

**PERRY LOCAL SCHOOL DISTRICT  
LAKE COUNTY**

**AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2006**





Mary Taylor, CPA  
Auditor of State

Board of Education  
Perry Local School District  
4325 Manchester Avenue  
Perry, Ohio 44081

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

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

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

March 6, 2007

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**PERRY LOCAL SCHOOL DISTRICT  
LAKE COUNTY  
AUDIT REPORT  
FOR THE YEAR ENDED JUNE 30, 2006**

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TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditor' Report	1-2
Management's Discussion and Analysis	3-10
Basic Financial Statements:	
Statement of Net Assets	11
Statement of Activities	12
Balance Sheet - Governmental Funds	13
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	14
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	15
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual - General Fund	17
Statement of Fund Net Assets - Internal Service Fund	18
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Internal Service Fund	19
Statement of Cash Flows - Internal Service Fund	20
Statement of Fiduciary Assets and Liabilities - Fiduciary Funds	21
Statement of Changes in Fiduciary Net Asset - Fiduciary Funds	22
Notes to the Basic Financial Statements	23-46
Schedule of Expenditures and Federal Awards - Cash	47
Notes to Supplemental Schedule of Expenditures of Federal Awards - Cash	48
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	49-50
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	51-52
Schedule of Findings and Questioned Costs	53-55
Summary Schedule of Prior Audit Findings	56

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**JAMES G. ZUPKA, C.P.A., INC.**

*Certified Public Accountants*

*5240 East 98<sup>th</sup> Street*

*Garfield Hts., Ohio 44125*

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**INDEPENDENT AUDITOR'S REPORT**

Board of Education  
Perry Local School District  
Perry, Ohio

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, Ohio, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Perry Local School District, Ohio'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, Ohio, as of June 30, 2006, and the respective changes in financial position and, where applicable, cash flows thereof, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2006, on our consideration of the Perry Local School District, Ohio's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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.

Our audit was conducted for the purpose of forming opinions on the basic financial statements that collectively comprise the Perry Local School District, Ohio's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and also is not a required part of the basic financial statements of the Perry Local School District, Ohio. The Schedule of Expenditures of Federal Awards has been subjected to the auditing procedures applied in the audit of the basic financial statements of the Perry Local School District, Ohio, and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

James G. Zupka, CPA, Inc.  
Certified Public Accountants

December 15, 2006

**PERRY LOCAL SCHOOL DISTRICT  
LAKE COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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, 2006. 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 2006 are as follows:

In total, net assets decreased by \$ 1,778,430.

Revenues for governmental activities totaled \$ 29,648,028 in 2006. Of this total, 95 percent consisted of General revenues while Program revenues accounted for the remaining balance of 5 percent.

Program expenses totaled \$ 31,426,458. Instructional expenses made up 54 percent of this total while support services accounted for 39 percent. Other expenses rounded out the remaining 7 percent.

### **Using the Annual Financial Report**

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

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

### **Reporting the District as a Whole**

#### **Statement of Net Assets and the Statement of Activities**

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

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

**PERRY LOCAL SCHOOL DISTRICT  
LAKE COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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

**Reporting the District's Most Significant Funds**

Fund Financial Statements

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

Governmental Funds

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

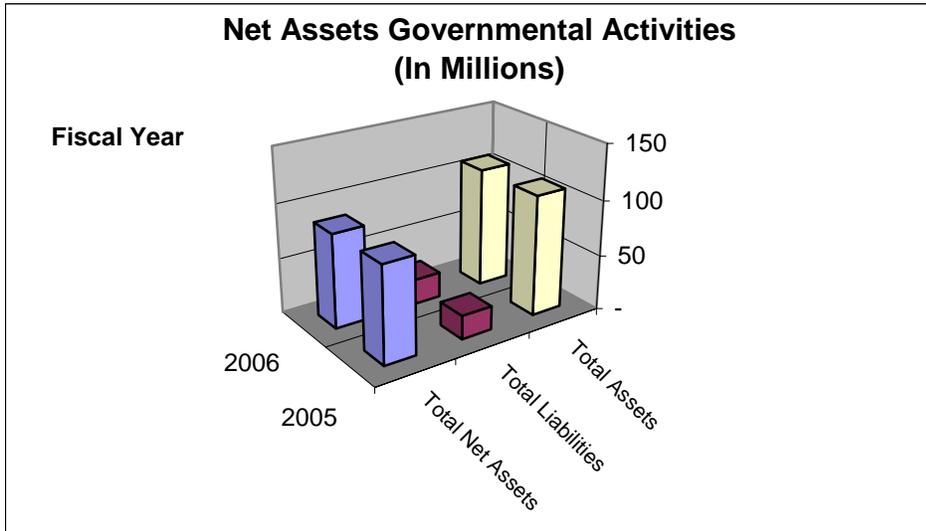
**The District as a Whole**

The Statement of Net Assets provides the perspective of the District as a whole. Table 1 provides a summary of the District's net assets for 2006 compared to 2005:

**Table 1  
Net Assets  
Governmental Activities**

<b>Assets</b>	<b>2006</b>	<b>As Restated 2005</b>	<b>Variance</b>
Current and Other Assets	\$ 48,639,466	\$ 46,196,111	\$ 2,443,355
Capital Assets, Net	<u>60,242,981</u>	<u>62,885,833</u>	<u>(2,642,852)</u>
<b>Total Assets</b>	<u>108,882,447</u>	<u>109,081,944</u>	<u>(199,497)</u>
<b>Liabilities</b>			
Current Liabilities	17,978,873	18,189,205	(210,332)
Long Term Liabilities			
Due within one year	232,416	44,507	187,909
Due within more than one year	<u>4,966,530</u>	<u>3,365,174</u>	<u>1,601,356</u>
<b>Total Liabilities</b>	<u>23,177,819</u>	<u>21,598,886</u>	<u>1,578,933</u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	59,992,836	62,885,833	(2,892,997)
Restricted for:			
Capital Projects	9,947,444	8,547,860	1,399,584
Set asides	25,237	25,237	0
Other purposes	858,908	2,603,572	(1,744,664)
Unrestricted	<u>14,880,203</u>	<u>13,420,556</u>	<u>1,459,647</u>
<b>Total Net Assets</b>	<u>\$ 85,704,628</u>	<u>\$ 87,483,058</u>	<u>\$ (1,778,430)</u>

**PERRY LOCAL SCHOOL DISTRICT  
LAKE COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**



Total assets decreased by \$ 199,497. The decrease can be primarily attributed to decreases in taxes receivable, accrued interest and capital assets softened by an increase in cash.

Total liabilities increased by \$ 1,578,933. The majority of the increase can be attributed primarily to the issuance of an energy conservation note.

