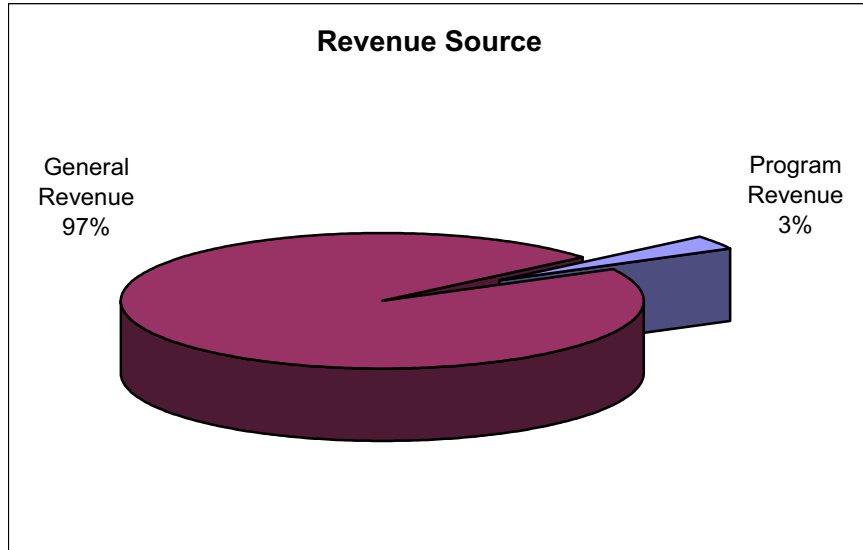
**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Unaudited)**

Table 2 shows the changes in net assets for fiscal year 2003. Since this is the first year the District has prepared financial statements following GASB Statement 34, revenue and expense comparisons to fiscal year 2002 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

**Table 2
Governmental Activities**

	2003
Revenues	
Program Revenues	
Charges for Services and Sales	\$350,002
Operating Grants, and Contributions	543,093
Capital Grants	<u>27,562</u>
Total Program Revenues	<u>920,657</u>
General Revenue	
Property Taxes	12,445,857
Grants and Entitlements	11,952,691
Investment Earnings	436,900
Gain on Sale of Asset	11,779
Miscellaneous	<u>1,125,593</u>
Total General Revenues	<u>25,972,820</u>
Transfers	<u>(35,175)</u>
Total General Revenues & Transfers	<u>25,937,645</u>
Total Program & General Revenues	<u>\$26,858,302</u>
Program Expenses	
Instruction:	
Regular	\$14,175,032
Special	1,269,402
Vocational	114,383
Other Instruction	69,240
Support Services:	
Pupil	950,288
Instructional Staff	2,339,328
Board of Education	152,511
Administration	2,629,941
Fiscal	610,539
Business	46,852
Operation and Maintenance of plant	3,559,262
Pupil Transportation	1,901,163
Central Services	36,117
Operation of Non-Instructional Services:	
Extra-Curricular Activities	1,381,559
Food Service	577,810
Other	<u>363,411</u>
Total Program Expenses	<u>\$30,176,838</u>
Increase (decrease) in Net Assets	<u>(\$3,318,536)</u>

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Unaudited)**

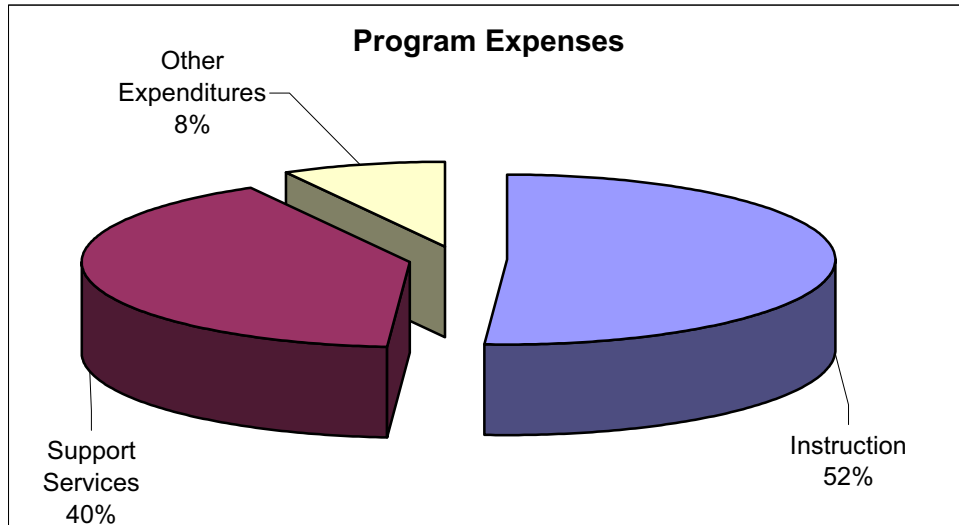


Governmental Activities

The District has carefully planned its financial future by forecasting its revenues and expenditures over the next five years. In October of 2003, 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 (2004 – 2006) 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 52 percent of the District's budget is used to fund instructional expenses. Additional supporting services for pupils, staff and business operations encompass an additional 40 percent. The remaining program expenses of 8 percent are budgeted 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, 2003
(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 2003	Net Cost of Services 2003
Governmental Activities		
Instruction:		
Regular	\$14,175,032	\$(14,164,652)
Special	1,269,402	(1,214,116)
Vocational	114,383	(114,383)
Other Instruction	69,240	(69,240)
Support Services:		
Pupil	950,288	(839,738)
Instructional Staff	2,339,328	(2,339,328)
Board of Education	152,511	(152,511)
Administration	2,629,941	(2,619,245)
Fiscal Services	610,539	(610,539)
Business	46,852	(46,852)
Operations & Maintenance	3,559,262	(3,552,593)
Pupil Transportation	1,901,163	(1,845,832)
Central Services	36,117	(36,117)
Operation of Non-Instructional:		
Extracurricular Activities	1,381,559	(1,165,121)
Food Service	577,810	(122,503)
Other	<u>363,411</u>	<u>(363,411)</u>
Total Program Expenses	<u>\$30,176,838</u>	<u>\$(29,256,181)</u>

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Unaudited)**

As one can see, the reliance upon local tax revenues for governmental activities is crucial. Over 42 percent of expenses are directly supported by local property taxes. Grants and entitlements not restricted to specific programs support 40 percent, while investments and other miscellaneous type revenues support the remaining activity costs. Program revenues fund only 3 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 \$ 26,982,275 and expenditures of \$ 26,667,368. The net change in fund balances for the year was as follows: General Fund (\$ 191,939), Capital Projects Fund \$ 458,941 and Other Governmental Funds (\$ 140,491).

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 2003, 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 less than revised budgetary projections by \$ 119,255 or 0.5%. The decrease was due primarily to tax revenue received from a personal property tax. Actual expenditures for the year were \$ 26,516,292 or 0.3% 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 \$ 5,155,441 was \$ 64,222 higher than revised budgetary projections.

Capital Assets

Capital Assets

All capital assets, except land, are reported net of depreciation. At the end of fiscal 2003, the District had \$ 95,212,336 invested in land, buildings, equipment and vehicles. Table 4 shows fiscal 2003 values compared to 2002. Please note that the fiscal year 2002 Capital Assets are restated due to the change in the capitalization policy of the district. More detailed information is presented in Note 10 of the basic financial statements.

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

	Capital Assets at June 30,	
	2003	2002
Land Improvements	\$ 12,465,307	\$ 12,465,307
Building and Improvements	78,657,385	80,393,551
Furniture and Equipment	3,640,619	4,202,554
Vehicles	449,025	689,032
Total Capital Assets	\$ 95,212,336	\$ 97,750,444

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Unaudited)**

During fiscal year 2003, the District purchased \$ 412,672 of capital assets. Approximately 16 percent or \$ 68,050 of the purchases was for a school bus, 52 percent or \$ 212,923 for furniture and equipment with the remaining 32 percent or \$131,699 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, 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 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 as a 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 the Chief Financial Officer at Perry Local School District, 4325 Manchester Avenue, Perry, Ohio 44081.

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
STATEMENT OF NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 17,019,427
Cash with Fiscal Agent	543,503
Accounts Receivable	17,908
Accrued Interest	60,977
Intergovernmental Receivable	84,468
Materials and Supplies Inventory	191,097
Prepaid Items	29,366
Taxes Receivable	15,884,352
Nondepreciable Capital Assets	12,465,307
Depreciable Capital Assets, Net	82,747,029
Total Assets	129,043,434
Liabilities	
Accounts Payable	273,047
Accrued Wages	2,248,225
Intergovernmental Payable	311,584
Claims Payable	251,504
Deferred Revenue	15,823,428
Long-term Liabilities:	
Due Within One Year	71,480
Due in More than One Year	3,630,437
Total Liabilities	22,609,705
Net Assets	
Invested in Capital Assets	95,212,336
Restricted for:	
Capital Projects	8,656,228
Set Asides	25,237
Other Purposes	2,134,370
Unrestricted	405,558
Total Net Assets	\$ 106,433,729

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, 2003**

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants	
Governmental Activities					
Instruction:					
Regular	\$ 14,175,032	\$ 10,380	\$ -	\$ -	\$ (14,164,652)
Special	1,269,402	-	55,286	-	(1,214,116)
Vocational	114,383	-	-	-	(114,383)
Other Instruction	69,240	-	-	-	(69,240)
Support Services:					
Pupil	950,288	-	110,550	-	(839,738)
Instruction Staff	2,339,328	-	-	-	(2,339,328)
Board of Education	152,511	-	-	-	(152,511)
Administration	2,629,941	-	10,696	-	(2,619,245)
Fiscal	610,539	-	-	-	(610,539)
Business	46,852	-	-	-	(46,852)
Operation and Maintenance of Plant	3,559,262	-	6,669	-	(3,552,593)
Pupil Transportation	1,901,163	27,769	-	27,562	(1,845,832)
Central	36,117	-	-	-	(36,117)
Operation of Non-Instructional Services					
Food Service	577,810	311,853	143,454	-	(122,503)
Other	363,411	-	-	-	(363,411)
Extracurricular Activities	1,381,559	-	216,438	-	(1,165,121)
Totals	<u>\$ 30,176,838</u>	<u>\$ 350,002</u>	<u>\$ 543,093</u>	<u>\$ 27,562</u>	<u>\$ (29,256,181)</u>

General Revenues

Property Taxes Levied for:

General Purpose	\$ 12,445,857
Grants and Entitlements not Restricted to Specific Program	11,952,691
Investment Earnings	436,900
Gain on Sale of Assets	11,779
Miscellaneous	<u>1,125,593</u>
Total General Revenues	25,972,820
Transfers	<u>(35,175)</u>
Total General Revenues and Transfers	<u>25,937,645</u>
Change in Net Assets	(3,318,536)
Net Assets Beginning of Year (Note 3)	<u>109,752,265</u>
Net Assets End of Year	<u>\$ 106,433,729</u>