The vast majority of revenue supporting all Governmental Activities is General revenues. General revenue totaled \$ 28,181,346 or 95 percent of the total revenue. Two significant portions of the General revenue are local property tax and grants and entitlements not restricted to specific program, this constitutes 91.1 percent of total revenue. The remaining amount of revenue was in the form of program revenues that equated to \$ 1,466,682 or only 5 percent of total revenue.

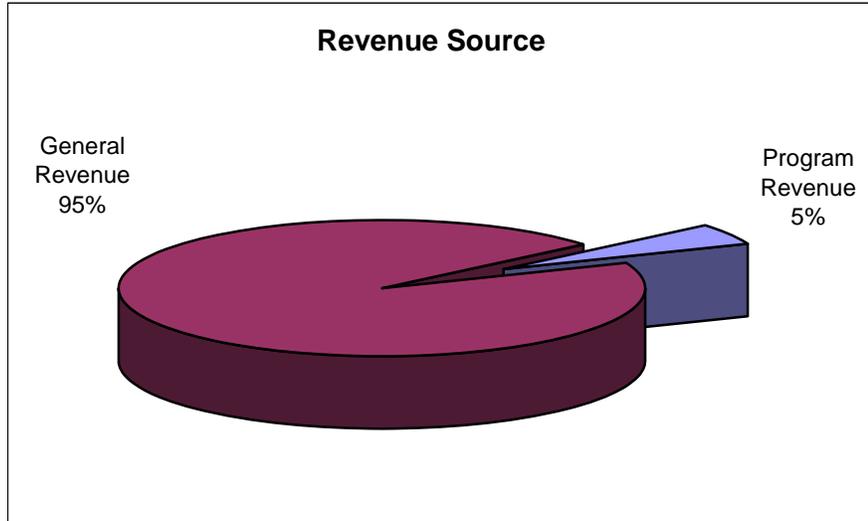
**PERRY LOCAL SCHOOL DISTRICT  
LAKE COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Table 2 shows the changes in net assets for fiscal year 2006 with comparative totals for fiscal year 2005.

**Table 2  
Governmental Activities**

	<u>2006</u>	<u>As Restated 2005</u>
Revenues		
Program Revenues		
Charges for Services and Sales	\$ 886,818	\$ 800,321
Operating Grants, and Contributions	579,864	465,565
Capital Grants	--	16,905
Total Program Revenues	<u>1,466,682</u>	<u>1,282,791</u>
General Revenue		
Property Taxes	15,324,587	15,151,250
Grants and Entitlements	11,682,411	11,826,865
Investment Earnings	848,737	806,475
Miscellaneous	<u>325,611</u>	<u>321,382</u>
Total General Revenues	<u>28,181,346</u>	<u>28,105,972</u>
<b>Total Program &amp; General Revenues</b>	<b><u>\$ 29,648,028</u></b>	<b><u>\$ 29,388,763</u></b>
Program Expenses		
Instruction:		
Regular	\$ 15,325,095	\$ 12,230,592
Special	821,449	1,090,125
Vocational	116,040	98,570
Other Instruction	785,313	32,197
Support Services:		
Pupil	878,232	742,116
Instructional Staff	2,349,787	3,121,059
Board of Education	139,355	157,757
Administration	1,585,349	2,416,152
Fiscal	690,717	1,010,287
Business	29,094	40,684
Operation and Maintenance of plant	4,515,919	4,963,921
Pupil Transportation	1,718,572	1,640,910
Central	205,084	189,676
Operation of Non-Instructional Services:		
Food Service	458,537	264,973
Other	288,604	2,167,803
Extracurricular Activities	<u>1,519,311</u>	<u>1,342,991</u>
<b>Total Program Expenses</b>	<b><u>\$ 31,426,458</u></b>	<b><u>\$ 31,509,813</u></b>
<b>Decrease in Net Assets</b>	<b><u>(\$ 1,778,430)</u></b>	<b><u>(\$ 2,121,050)</u></b>

**PERRY LOCAL SCHOOL DISTRICT  
LAKE COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

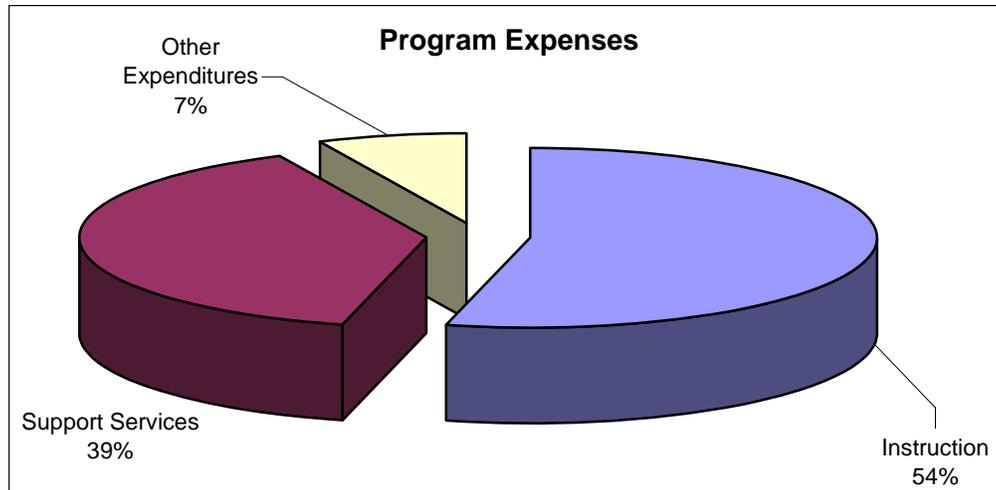


**Governmental Activities**

The District has carefully planned its financial future by forecasting its revenues and expenditures over the next five years. In October of 2006, 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 two (2007 – 2009) 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 54 percent of the District's program expense is used to fund instructional expenses. Additional supporting services for pupils, staff and business operations encompass an additional 39 percent. The remaining program expenses of 7 percent are expensed to facilitate other obligations of the District, such as non-instructional services and extracurricular activities.