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

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	General	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$ 6,305,365	\$ 9,029,909	\$ 1,493,916	\$ 16,829,190
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	25,237	-	-	25,237
Taxes Receivable	15,884,352	-	-	15,884,352
Accounts Receivable	1,507	-	16,401	17,908
Materials and Supplies Inventory	143,449	-	47,648	191,097
Intergovernmental Receivable	-	-	84,468	84,468
Interest Receivable	60,977	-	-	60,977
Prepaid Items	29,366	-	-	29,366
	<u>\$ 22,450,253</u>	<u>\$ 9,029,909</u>	<u>\$ 1,642,433</u>	<u>\$ 33,122,595</u>
Liabilities and Fund Balances				
Liabilities				
Accounts Payable	\$ 241,227	\$ 14,346	\$ 17,474	\$ 273,047
Accrued Wages and Benefits	2,200,055	-	48,169	2,248,224
Intergovernmental Payable	277,240	-	34,344	311,584
Deferred Revenue	15,679,425	-	212,829	15,892,254
Total Liabilities	<u>18,397,947</u>	<u>14,346</u>	<u>312,816</u>	<u>18,725,109</u>
Fund Balances				
Reserved for Encumbrances	646,452	363,635	122,309	1,132,396
Reserved for Property Taxes	204,927	-	-	204,927
Budget Stabilization Reserve	25,237	-	-	25,237
Unreserved:				
Undesignated, Reported in:				
General Fund	3,175,690	-	-	3,175,690
Special Revenue Funds	-	-	1,203,008	1,203,008
Capital Projects Funds	-	8,651,928	4,300	8,656,228
Total Fund Balances	<u>4,052,306</u>	<u>9,015,563</u>	<u>1,329,617</u>	<u>14,397,486</u>
Total Liabilities and Fund Balances	<u>\$ 22,450,253</u>	<u>\$ 9,029,909</u>	<u>\$ 1,642,433</u>	<u>\$ 33,122,595</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
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Total Governmental Fund Balances		\$ 14,397,486
<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		95,212,336
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Delinquent Property Taxes		68,826
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.		456,999
Certain long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds:		
Capital Leases	(28,609)	
Compensated Absences	(3,673,309)	
Total	(3,701,918)	(3,701,918)
<i>Net Assets of Governmental Activities</i>		\$ 106,433,729

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, 2003**

	General	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$ 12,445,857	\$ -	\$ -	\$ 12,445,857
Intergovernmental	11,839,376	-	397,272	12,236,648
Interest	310,465	126,435	-	436,900
Tuition and Fees	56,976	-	9,837	66,813
Extracurricular Activities	-	-	216,438	216,438
Charges for Services	-	-	453,483	453,483
Miscellaneous	516,334	402,707	207,095	1,126,136
Total Revenues	<u>25,169,008</u>	<u>529,142</u>	<u>1,284,125</u>	<u>26,982,275</u>
Expenditures				
Current:				
Instruction:				
Regular	10,952,308	-	95,882	11,048,190
Special	1,156,675	-	51,843	1,208,518
Vocational	111,581	-	-	111,581
Other	23,805	-	-	23,805
Support Services:				
Pupil	832,930	-	75,510	908,440
Instructional Staff	2,134,952	-	9,132	2,144,084
Board of Education	108,040	-	-	108,040
Administration	2,541,800	-	7,448	2,549,248
Fiscal	609,225	-	-	609,225
Business	45,909	-	-	45,909
Operation and Maintenance of Plant	3,801,370	-	6,669	3,808,039
Pupil Transportation	1,808,567	-	-	1,808,567
Central	41,560	-	-	41,560
Operation of Non-instructional Services:				
Food Service	-	-	924,381	924,381
Other	38,750	-	115,690	154,440
Extracurricular Activities	799,918	-	277,211	1,077,129
Capital Outlay	26,011	70,201	-	96,212
Total Expenditures	<u>25,033,401</u>	<u>70,201</u>	<u>1,563,766</u>	<u>26,667,368</u>
Excess of Revenues Over (Under)				
Expenditures	<u>135,607</u>	<u>458,941</u>	<u>(279,641)</u>	<u>314,907</u>
Other Financing Sources (Uses)				
Sale of Assets	11,779	-	-	11,779
Transfers In	-	-	304,150	304,150
Transfers Out	(339,325)	-	(165,000)	(504,325)
Total Other Financing Sources (Uses)	<u>(327,546)</u>	<u>-</u>	<u>139,150</u>	<u>(188,396)</u>
Net Change in Fund Balances	(191,939)	458,941	(140,491)	126,511
Fund Balances Beginning of Year - Restated (Note 3)	<u>4,244,245</u>	<u>8,556,622</u>	<u>1,470,108</u>	<u>14,270,975</u>
Fund Balances End of Year	<u>\$ 4,052,306</u>	<u>\$ 9,015,563</u>	<u>\$ 1,329,617</u>	<u>\$ 14,397,486</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, 2003**

Net Change in Fund Balances - Total Governmental Funds \$ 126,511

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	412,672	
Current Year Depreciation	<u>(2,950,790)</u>	
Total		(2,538,118)

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

Grants	(128,657)	
Prepays	<u>(44,570)</u>	
Total		(173,227)

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

213,994

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	(964,663)	
Capital Lease	<u>16,967</u>	
Total		<u>(947,696)</u>

Changes in Net Assets of Governmental Activities \$ (3,318,536)

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, 2003**

Revenue	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
Taxes	\$ 13,203,895	\$ 13,649,466	\$ 12,501,616	\$ (1,147,850)
Intergovernmental	11,327,305	10,575,117	11,839,376	1,264,259
Interest	550,000	550,000	338,921	(211,079)
Tuition and Fees	44,500	44,500	65,104	20,604
Charges for Services	50,200	24,200	-	(24,200)
Rentals	12,000	-	-	-
Miscellaneous	28,100	40,100	19,111	(20,989)
Total Revenues	25,216,000	24,883,383	24,764,128	(119,255)
Expenditures				
Current:				
Instruction:				
Regular	11,999,433	11,168,725	11,168,580	145
Special	1,164,153	1,206,983	1,206,983	-
Vocational	119,659	113,867	113,867	-
Other	54,625	23,958	23,958	-
Support Services:				
Pupil	882,615	864,667	864,638	29
Instructional Staff	2,688,552	2,329,957	2,329,432	525
Board of Education	269,753	141,192	141,192	-
Administration	2,695,730	2,709,255	2,693,941	15,314
Fiscal	642,361	656,053	655,774	279
Business	78,800	49,992	49,656	336
Operation and Maintenance of Plant	4,823,398	4,347,266	4,286,353	60,913
Pupil Transportation	1,920,604	1,850,514	1,850,514	-
Central	91,914	60,900	60,900	-
Operation of Non-instructional Services	69,500	40,481	40,481	-
Extracurricular Activities	863,903	960,424	960,424	-
Capital Outlay	5,000	69,599	69,599	-
Total Expenditures	28,370,000	26,593,833	26,516,292	77,541
Excess of Revenues Over (Under) Expenditures	(3,154,000)	(1,710,450)	(1,752,164)	(41,714)
Other Financing Sources (Uses)				
Transfers Out	(330,000)	(339,325)	(339,325)	-
Refund of Prior Years Expenditures	402,000	402,000	496,857	94,857
Sale of Assets	2,000	2,000	13,079	11,079
Total Other Financing Sources (Uses)	74,000	64,675	170,611	105,936
Net Change in Fund Balance	(3,080,000)	(1,645,775)	(1,581,553)	64,222
FUND BALANCES - BEGINNING OF YEAR	4,477,831	4,477,831	4,477,831	-
PRIOR YEAR ENCUMBRANCES - APPROPRIATED	2,259,163	2,259,163	2,259,163	-
FUND BALANCES - END OF YEAR	\$ 3,656,994	\$ 5,091,219	\$ 5,155,441	\$ 64,222

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
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Governmental Activities - Internal Service Fund <hr style="width: 100%;"/>
Assets	
Cash	\$ 165,000
Cash with Fiscal Agent	<u>543,503</u>
Total Assets	<u>\$ 708,503</u>
Liabilities	
Claims Payable	<u>\$ 251,504</u>
Total Liabilities	<u>\$ 251,504</u>
Net Assets	
Unrestricted	<u>456,999</u>
Total Net Assets	<u><u>\$ 456,999</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, 2003

	Governmental Activities - Internal Service Fund <hr style="width: 100%;"/>
Operating Revenues	
Charges for Services	\$ 1,274,047
Operating Expenses	
Claims	<hr style="width: 100%;"/> 1,225,053
Operating Income Before Transfers	48,994
Transfers In	<hr style="width: 100%;"/> 165,000
Change in Net Assets	213,994
Net Assets Beginning Year	<hr style="width: 100%;"/> 243,005
Net Assets End of Year	<hr style="width: 100%;"/> <hr style="width: 100%;"/> \$ 456,999

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, 2003

	Governmental Activities Internal Service Fund <hr/>
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Interfund Services	\$ 1,274,047
Cash Payments for Claims	(1,194,908)
Net Cash Provided by Operating Activities	<hr/> 79,139
Cash Flows from Non-Capital Financing Activities	
Operating transfers in	165,000
Net Cash Provided by Non-Capital Financing Activities	<hr/> 165,000
Net Increase in Cash and Cash Equivalents	244,139
Cash and Cash Equivalents - Beginning of Year	<hr/> 464,364
Cash and Cash Equivalents - End of Year	<hr/> <hr/> \$ 708,503
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income	\$ 48,994
Adjustments	
Increase in Claims Payable	<hr/> 30,145
Net Cash Provided by Operating Activities	<hr/> <hr/> \$ 79,139

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

PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Agency	Private Purpose Trust	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$ 63,904	\$ 8,966	\$ 72,870
Accounts Receivable	267	-	267
Total Assets	\$ 64,171	\$ 8,966	\$ 73,137
Liabilities			
Accounts Payable	\$ 1,882	\$ -	\$ 1,882
Due to Students	62,289	-	62,289
Total Liabilities	\$ 64,171	0	64,171
Net Assets			
Held in trust for scholarships		8,966	8,966
Total Net Assets		\$ 8,966	\$ 8,966

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

PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
STATEMENT OF CHANGES IN FIDUCIARY NET ASSET
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Private Purpose Trust
Additions	
Investment Earnings	\$ 207
Other	1,314
Total Additions	1,521
Deductions	
Scholarships	2,000
Total Deductions	2,000
Changes in Net Assets	(479)
Net Assets Beginning of Year	9,445
Net Assets End of Year	\$ 8,966

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, 2003**

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 119 classified personnel, 149 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 17, 18 and 19 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 and business-type 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
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(CONTINUED)**

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 and business-type activities of the District at 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 business activity or governmental activity 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 and proprietary 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 proprietary fund statements. The fiduciary fund is 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
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(CONTINUED)**

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.

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 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
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(CONTINUED)**

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 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 7). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the 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, 2003, but which were levied to finance fiscal year 2004 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
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(CONTINUED)**

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".

During fiscal year 2003, 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, 2003.

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 2003 amounted to \$ 310,465.

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 23 for additional information regarding set-asides.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2003 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
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(CONTINUED)**

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.

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(CONTINUED)**

Note 2 – Summary of Significant Accounting Policies (Continued)

K. Accrued Liabilities and Long-Term Obligations

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

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. Net asset restricted for other purposes include self insurance and termination benefit programs.