**PERRY LOCAL SCHOOL DISTRICT  
LAKE COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**



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	<b>Total Cost of Services 2006</b>	<b>Net Cost of Services 2006</b>
Governmental Activities		
Instruction:		
Regular	\$ 15,325,095	(\$ 15,281,506)
Special	821,449	(766,957)
Vocational	116,040	(116,040)
Other Instruction	785,313	(785,313)
Support Services:		
Pupil	878,232	(531,054)
Instructional Staff	2,349,787	(2,348,796)
Board of Education	139,355	(139,355)
Administration	1,585,349	(1,585,349)
Fiscal Services	690,717	(690,717)
Business	29,094	(29,094)
Operations & Maintenance	4,515,919	(4,507,776)
Pupil Transportation	1,718,572	(1,718,572)
Central	205,084	(205,084)
Operation of Non-Instructional:		
Food Service	458,537	60,933
Other	288,604	(189,322)
Extracurricular Activities	<u>1,519,311</u>	<u>(1,125,774)</u>
<b>Total Program Expenses</b>	<b><u>\$ 31,426,458</u></b>	<b><u>(\$ 29,959,776)</u></b>

**PERRY LOCAL SCHOOL DISTRICT  
LAKE COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

As one can see, the reliance upon local tax revenues for governmental activities is crucial. Over 48 percent of expenses are directly supported by local property taxes. Grants and entitlements not restricted to specific programs support 38 percent, while investments and other miscellaneous type revenues support the remaining activity costs. Program revenues fund only 5 percent of all governmental expenses.

**The District Funds**

Information regarding the District's major funds can be found on page 13. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$ 32,213,078 and expenditures of \$ 29,220,624. The net change in fund balances for the year was as follows: General Fund \$ 2,346,410, Capital Projects Fund \$ 3,306,257 and Other Governmental Funds \$ (503,395).

**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 2006, the District amended its General Fund budget several times, none significantly. Fluctuations among the budget base expenditures categories are due to the District's site-based style of budgeting that is designed to tightly control expenses but provide flexibility for managers to redirect funds as conditions develop during the year.

Overall revenue received by the General Fund was more than revised budgetary projections by \$ 2,135,290 or 7.6 percent. Actual expenditures for the year were \$ 866,107 or 3.2 percent under General Fund revised budgetary projections. The decrease was due to lower than anticipated expenditures and management controls to reduce the expenditures. Fund unencumbered cash balance of \$ 13,743,148 was \$ 4,715,092 higher than revised budgetary projections.

**Capital Assets**

Capital Assets

All capital assets, except land, are reported net of depreciation. At the end of fiscal 2006, the District had \$ 66,982,074 and, building and improvements, furniture and equipment and vehicles. Table 4 shows fiscal 2006 values compared to 2005. More detailed information is presented in Note 9 of the basic financial statements.

**Table 4  
Governmental Activities**

	Capital Assets at June 30,	
	<u>2006</u>	<u>2005 (As Restated)</u>
Land	\$ 380,700	\$ 362,500
Construction in Progress	911,995	0
Land Improvements	4,677,405	5,235,650
Building and Improvements	53,376,658	56,264,112
Furniture and Equipment	331,962	356,941
Vehicles	461,078	431,700
Library and Textbooks	103,183	234,930
<b>Total Capital Assets</b>	<b><u>\$ 60,242,981</u></b>	<b><u>\$ 62,885,833</u></b>

**PERRY LOCAL SCHOOL DISTRICT  
LAKE COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

During fiscal year 2006, the District purchased \$ 259,712 of capital assets. Approximately 66 percent or \$ 172,594 of the purchase was for vehicles.

**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 user's tax on electricity. Our district receives approximately \$ 10.16 million annually from this fund, however it will sunset in 2017.

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

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

**Contacting the District's Financial Management**

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

**PERRY LOCAL SCHOOL DISTRICT  
LAKE COUNTY  
STATEMENT OF NET ASSETS  
JUNE 30, 2006**

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$ 25,525,183
Restricted Cash	1,931,910
Cash with Fiscal Agent	614,946
Accounts Receivable	17,901
Accrued Interest	33,515
Intergovernmental Receivable	34,652
Materials and Supplies Inventory	135,949
Prepaid Items	88,490
Taxes Receivable	20,256,920
Nondepreciable Capital Assets	13,326,294
Depreciable Capital Assets, Net	<u>46,916,687</u>
Total Assets	<u><u>\$ 108,882,447</u></u>
<b>Liabilities</b>	
Accounts Payable	\$ 73,938
Contracts Payable	651,246
Accrued Wages	2,642,625
Intergovernmental Payable	271,772
Claims Payable	244,371
Deferred Revenue	14,094,921
Long-term Liabilities:	
Due Within One Year	232,416
Due in More than One Year	<u>4,966,530</u>
Total Liabilities	<u>23,177,819</u>
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	59,992,836
Restricted for:	
Capital Projects	9,947,444
Set Asides	25,237
Other Purposes	858,908
Unrestricted	<u>14,880,203</u>
Total Net Assets	<u>85,704,628</u>
Total Liabilities and Net Assets	<u><u>\$ 108,882,447</u></u>

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, 2006**

<b>Governmental Activities</b>	<u>Expenses</u>	<u>Program Revenues</u>		Net
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	(Expense) Revenue and Changes in Net Assets
Instruction:				
Regular	\$ 15,325,095	\$ -	\$ 43,589	\$ (15,281,506)
Special	821,449	-	54,492	(766,957)
Vocational	116,040	-	-	(116,040)
Other Instruction	785,313	-	-	(785,313)
Support Services:				
Pupil	878,232	-	347,178	(531,054)
Instruction Staff	2,349,787	-	991	(2,348,796)
Board of Education	139,355	-	-	(139,355)
Administration	1,585,349	-	-	(1,585,349)
Fiscal	690,717	-	-	(690,717)
Business	29,094	-	-	(29,094)
Operation and Maintenance of Plant	4,515,919	-	8,143	(4,507,776)
Pupil Transportation	1,718,572	-	-	(1,718,572)
Central	205,084	-	-	(205,084)
Operation of Non-Instructional Services				
Food Service	458,537	516,379	3,091	60,933
Other	288,604	99,282	-	(189,322)
Extracurricular Activities	1,519,311	271,157	122,380	(1,125,774)
Totals	<u>\$ 31,426,458</u>	<u>\$ 886,818</u>	<u>\$ 579,864</u>	<u>\$ (29,959,776)</u>

**General Revenues**

Property taxes levied for:

General purposes	\$ 15,324,587
Grants and entitlements not restricted to specific program	11,682,411
Investment earnings	848,737
Miscellaneous	<u>325,611</u>
Total General Revenues	28,181,346
Change in Net Assets	(1,778,430)
Net Assets Beginning of Year-As Restated (See note 21)	<u>87,483,058</u>
Net Assets End of Year	<u>\$ 85,704,628</u>