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 charges for services for the 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.

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(CONTINUED)**

Note 2 – Summary of Significant Accounting Policies (Continued)

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.

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 Treasurer has been given the authority to allocate Board appropriations to the function and object levels.

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.

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(CONTINUED)**

Note 2 – Summary of Significant Accounting Policies (Continued)

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated revenues by fund. The amounts reported as the original budgeted amounts reflect the first appropriation 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 – Changes in Accounting Principles and Restatement of Fund Balance

Changes in Accounting Principles – For fiscal year 2003, the District has implemented GASB Statement No. 34, “Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments”, GASB Statement No. 37, “Basic Financial Statements for State and Local Governments: Omnibus”, GASB Statement No. 38, “Certain Financial Statement Note Disclosures”, GASB Statement No. 41, Budgetary Comparison Schedules - Perspective Differences”, and GASB Interpretation No. 6, “Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements”.

GASB Statement No. 34 creates new basic financial statements for reporting on the District’s financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements, which present information for individual major funds rather than by fund type. Non-major funds are presented in total in one column. Fiduciary funds are reported by type.

On the government-wide financial statements, the beginning net assets amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2002, caused by the reclassification of funds which includes reclassifying enterprise funds as special revenue funds for reporting purposes and a change in the capital asset threshold amount from \$ 500 to \$ 1,500.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management’s Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38 modifies, establishes and rescinds certain financial statement note disclosures.

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the District not being able to present budgetary comparisons for the general and each major special revenue fund. This Statement was not applicable to the School District for fiscal year 2003.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

Restatement of Fund Balance – The new standards for reporting fund obligations for compensated absences in Interpretation 6 caused changes in previously reported fund balances. The new standards also call for reporting prepaids and that caused a change in previously reported fund balances. These restatements had the following effects on fund balance of the major and nonmajor funds of the District as they were previously reported. The transition from governmental fund balances to net assets of the governmental activities is also presented.

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(CONTINUED)**

Note 3 – Changes in Accounting Principles and Restatement of Fund Balance (Continued)

	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor</u>	<u>Total</u>
Fund Balances, June 30, 2002	\$ 4,435,958	\$ 8,560,922	\$ 1,236,774	\$ 14,233,654
Fund Reclassification	(243,005)	(4,300)	274,765	27,460
Intergovernmental Receivable	--	--	(42,594)	(42,594)
Interpretation 6:				
Compensated Absences Payable	<u>51,292</u>	<u>--</u>	<u>1,163</u>	<u>52,455</u>
Restated Fund Balances, June 30, 2002	<u>\$4,244,245</u>	<u>\$8,556,622</u>	<u>\$ 1,470,108</u>	14,270,975
GASB 34 Adjustments:				
Receivables Deferred On The Fund Level				197,483
Capital Assets				97,750,454
Prepaid Assets				44,570
Long-Term Liabilities:				
Compensated Absences Payable				(2,708,646)
Capital Lease Payable				(45,576)
Internal Service Fund Net Assets				<u>243,005</u>
Governmental Activities Net				
Assets June 30, 2002				<u>\$ 109,752,265</u>

The District changed the threshold for capital assets that reduced the general fixed assets account group as previously reported by \$4,712,872. The workers compensation fund balance of \$212,678 was reclassified to nonmajor funds.

The healthcare self-insurance fund was restated from the general to the internal service fund. The prior year's internal service fund was reclassified to nonmajor funds. The enterprise fund was reclassified to nonmajor funds. These restatements are as follows:

	<u>Internal Service Fund</u>	<u>Enterprise Fund</u>
Fund Equity As Of June 30, 2002	\$ 12,331	\$ 45,456
Reclassification to nonmajor	(12,331)	<u>(45,456)</u>
Prior Period Adjustment	<u>243,005</u>	
Reclassified Balance, June 30, 2002	<u>\$ 243,005</u>	<u>\$ --</u>

Note 4 – Compliance and Accountability

A. Fund Deficits

The following funds had a deficit fund balance or deficit net assets as of June 30, 2003:

	<u>Deficit Fund Balance</u>
Special Revenue Fund:	
Food Service	\$ 84,817
Agency Fund:	
Class of 2003	\$ 89

The deficit in the special revenue funds and agency 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
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(CONTINUED)**

Note 4 – Compliance and Accountability (Continued)

B. Compliance

The Food Service Special Revenue Fund had total appropriations in excess of estimated resources plus carryover balances for the fiscal year ended June 30, 2003 in the amount of \$ 143.

Note 5 – 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.

	Net Change in Fund Balance
GAAP basis	\$ (191,939)
Net adjustment for revenue accruals	93,277
Net adjustment for expenditure accruals	776,272
Adjustment for encumbrances	(2,259,163)
Budget basis	\$ (1,581,553)

Note 6 – 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.

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(CONTINUED)**

Note 6 – Deposits and Investments (Continued)

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.

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.

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(CONTINUED)**

Note 6 - Deposits and Investments (Continued)

At June 30, 2003, the District's self-insurance internal service fund had a balance of \$543,503 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 19). The money is held by the claims serviced 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 Plan's fiscal agent, the Mentor Exempted Village School District. To obtain financial information, write to the Treasurer, Mentor Exempted Village School District, 6451 Center Street, Mentor, Ohio 44060.

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 \$ (39,860) and bank balance was \$ 476,093. \$ 100,000 of the bank balance was covered by federal depository insurance. \$ 376,093 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 or agency but not in the District's name. The District investments in STAROhio, the State Treasurer's Investment Pool is not classified by degree of credit risk since it is not evidenced by securities that exist in physical or book entry form.