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

**PERRY LOCAL SCHOOL DISTRICT  
LAKE COUNTY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2006**

	General	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$ 14,103,140	\$ 10,594,898	\$ 662,144	\$ 25,360,182
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	25,237	1,906,673	-	1,931,910
Taxes Receivable	20,256,920	-	-	20,256,920
Accounts Receivable	732	-	17,169	17,901
Materials and Supplies Inventory	124,448	-	11,501	135,949
Intergovernmental Receivable	-	-	34,652	34,652
Interest Receivable	24,038	9,477	-	33,515
Prepaid Items	88,490	-	-	88,490
	<u>\$ 34,623,005</u>	<u>\$ 12,511,048</u>	<u>\$ 725,466</u>	<u>\$ 47,859,519</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts Payable	\$ 67,093	\$ 5,685	\$ 1,160	\$ 73,938
Contracts Payable	-	651,246	-	651,246
Accrued Wages and Benefits	2,534,512	-	108,113	2,642,625
Intergovernmental Payable	266,786	-	4,986	271,772
Deferred Revenue	19,948,122	-	28,040	19,976,162
Total Liabilities	<u>22,816,513</u>	<u>656,931</u>	<u>142,299</u>	<u>23,615,743</u>
<b>Fund Balances</b>				
Reserved for Encumbrances	321,417	58,509	14,020	393,946
Restricted for Property Improvements	-	1,906,673	-	1,906,673
Reserved for Property Taxes	308,798	-	-	308,798
Budget Stabilization Reserve	25,237	-	-	25,237
Unreserved:				
Undesignated, reported in:				
General Fund	11,151,040	-	-	11,151,040
Special Revenue Funds	-	-	569,147	569,147
Capital Projects Funds	-	9,888,935	-	9,888,935
Total Fund Balances	<u>11,806,492</u>	<u>11,854,117</u>	<u>583,167</u>	<u>24,243,776</u>
	<u>\$ 34,623,005</u>	<u>\$ 12,511,048</u>	<u>\$ 725,466</u>	<u>\$ 47,859,519</u>

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

**PERRY LOCAL SCHOOL DISTRICT  
LAKE COUNTY  
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2006**

<b>Total Governmental Fund Balances</b>		<b>\$ 24,243,776</b>
<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		60,242,981
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Delinquent Property Taxes	5,862,760	
Grants	18,482	
Total	5,881,242	5,881,242
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.		535,575
Certain long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds:		
General Obligation Note	(2,156,818)	
Compensated Absences	(3,042,128)	
Total	(5,198,946)	(5,198,946)
<i>Net Assets of Governmental Activities</i>		<b><u>\$ 85,704,628</u></b>

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, 2006**

	General	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Taxes	\$ 17,807,067	\$ -	\$ -	\$ 17,807,067
Intergovernmental	11,617,044	-	631,929	12,248,973
Investment Earnings	581,452	267,285	-	848,737
Tuition and Fees	42,123	-	57,158	99,281
Extracurricular Activities	-	-	271,157	271,157
Charges for Services	-	-	516,379	516,379
Miscellaneous	96,871	151,907	172,706	421,484
Total Revenues	<u>30,144,557</u>	<u>419,192</u>	<u>1,649,329</u>	<u>32,213,078</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	11,686,293	-	241,718	11,928,011
Special	568,444	-	260,884	829,328
Vocational	115,937	-	-	115,937
Other	785,313	-	-	785,313
Support Services:				
Pupil	728,806	-	132,188	860,994
Instructional Staff	2,344,989	16,905	45,045	2,406,939
Board of Education	139,355	-	-	139,355
Administration	1,490,110	-	179,592	1,669,702
Fiscal	775,340	-	-	775,340
Business	29,094	-	-	29,094
Operation and Maintenance of Plant	4,139,410	-	451,789	4,591,199
Pupil Transportation	1,498,619	126,200	-	1,624,819
Central	191,145	-	-	191,145
Operation of Non-instructional Services:				
Food Service	-	-	406,998	406,998
Other	-	-	239,986	239,986
Extracurricular Activities	998,284	-	399,524	1,397,808
Capital Outlay	2,008	1,226,648	-	1,228,656
Total Expenditures	<u>25,493,147</u>	<u>1,369,753</u>	<u>2,357,724</u>	<u>29,220,624</u>
Excess of Revenues Over (Under) Expenditures	<u>4,651,410</u>	<u>(950,561)</u>	<u>(708,395)</u>	<u>2,992,454</u>
<b>Other Financing Sources (Uses)</b>				
Transfers In	-	2,100,000	205,000	2,305,000
Transfers Out	(2,305,000)	-	-	(2,305,000)
Proceeds from sale of debt	-	2,156,818	-	2,156,818
Total Other Financing Sources (Uses)	<u>(2,305,000)</u>	<u>4,256,818</u>	<u>205,000</u>	<u>2,156,818</u>
Net Change in Fund Balances	2,346,410	3,306,257	(503,395)	5,149,272
<b>Fund Balances Beginning of Year- As Restated</b>	<u>9,460,082</u>	<u>8,547,860</u>	<u>1,086,562</u>	<u>19,094,504</u>
<b>Fund Balances End of Year</b>	<u>\$ 11,806,492</u>	<u>\$ 11,854,117</u>	<u>\$ 583,167</u>	<u>\$ 24,243,776</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, 2006**

**Net Change in Fund Balances - Total Governmental Funds** \$ 5,149,272

*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	1,171,707	
Current Year Depreciation	<u>(3,814,559)</u>	
Total		(2,642,852)

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

Grants	13,303	
Delinquent Property Taxes	<u>(2,482,479)</u>	
Total		(2,469,176)

Proceeds from the sale of debt in the statement of revenue, expenditures and changes in fund balances that are reported as other financing sources are not reported as revenues in the statement of activities.

(2,156,818)

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

(26,410)

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	<u>367,554</u>	
Total		<u>367,554</u>

*Changes in Net Assets of Governmental Activities* \$ (1,778,430)

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, 2006**

Revenue	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
Taxes	\$ 14,122,855	\$ 15,863,310	\$ 17,998,600	\$ 2,135,290
Intergovernmental	2,071,150	11,617,044	11,617,044	-
Interest	88,293	495,236	495,236	-
Tuition and Fees	8,837	49,564	49,564	-
Rentals	-	-	-	-
Miscellaneous	896	5,027	5,027	-
Total Revenues	<u>16,292,031</u>	<u>28,030,181</u>	<u>30,165,471</u>	<u>2,135,290</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	10,681,058	11,605,537	11,230,756	374,781
Special	1,296,122	1,408,306	1,170,617	237,689
Vocational	108,126	117,485	115,623	1,862
Other	-	-	785,313	(785,313)
Support Services:				
Pupil	655,125	711,828	787,084	(75,256)
Instructional Staff	3,105,598	3,374,397	2,409,493	964,904
Board of Education	124,745	135,542	172,338	(36,796)
Administration	1,852,174	2,012,486	1,746,394	266,092
Fiscal	833,827	905,997	920,414	(14,417)
Business	37,216	40,437	29,338	11,099
Operation and Maintenance of Plant	3,907,918	4,246,161	4,301,238	(55,077)
Pupil Transportation	1,225,611	1,331,692	1,498,710	(167,018)
Central	164,710	178,966	198,449	(19,483)
Operation of Non-instructional Services				-
Extracurricular Activities	1,026,974	1,115,862	1,002,215	113,647
Capital Outlay	48,695	52,910	3,517	49,393
Total Expenditures	<u>25,067,899</u>	<u>27,237,606</u>	<u>26,371,499</u>	<u>866,107</u>
Excess of Revenues Over (Under) Expenditures	<u>(8,775,868)</u>	<u>792,575</u>	<u>3,793,972</u>	<u>3,001,397</u>
<b>Other Financing Sources (Uses)</b>				
Transfers Out	(2,305,000)	(2,305,000)	(2,305,000)	-
Refund of Prior Years Expenditures	602,874	602,874	602,874	-
Total Other Financing Sources (Uses)	<u>(1,702,126)</u>	<u>(1,702,126)</u>	<u>(1,702,126)</u>	<u>-</u>
Net Change in Fund Balance	(10,477,994)	(909,551)	2,091,846	3,001,397
<b>FUND BALANCES - BEGINNING OF YEAR</b>	11,544,208	9,488,106	11,201,801	1,713,695
<b>PRIOR YEAR ENCUMBRANCES - APPROPRIATED</b>	449,501	449,501	449,501	-
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 1,515,715</u>	<u>\$ 9,028,056</u>	<u>\$ 13,743,148</u>	<u>\$ 4,715,092</u>

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

**PERRY LOCAL SCHOOL DISTRICT**  
**LAKE COUNTY**  
**STATEMENT OF FUND NET ASSETS**  
**INTERNAL SERVICE FUND**  
**JUNE 30, 2006**

	Governmental Activities - Internal Service Fund <u>                    </u>
<b>Assets</b>	
Cash	\$ 165,000
Cash with Fiscal Agent	<u>614,946</u>
Total Assets	<u>779,946</u>
<b>Liabilities</b>	
Claims Payable	<u>244,371</u>
Total Liabilities	<u>244,371</u>
<b>Net Assets</b>	
Unrestricted	<u>535,575</u>
Total Net Assets	<u><u>\$ 535,575</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, 2006**

	Governmental Activities - Internal Service Fund <hr style="width: 100%;"/>
<b>Operating Revenues</b>	
Charges for Services	\$ 1,895,813
<b>Operating Expenses</b>	
Claims	<hr style="width: 100%;"/> 1,922,223
Change in Net Assets	(26,410)
<b>Net Assets Beginning Year</b>	<hr style="width: 100%;"/> 561,985
<b>Net Assets End of Year</b>	<hr style="width: 100%;"/> <b>\$ 535,575</b> <hr style="width: 100%;"/>

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

**PERRY LOCAL SCHOOL DISTRICT**  
**LAKE COUNTY**  
**STATEMENT OF CASH FLOWS**  
**INTERNAL SERVICE FUND**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	Governmental Activities Internal Service Fund <hr style="border: 0.5px solid black;"/>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	
<b>Cash Flows from Operating Activities</b>	
Cash Received from Interfund Services	\$ 1,895,813
Cash Payments for Claims	<u>(2,055,398)</u>
Net Cash Provided by Operating Activities	<u>(159,585)</u>
Net Increase in Cash and Cash Equivalents	(159,585)
<b>Cash and Cash Equivalents - Beginning of Year</b>	<u>939,531</u>
<b>Cash and Cash Equivalents - End of Year</b>	<u><u>\$ 779,946</u></u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>	
Operating Income	\$ (26,410)
Adjustments	
Increase in Claims Payable	<u>(133,175)</u>
Net Cash Provided by Operating Activities	<u><u>\$ (159,585)</u></u>

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

**PERRY LOCAL SCHOOL DISTRICT**  
**LAKE COUNTY**  
**STATEMENT OF FIDUCIARY ASSET AND LIABILITIES**  
**FIDUCIARY FUNDS**  
**JUNE 30, 2006**

	Agency	Private Purpose Trust	Total
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$ 66,725	\$ 5,411	\$ 72,136
Accounts Receivable	10	-	10
Total Assets	\$ 66,735	5,411	72,146
<b>Liabilities</b>			
Accounts Payable	\$ 245	-	245
Due to Students	66,490	-	66,490
Total Liabilities	\$ 66,735	-	66,735
<b>Net Assets</b>			
Held in trust for scholarships		5,411	5,411
Total Net Assets		\$ 5,411	\$ 5,411

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, 2006**

	Private Purpose Trust <hr style="border: 0.5px solid black;"/>
<b>Additions</b>	
Investment Earnings	\$ 35
Other	1,025
Total Addition	<hr style="border: 0.5px solid black;"/> 1,060
 <b>Deductions</b>	
Disbursement in Accordance with Trust	4,000
 <b>Changes in Net Assets</b>	 (2,940)
 <b>Net Assets Beginning of Year</b>	 <hr style="border: 0.5px solid black;"/> 8,351
 <b>Net Assets End of Year</b>	 <hr style="border: 1px solid black;"/> \$ 5,411

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, 2006**

**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 121 classified personnel, 146 certified full-time teaching personnel and 12 administrative employees to provide services to students and other community members.

***Reporting Entity***

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

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

The District participates in five jointly governed organizations, a claim servicing pool and an insurance purchasing pool. These organizations are the East Shore Regional Transportation System, the East Shore Center, the Ohio Schools Council, the Ohio School Boards Association Workers' Compensation Group Rating Program, the Auburn Career Center, the Lake-Geauga Computer Association and Lake County Council of Governments Health Care Benefits Program. These organizations are discussed in Notes 15, 16 and 17 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 to its proprietary fund provided they do not conflict with or contradict GASB pronouncements. The more significant of the District's accounting policies are described below.

***A. Basis of Presentation***

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

**PERRY LOCAL SCHOOL DISTRICT  
LAKE COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**Note 2 – Summary of Significant Accounting Policies (Continued)**

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

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

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

**B. Fund Accounting**

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

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

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

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

**PERRY LOCAL SCHOOL DISTRICT  
LAKE COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**Note 2 – Summary of Significant Accounting Policies (Continued)**

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

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

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

**C. Measurement Focus**

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

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

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

**PERRY LOCAL SCHOOL DISTRICT  
LAKE COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2006**

**Note 2 – Summary of Significant Accounting Policies (Continued)**

***D. Basis of Accounting***

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

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

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

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

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

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

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

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

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

**PERRY LOCAL SCHOOL DISTRICT  
LAKE COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**Note 2 – Summary of Significant Accounting Policies (Continued)**

***E. Cash and Investments***

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

During fiscal year 2006, investments were limited to a repurchase agreement, 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, 2006.