	<u>Category 2</u>	<u>Category 3</u>	<u>Carrying/ Fair Value</u>
Federal Home Loan Mortgage Corporation	\$2,995,500	\$ --	\$ 2,995,500
Federal National Mortgage Association notes	1,007,600	1,059,550	2,067,150
Federal Home Loan Bank notes	--	3,527,450	3,527,450
Corporate cash	--	140,991	140,991
STAROhio	--	--	8,400,066
	<u>\$4,003,100</u>	<u>\$4,727,991</u>	<u>\$17,131,157</u>

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(CONTINUED)**

Note 6 – Deposits and Investments (Continued)

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:

	Cash and Cash <u>Equivalents</u>	<u>Investments</u>
GASB Statement No. 9	\$ 17,635,800	\$ --
Money held by health care program's Fiscal agent	(543,503)	--
Cash on hand	(1,000)	--
Investments of cash management pool:		
Federal Home Loan Mortgage Corp.	(2,995,500)	2,995,500
Federal National Mortgage Association notes	(2,067,150)	2,067,150
Federal home loan bank notes	(3,527,450)	3,527,450
Corporate cash	(140,991)	140,991
STAROhio	<u>(8,400,066)</u>	<u>8,400,066</u>
GASB Statement No. 3	<u>\$ (39,860)</u>	<u>\$ 17,131,157</u>

Note 7 – 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 2003 represents collections of calendar year 2002 taxes. Real property taxes received in calendar year 2003 were levied after April 1, 2002, on the assessed value listed as of January 1, 2002, 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, payments 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 payments dates to be established.

Public utility property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Public utility real and tangible personal property taxes received in calendar year 2003 became a lien December 31, 2001, were levied after April 1, 2002 and are collected in 2003 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, which is being reduced to twenty-five percent and replaced, in part, by intergovernmental revenue.

Tangible personal property tax revenue received during calendar 2003 (other than public utility property) represents the collection of 2003 taxes. Tangible personal property taxes received in calendar year 2003 were levied after April 1, 2002, on the value as of December 31, 2002. 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.

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(CONTINUED)**

Note 7 – Property Taxes (Continued)

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, 2003 are available to finance fiscal year 2003 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, 2003 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, 2003 was \$204,927 in the General Fund. The amount available as an advance at June 30, 2002 was \$260,686 in the General Fund.

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

	<u>2002 Second Half Collections</u>		<u>2003 First Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agriculture/residential and Other real estate	\$ 262,444,310	56%	\$ 266,286,160	53%
Public utility personal	151,204,940	32	210,365,000	42
Tangible personal property	<u>58,592,718</u>	<u>12</u>	<u>24,218,272</u>	<u>5</u>
	<u>\$ 472,241,968</u>	<u>100%</u>	<u>\$ 500,869,432</u>	<u>100%</u>
 Tax rate per \$ 1,000 of Assessed valuation	 \$ 44.20		 \$ 44.20	

Note 8 – Receivables

Receivables at June 30, 2003 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. Intergovernmental receivables were \$84,468 for Special Revenue Funds.

Note 9 – 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.

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(CONTINUED)**

Note 9 – Lake County School Financing District (Continued)

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 the 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.

Note 10 – Capital Assets

Capital asset activity for the fiscal year ended June 30, 2003 was as follows:

	<u>Balance June 30, 2002</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June30, 2003</u>
Governmental Activities				
Capital assets not being depreciated Land	\$ 12,465,307	\$ --	\$ --	\$ 12,465,307
Capital assets, being depreciated				
Building and improvements	96,736,292	131,699	--	96,867,991
Furniture and equipment	12,455,673	212,923	(38,632)	12,629,964
Vehicles	<u>2,254,135</u>	<u>68,050</u>	<u>(60,460)</u>	<u>2,261,725</u>
Total	<u>111,446,100</u>	<u>412,672</u>	<u>(99,092)</u>	<u>111,759,680</u>
Less accumulated depreciation				
Building and Improvements	(16,342,731)	(1,867,875)	--	(18,210,606)
Furniture and Equipment	(8,253,119)	(774,858)	38,632	(8,989,345)
Vehicles	<u>(1,565,103)</u>	<u>(308,057)</u>	<u>60,460</u>	<u>(1,812,700)</u>
Total	<u>(26,160,953)</u>	<u>(2,950,790)</u>	<u>99,092</u>	<u>(29,012,651)</u>
Total capital assets being depreciated, net	<u>85,285,147</u>	<u>(2,538,118)</u>	<u>--</u>	<u>82,747,029</u>
Government activities capital assets, net	<u>\$ 97,750,454</u>	<u>\$ (2,538,118)</u>	<u>\$ --</u>	<u>\$ 95,212,336</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 2,341,954
Special	793
Vocational	755
Support Services:	
Pupil	1,692
Instructional staff	133,008
Administration	23,047
Fiscal	2,525
Business	943
Operation and maintenance of plant	271,140
Pupil transportation	113,303
Central	418
Operation of non-instructional services	
Food services	27,563
Extracurricular activities	27,189
Other	<u>6,460</u>
Total depreciation expense	<u>\$ 2,950,790</u>

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(CONTINUED)**

Note 11 – 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, 2003:

<u>Year Ending June 30,</u>	<u>Amount</u>
2004	\$ 19,995
2005	10,494
2006	--
Total payments	<u>30,489</u>
Less: amount representing interest	(1,880)
Present value of minimum lease payments	<u>\$ 28,609</u>

	<u>Balance at July 1, 2002</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2003</u>
Lease obligations	<u>\$ 45,576</u>	<u>\$ --</u>	<u>\$ (16,967)</u>	<u>\$ 28,609</u>

Note 12 – 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.

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(CONTINUED)**

Note 12 – Risk Management (Continued)

B. Workers' Compensation

The District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 18). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP.