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 2006 amounted to \$ 581,452, which includes \$108,613 assigned from other School District funds.

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 20 for additional information regarding set-asides. Restricted assets in the Capital Projects Fund represent amounts restricted for the purpose of renovating and otherwise improving energy conservation at school facilities.

***G. Prepaid Items***

Payments made to vendors for services that will benefit periods beyond June 30, 2006 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

***H. Inventory***

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

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

**PERRY LOCAL SCHOOL DISTRICT  
LAKE COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**Note 2 – Summary of Significant Accounting Policies (Continued)**

***I. Capital Assets***

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

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

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Building and improvements	10 - 50 years
Furniture and equipment	5 - 10 years
Vehicles	10 years

***J. Compensated Absences***

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

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

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

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

**PERRY LOCAL SCHOOL DISTRICT  
LAKE COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**Note 2 – Summary of Significant Accounting Policies (Continued)**

***L. Net Assets***

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

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

***M. Fund Balance Reserves***

The District reserves those portions of fund equity which are legally segregated for specific future use or which do not represent available expendable resources and, therefore, are not available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity, which is available for appropriation in future periods. Fund balance reserves are established for encumbrances, property improvements, 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 property improvements represents amounts to be used for the purpose of renovating and otherwise improving energy conservation at the school facilities. The reserve for budget stabilization represents money required to be set-aside by statute to protect against cyclical changes in revenues and expenditures.

***N. Operating Revenues and Expenses***

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

***O. Interfund Activity***

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

***P. Extraordinary and Special Items***

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. As of June 30, 2006, there were no extraordinary or special items.

***Q. Estimates***

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

**PERRY LOCAL SCHOOL DISTRICT  
LAKE COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2006**

**Note 2 – Summary of Significant Accounting Policies (Continued)**

***R. Budgetary Data***

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

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

**Note 3 – Compliance and Accountability**

***A. Changes in Accounting Principles***

For fiscal year 2006, the District has implemented, GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation", and GASB Statement No. 47, "Accounting for Termination of Benefits".

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

GASB Statement No. 47 establishes accounting standards for termination of benefits.

The implementation of GASB Statement No. 46 and GASB Statement No. 47 did not have an effect on the fund balances/net assets of the District as previously reported at June 30, 2005.

**PERRY LOCAL SCHOOL DISTRICT  
LAKE COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**Note 3 – Compliance and Accountability (Continued)**

***B. Negative Fund Balance***

The following funds had a deficit cash fund balance as of June 30, 2006:

	<u>Deficit Fund Balance</u>
Special Revenue:	
Ohio Reads Program	\$ 542
Student Intervention	\$ 24,639
Safe Schools Helpline	\$ 279
Food Services	\$ 54,285
Title II	\$ 34,652

These negative fund balances were subsequently corrected.

**Note 4 – Budgetary Basis of Accounting**

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).
4. Investments are reported at fair value (GAAP basis) rather than cost (budget basis).

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

	<u>Net Change in Fund Balance</u>
GAAP basis	\$ 2,346,410
Net adjustment for revenue accruals	(112,818)
Net adjustment for expenditure accruals	307,755
Adjustment for encumbrances	<u>(449,501)</u>
Budget basis	<u>\$ 2,091,846</u>

**PERRY LOCAL SCHOOL DISTRICT  
LAKE COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**Note 5 – Deposits and Investments**

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

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

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

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

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

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);

**PERRY LOCAL SCHOOL DISTRICT  
LAKE COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**Note 5 - Deposits and Investments (Continued)**

7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt interest rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

At June 30, 2006, the District's self-insurance internal service fund had a balance of \$ 614,946 with Lake County Council of Governments Health Care Benefits Program, a claims servicing pool was determined based on the percentage of the District's participants to total pool participants (See Note 17). The money is held by the claims servicer in a pooled account which is representative of numerous entities and therefore cannot be classified by risk under GASB No. 3. The classification of cash and cash equivalents and investments for the Lake County Council of Governments Health Care Benefits Program Self Insurance Plan as a whole may be obtained from the Lake County Council Health Care Benefits Program. To obtain financial information, write to the Lake County Council Health Care Benefits Program, 30 South Park Place, Suite 320, Painesville, OH 44077.

**Cash on Hand** – At fiscal year end, the District had \$ 3,072 in undeposited cash on hand, which is included in the balance sheet of the District as part of equity in pooled cash and cash equivalents.

**DEPOSITS**

**Custodial Credit Risk** – Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in possession of an outside party. At the fiscal year end, the carrying amount of the School District's deposits was (\$ 404,645) and the bank balance was \$ 316,986. \$ 100,000 of the School District's bank balance was covered by Federal Depository Insurance and \$ 216,986 was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent but not in the School District's name. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

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

**PERRY LOCAL SCHOOL DISTRICT  
LAKE COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**Note 5 - Deposits and Investments (Continued)**

***Investments***

The School District has a formal investment policy. The School District follows GASB Statement No. 31., Accounting and Financial Reporting for certain Investments and for External Investment Pools. Investments are reported at fair value. As of June 30, 2006, the School District had the following investments:

	Average Maturity	Fair Value
Federal Home Loan Mortgage Corporation	07/26/06-4/17/07	\$ 8,219,003
Federal National Mortgage Association notes	08/04/06-06/01/06	5,422,218
Federal Home Loan Bank notes	07/21/2006-09/27/07	7,385,284
Repurchase Agreement	1 Day	2,913,235
Corporate cash- First American Treasury Market	1 Day	26,481
Huntington Treasury Money Market	1 Day	1,906,673
STAROhio	33 Days	2,057,908
		\$ 27,930,802

At June 30, 2006, fair value was \$2,845 above the School District's net cost for investments.

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

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

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

**PERRY LOCAL SCHOOL DISTRICT  
LAKE COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**Note 5 - Deposits and Investments (Continued)**

Concentration of Credit Risk – The School District places no limit on the amount it may invest in any one issuer. The following is the School District's allocation as of June 30, 2006:

	Percentage of Investments
Federal Home Loan Mortgage Corporation	29.43%
Federal National Mortgage Association notes	19.41%
Federal Home Loan Bank notes	26.44%
STAROhio	7.37%
Repurchase Agreement	10.43%
Corporate cash- First American Treasure Market	0.09%
Huntington Treasury Money Market	6.83%

**Note 6 – Property Taxes**

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed as of January 1, 2005, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien December 31, 2004, were levied after April 1, 2005 and are collected in 2006 with real property taxes.

Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2006 (other than public utility property) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2006, on the value as of December 31, 2005. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Lake County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2006 are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

**PERRY LOCAL SCHOOL DISTRICT  
LAKE COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**Note 6 – Property Taxes (Continued)**

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

The amount available as an advance at June 30, 2006 was \$ 308, 798 in the General Fund. The amount available as an advance at June 30, 2005 was \$ 500,346 in the General Fund.

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

	<u>2005 Second Half Collections</u>		<u>2006 First Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agriculture/residential and Other real estate	\$ 255,215,980	55%	\$ 261,352,530	59%
Public utility personal	195,577,990	45%	174,218,170	39%
Tangible personal property	<u>9,664,511</u>	<u>3%</u>	<u>8,481,211</u>	<u>2%</u>
	<u>\$ 460,458,481</u>	<u>100%</u>	<u>\$ 444,051,911</u>	<u>100%</u>
Tax rate per \$ 1,000 of Assessed valuation	\$ 44.20		\$ 44.20	

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

The remaining receivable was \$ 3,903,347 at June 30, 2006.

**Note 7 – Receivables**

Receivables at June 30, 2006 consisted of accounts and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current fiscal year guarantee of Federal funds. All receivables are expected to be collected within one year. The following is a summary of the intergovernmental receivables.

	<u>Amount</u>
Governmental Activities:	
Instruction	<u>\$ 34,652</u>
Total intergovernmental receivables	<u>\$ 34,652</u>

**Note 8 – Lake County School Financing District**

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

**PERRY LOCAL SCHOOL DISTRICT  
LAKE COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**Note 8 – 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 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 9 – Capital Assets**

In fiscal year 2006, the School District performed a physical inventory count on the capital assets and discovered overstatements and understatements on the capital assets. The capital assets after the above change, was as follows:

	Balance June 30, 2005	Prior Period Adjustments	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
<b>Governmental Activities</b>						
Capital assets not being depreciated						
Land	\$ 362,500	\$ -	\$ 362,500	\$ 18,200	\$ -	\$ 380,700
Construction in Progress	-	-	-	911,995	-	911,995
Total Capital assets not being Depreciated	362,500	-	362,500	930,195	-	1,292,695
Capital assets, being depreciated						
Land improvements	12,127,826	286,473	12,414,299	-	-	12,414,299
Building and improvements	97,161,543	(3,483,933)	93,677,610	11,228	-	93,688,838
Furniture and equipment	13,388,486	(11,850,989)	1,537,497	57,690	-	1,595,187
Vehicles	2,311,708	(33,405)	2,278,303	172,594	-	2,450,897
Library and text books	-	919,543	919,543	-	-	919,543
Total	124,989,563	(14,162,311)	110,827,252	241,512	-	111,068,764
Less accumulated depreciation						
Land improvements	-	(7,178,649)	(7,178,649)	(558,245)	-	(7,736,894)
Building and improvements	(22,356,972)	(15,056,526)	(37,413,498)	(2,898,682)	-	(40,312,180)
Furniture and equipment	(10,373,223)	9,192,667	(1,180,556)	(82,669)	-	(1,263,225)
Vehicles	(2,074,926)	228,323	(1,846,603)	(143,216)	-	(1,989,819)
Library and text books	-	(684,613)	(684,613)	(131,747)	-	(816,360)
Total	(34,805,121)	(13,498,798)	(48,303,919)	(3,814,559)	-	(52,118,478)
Total capital assets being depreciated, net	90,184,442	(27,661,109)	62,523,333	(3,573,047)	-	58,950,286
Government activities capital assets, net	<u>\$ 90,546,942</u>	<u>\$ (27,661,109)</u>	<u>\$ 62,885,833</u>	<u>\$ (2,642,852)</u>	<u>\$ -</u>	<u>\$ 60,242,981</u>

**PERRY LOCAL SCHOOL DISTRICT  
LAKE COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**Note 9 – Capital Assets (Continued)**

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 3,391,773
Vocational	846
Support Services:	
Instructional staff	91,710
Administration	616
Operation and maintenance of plant	48,765
Pupil transportation	143,772
Operation of non-instructional services:	
Food services	12,229
Extracurricular activities	<u>124,848</u>
Total depreciation expense	<u>\$ 3,814,559</u>

**Note 10 – 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 Indiana 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 \$ 2,000,000 aggregate to insure the District, the board, all board members, all administrators, certified and classified employees and volunteers.

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

***B. Workers' Compensation***

The District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 16). 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.

**PERRY LOCAL SCHOOL DISTRICT  
LAKE COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**Note 10 – Risk Management (Continued)**

***C. Employee Medical Benefits***

The District has elected to provide medical coverage through a self-insurance program. The District uses the General Fund to 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, 2006 claim's liability was determined based on the percentage of the District's participants to total pool participants. For the year ended June 30, 2006, the pools cash reserves and claims liability were \$ 5,269,140 and \$ 2,233,930, respectively. The District's allocated pool percentage for the year ended June 30, 2006 was 11.67%, which represents \$ 614,946 and \$ 244,371 of pool cash reserves and claims liability, respectively.

	Balance at Beginning of Year	Current Year Claims	Current Year Payments	Balance at End of Year
2005	\$ 334,657	\$ 1,614,882	\$ 1,571,993	\$ 377,546
2006	\$ 377,546	\$ 1,922,223	\$ 2,055,398	\$ 244,371

**Note 11 – Pension Plans**

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

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

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.58 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, 2006, 2005 and 2004 were \$ 483,735, \$ 488,012, and \$ 400,447, respectively; 100 percent has been contributed for fiscal years 2006, 2005 and 2004.

**PERRY LOCAL SCHOOL DISTRICT  
LAKE COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**Note 11 – Pension Plans (Continued)**

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

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

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

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the 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.

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

The District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2006, 2005, and 2004 were \$ 1,520,690, \$ 1,021,811, and \$ 1,434,060, respectively; 100 percent has been contributed for fiscal years 2006, 2005 and 2004. Contributions to the DC and Combined Plans for fiscal year 2006 were \$ 13,208 made by the District and \$ 12,579 made by the Plan members.

**Note 12 – 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.

**PERRY LOCAL SCHOOL DISTRICT  
LAKE COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**Note 12 – Postemployment Benefits (Continued)**

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, 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 \$ 80,900 for fiscal year 2006.

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

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 4.17 percent of covered payroll, an increase of .74 percent from fiscal year 2005. 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 2006, the minimum pay was established at \$ 35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the District, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$ 225,188.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available) were \$ 178.2 million, and the target level was \$335.2 million. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has approximately 58,123 participants currently receiving health care benefits.