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

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, 2003 claim's liability was determined based on the percentage of the District's participants to total pool participants. For the year ended June 30, 2003, the pools cash reserves and claims liability were \$ 5,990,506 and \$ 2,772,079, respectively. The District's allocated pool percentage for the year ended June 30, 2003 was 9 percent, which represents \$ 543,503 and \$ 251,504 of pool cash reserves and claims liability, respectively.

	Balance at Beginning of Year	Current Year Claims	Current Year Payments	Balance at End of Year
2002	\$ 222,014	\$ 1,439,963	\$ 1,440,618	\$ 221,359
2003	\$ 221,359	\$ 1,255,198	\$ 1,225,053	\$ 251,504

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(CONTINUED)**

Note 13 – Pension Plans

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by 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.

Plan members are required to contribute 9 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 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46 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, 2003, 2002 and 2001 were \$340,307, \$249,147 and \$178,449, respectively; 90.9 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001.

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 PC 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.

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(CONTINUED)**

Note 13 – Pension Plans (Continued)

B. State Teachers Retirement System (Continued)

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 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 2002, the portion used to fund pension obligations was 9.5 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.

The District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2003, 2002 and 2001 were \$,437,265, \$994,102 and \$633,088, respectively; 93.6 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. Contributions to the DC and Combined Plans for fiscal year 2003 were \$ 6,588 made by the District and \$7,203 made by the Plan members.

Note 14 – 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, 2003, 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 \$110,559 for fiscal year 2003.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2003, the balance in the Fund was \$2.8 billion. For the year ended June 30, 2002, net health care costs paid by STRS were \$352,301,000 and STRS had 108,294 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, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll, a decrease of 2.71 percent from fiscal year 2002. 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 2003, the minimum pay was established at \$14,500. For the District, the amount contributed to fund health care benefits, including the surcharge, during the 2003 fiscal year equaled \$272,087.

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(CONTINUED)**

Note 14 – Postemployment Benefits (Continued)

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. 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, 2003 were \$ 204,930,737 and the target level was \$ 307.4 million. At June 30, 2003, SERS had net assets available for payment of health care benefits of \$ 303.6 million. SERS has approximately 50,000 participants currently receiving health care benefits.

Note 15– 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 16 – Long-Term Obligations

Changes in long-term obligations of the District during fiscal year 2003 were as follows:

	<u>Outstanding June 30, 2002</u>	<u>Additions</u>	<u>Deductions</u>	<u>Outstanding June 30, 2003</u>	<u>Amounts Due in One Year</u>
Compensated Absences	\$ 2,708,646	\$ 1,249,180	\$ (284,518)	\$ 3,673,308	\$ 53,104
Capital Lease	45,576	--	(16,967)	28,609	18,376
Total	<u>\$ 2,754,222</u>	<u>\$ 1,249,180</u>	<u>\$ (301,485)</u>	<u>\$ 3,701,917</u>	<u>\$ 71,480</u>

Note 17 – 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. In fiscal year 2003, the District paid \$ 110,158 to the East Shore Center. Financial information can be obtained by writing the fiscal agent, Lake County Educational Service Center, 30 South Place, Suite 30, Painesville, Ohio 44077.

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(CONTINUED)**

Note 17 – Jointly Governed Organizations (Continued)

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. In fiscal year 2003, the District paid \$ 3,670 to the Council. Financial information can be obtained by contacting Kathleen T. Neal, the Executive Secretary/Treasurer of the Ohio Schools Council at 6133 Rockside Road, Suite 10, Independence, OH 44131.

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.

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(CONTINUED)**

Note 17 – Jointly Governed Organizations (Continued)

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.

Note 18 – 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 19 – 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. All participating members retain their risk and are completely responsible for paying their own claims. The HCBP acts solely as the claims servicing agent.

Note 20 – 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, 2003.

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.

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(CONTINUED)**

Note 21 – Interfund Transactions

Transfers are primarily from the General Fund to various special revenue funds within the District. During the year, the District transferred funds to agency accounts to subsidize their support. The District also created a self-insurance fund during the year and the general fund transferred \$ 165,000 to cover actual costs.

Transfers made during the year ended June 30, 2003 were as follows:

	<u>Transfer From</u> <u>Governmental</u>
	<u>Activities</u>
	<u>General</u>
<u>Transfer To</u>	
<u>Governmental Activities</u>	
General	\$ --
Non-major funds	<u>304,150</u>
Total governmental	<u>304,150</u>
<u>Fiduciary</u>	
Agency	<u>35,175</u>
Total fiduciary	<u>35,175</u>
Grand total	<u>\$ 339,325</u>

Note 22 – 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 23 – 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.

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(CONTINUED)**

Note 23 – Set-Asides (Continued)

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 Reserve	Capital Improve- ments Reserve	Budget Stabili- zation Reserve
Set-aside reserve balance as of June 30, 2002	\$ (4,556,765)	\$ --	\$ 25,237
Current year set-aside requirement	261,761	261,761	--
Qualifying disbursements	<u>(760,956)</u>	<u>(990,028)</u>	<u>--</u>
Totals	<u>\$ (5,055,960)</u>	<u>\$ (728,267)</u>	<u>\$ 25,237</u>
Set-aside balance as of June 30, 2003 and carried forward to future fiscal years	<u>\$ --</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.

Note 24 – Subsequent Events

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 \$ 9.1 million and would be paid in ten installments over five years.

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**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003**

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM OR CLUSTER TITLE	Pass-Through Entity Number	Federal CFDA Number	Receipts	Non-cash Receipts	Disburse- ments	Non-cash Disburse- ments
U.S. DEPARTMENT OF AGRICULTURE:						
Passed Through State Department of Education:						
Child Nutrition Cluster						
Food Distribution Program	N/A	10.550	\$0	\$56,729	\$0	\$45,223
School Lunch Program	LL-P4-02	10.555	22,000	0	22,000	0
	LL-P4-03	10.555	59,144	0	59,144	0
			<u>81,144</u>	<u>0</u>	<u>81,144</u>	<u>0</u>
Total U.S. Department of Agriculture - Child Nutrition Cluster			<u>81,144</u>	<u>56,729</u>	<u>81,144</u>	<u>45,223</u>
U.S. DEPARTMENT OF EDUCATION:						
Passed-Through State Department of Education:						
Special Education Cluster						
Special Education - Title VIB	6B-SF-02P	84.027	1,440	0	26,046	0
Total Title VIB	6B-SF-03P	84.027	136,669	0	42,784	0
			<u>138,109</u>	<u>0</u>	<u>68,830</u>	<u>0</u>
Special Education - Preschool						
Special Education - Preschool	PG-S1-02P	84.173	0	0	10,820	0
Total Preschool Grant	PG-S1-03P	84.173	10,807	0	10,807	0
			<u>10,807</u>	<u>0</u>	<u>21,627</u>	<u>0</u>
Special Education Cluster Total			<u>148,916</u>	<u>0</u>	<u>90,457</u>	<u>0</u>
Grants to Local Educational Agencies						
Title I FY 02	C1-S1-02	84.010	9,733	0	9,733	0
Title I FY 03	C1-S1-03	84.010	35,881	0	37,857	0
Total Title I			<u>45,614</u>	<u>0</u>	<u>47,590</u>	<u>0</u>
Drug-Free Schools						
Drug-Free Schools	DR-S1-02	84.186	(582)	0	5,654	0
Drug-Free Schools	DR-S1-03	84.186	4,675	0	11,551	0
Total Drug-Free Schools			<u>4,093</u>	<u>0</u>	<u>17,205</u>	<u>0</u>
Title VI - Innovative Education Program Strategies						
Title VI - Innovative Education Program Strategies	C2-S1-01	84.298	0	0	666	0
Title VI - Innovative Education Program Strategies	C2-S1-02	84.298	(576)	0	2,000	0
Title VI - Innovative Education Program Strategies	C2-S1-03	84.298	9,371	0	474	0
Total Title VI			<u>8,795</u>	<u>0</u>	<u>3,140</u>	<u>0</u>
Eisenhower Professional Development						
Eisenhower Professional Development	MS-S1-01	84.281	524	0	1,276	0
Eisenhower Professional Development	MS-S1-02	84.281	(5,819)	0	0	0
Total Eisenhower Professional Development			<u>(5,295)</u>	<u>0</u>	<u>1,276</u>	<u>0</u>
Title II-D						
Title II-D	TJ-S1-03	84.318	177	0	982	0
Total Title II-D			<u>177</u>	<u>0</u>	<u>982</u>	<u>0</u>
Title VI-R						
Title VI-R	CR-S1-02	84.340	2,118	0	2,118	0
Total VI-R			<u>2,118</u>	<u>0</u>	<u>2,118</u>	<u>0</u>
ATIP Grant						
ATIP Grant	AT-S3-02	84.352	6,229	0	6,164	0
Total ATIP Grant			<u>6,229</u>	<u>0</u>	<u>6,164</u>	<u>0</u>
Title II-A						
Title II-A	TR-S1-03	84.367	32,120	0	27,999	0
Total Title II-A			<u>32,120</u>	<u>0</u>	<u>27,999</u>	<u>0</u>
Total U.S. Department of Education			<u>242,767</u>	<u>0</u>	<u>196,931</u>	<u>0</u>
Total Receipts and Expenditures of Federal Awards			<u>\$323,911</u>	<u>\$56,729</u>	<u>\$278,075</u>	<u>\$45,223</u>

See accompanying notes to Schedule of Federal Awards Receipts and Expenditures.

**PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B—CHILD NUTRITION CLUSTER

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

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

NOTE C – NEGATIVE RECEIPTS

The negative receipts for the Drug-Free Schools CFDA# 84.186 for \$582, Title VI CFDA# 84.298 for \$576 and the Eisenhower Professional Development CFDA# 84.281 for \$5,819 represent amounts that were transferred or refunded to the State due to expiration of period of availability.

CFDA – Catalog of Federal Domestic Assistance

N/A – Not Applicable



Auditor of State Betty Montgomery

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

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

We have audited the 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 year ended June 30, 2003, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 9, 2004, wherein we noted the District adopted Governmental Accounting Standards Board Statement No. 34 and changed its capitalization threshold for capital assets. 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 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 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 such an opinion. The results of our tests disclosed no instances of noncompliance we must report under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to the District's management in a separate letter date December 9, 2004.

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 for the purpose of expressing our opinions 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.

Perry Local School District
Lake 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, Board of Education, and federal awarding agencies and pass-through entities 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

December 9, 2004



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT OF COMPLIANCE WITH REQUIREMENTS APPLICABLE TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of the Perry Local School District, Lake County, Ohio, (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2003. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2003. We noted certain instances of noncompliance that do not require inclusion in the report that we have reported to the management of the District in a separate letter dated December 9, 2004.

Internal Control Over Compliance

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

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

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

December 9, 2004

PERRY LOCAL SCHOOL DISTRICT
LAKE COUNTY
SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under §.510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Child Nutrition Cluster, CFDA 10.550 & 10.555
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

None

3. FINDINGS FOR FEDERAL AWARDS

None



**Auditor of State
Betty Montgomery**

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**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
FEBRUARY 24, 2005**