**Note 13– 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.

**PERRY LOCAL SCHOOL DISTRICT  
LAKE COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**Note 14 – Long-Term Obligations**

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

	<u>Principal Outstanding June 30, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Principal Outstanding June 30, 2006</u>	<u>Due Within One Year</u>
<b>Government Activities:</b>					
<b>General Obligation Bonds and Notes</b>					
2006 Energy Conservation Note	\$ --	\$ 2,156,818	\$ --	\$ 2,156,818	\$ 180,331
<b>Total General Obligation Bonds and Notes</b>	--	2,156,818	--	2,156,818	180,331
<b>Other Long-Term Obligations</b>					
Compensated Absences	<u>3,409,681</u>	<u>711,210</u>	<u>(1,078,763)</u>	<u>3,042,128</u>	<u>52,085</u>
<b>Total Other Long-Term Obligations</b>	<u>3,409,681</u>	<u>711,210</u>	<u>--</u>	<u>3,042,128</u>	<u>52,085</u>
<b>Total Governmental Activities</b>	<u>\$ 3,409,681</u>	<u>\$ 2,868,028</u>	<u>\$(1,078,763)</u>	<u>\$ 5,198,946</u>	<u>\$ 232,416</u>

On March 30, 2006, the School District entered into a 10-year installment payment agreement with Citimortgage, Incorporated for \$ 2,156,818, bearing interest at the rate of 3.88% per annum. The proceeds will be used for the purpose of renovating and otherwise improving energy conservation at school facilities.

Principal and interest requirements to retire general obligation debt, outstanding at June 30, 2006 are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 180,331	\$ 81,952	\$ 262,283
2008	187,396	74,888	262,284
2009	194,737	67,546	262,283
2010	202,366	59,916	262,282
2011	210,294	51,988	262,282
2012-2016	<u>1,181,694</u>	<u>129,720</u>	<u>1,311,414</u>
	<u>\$ 2,156,818</u>	<u>\$ 466,010</u>	<u>\$ 2,622,828</u>

**Note 15 – 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.

**PERRY LOCAL SCHOOL DISTRICT  
LAKE COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**Note 15 – Jointly Governed Organizations (Continued)**

***B. East Shore Center***

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

***C. Ohio Schools Council***

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

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.

**PERRY LOCAL SCHOOL DISTRICT  
LAKE COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**Note 15 – Jointly Governed Organizations (Continued)**

***D. Lake-Geauga Computer Association***

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

***E. Auburn Career Center***

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

**Note 16 – 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 17 – Claims Servicing Pool**

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

**Note 18 – 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, 2006.

**PERRY LOCAL SCHOOL DISTRICT  
LAKE COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**Note 18 – Contingencies (Continued)**

***B. Litigation***

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

**Note 19 – Interfund Transactions**

Transfers made during the year ended June 30, 2006 were as follows:

<u>Transfer To</u> <u>Governmental Activities</u>	<u>Transfer From</u> <u>Governmental</u> <u>Activities</u> <u>General</u>
Capital Projects Fund	\$ 2,100,000
Non-major funds	<u>205,000</u>
Total governmental activities	<u>\$ 2,305,000</u>

The general fund transfers to the capital projects and nonmajor governmental funds were made to provide additional resources for current operations. On the government-wide financial statements, these transfers were eliminated since they were within the governmental activities.

**Note 20 – Set-Asides**

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

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

	<u>Textbooks</u> <u>Instructional</u> <u>Materials</u> <u>Reserve</u>	<u>Capital</u> <u>Improve-</u> <u>ments</u> <u>Reserve</u>	<u>Budget</u> <u>Stabili-</u> <u>zation</u> <u>Reserve</u>
Set-aside reserve balance as of June 30, 2005	\$ (5,850,210)	\$ -	\$ 25,237
Current year set-aside requirement	287,267	287,267	-
Qualifying disbursements	<u>(449,342)</u>	<u>(662,651)</u>	<u>-</u>
Totals	<u>\$ (6,012,285)</u>	<u>\$ (375,384)</u>	<u>\$ 25,237</u>
Set-aside balance as of June 30, 2006 and carried forward to future fiscal years	<u>\$ (6,012,285)</u>	<u>\$ -</u>	<u>\$ 25,237</u>

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

**PERRY LOCAL SCHOOL DISTRICT  
LAKE COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**Note 21 - Restatement of Fund Balance/Net Assets**

The effect on fund balance as a result of correcting an understatement of accounts payable is presented as follows:

	General	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Fund Balance June 30, 2005	\$ 9,460,082	\$ 8,910,360	\$ 1,086,562	\$ 19,457,004
Adjustments:				
Understatement of accounts payable	-	(362,500)	-	(362,500)
Fund Balance July 1, 2005	<u>\$ 9,460,082</u>	<u>\$ 8,547,860</u>	<u>\$ 1,086,562</u>	<u>\$ 19,094,504</u>

The effect on the net assets as a result of correcting capital asset values and an understatement of accounts payable is presented as follows:

	Governmental Activities
Net assets June 30, 2005	\$ 115,506,667
Adjustments:	
Capital assets adjustments	(27,661,109)
Understatement of accounts payable	<u>(362,500)</u>
Net assets July 1, 2005	<u>\$ 87,483,058</u>

**PERRY LOCAL SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CASH  
FOR THE YEAR ENDED JUNE 30, 2006**

<b>Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grantor Number</b>	<b>Cash Disbursements</b>
<b><u>U.S. Department of Agriculture</u></b>			
<b>Passed through State Department of Education</b>			
<i>Child Nutrition Cluster</i>			
School Lunch Program	10.555	047902-LLP4-2006	\$ 96,965
<i>Total Child Nutrition Cluster</i>			<u>96,965</u>
<b>Total U.S. Department of Agriculture</b>			<u>96,965</u>
<b><u>U.S. Department of Education</u></b>			
<b>Passed through State Department of Education</b>			
Title I School Subsidy - FY 2005	84.010	047902-C1S1-2005	5,206
Title I School Subsidy - FY 2006	84.010	047902-C1S1-2006	<u>54,492</u>
			<u>59,698</u>
<i>Special Education Cluster</i>			
SE-IDEA Part B FY 2005	84.027	047902-6BSF-2005	24,490
SE-IDEA Part B FY 2006	84.027	047902-6BSF-2006	<u>315,443</u>
			<u>339,933</u>
SE-IDEA Preschool FY 2005	84.173	047902-PGS1-2005	13,276
SE-IDEA Preschool FY 2006	84.173	047902-PGS1-2006	<u>13,254</u>
			<u>26,530</u>
<i>Total Special Education Cluster</i>			<u>366,463</u>
Title IV-A Safe/Drug Free FY 2005	84.186	047902-DRS1-2005	450
Title IV-A Safe/Drug Free FY 2006	84.186	047902-DRS1-2006	<u>8,143</u>
			<u>8,593</u>
Title V FY 2006	84.298	047902-C2S1-2006	<u>5,057</u>
			<u>5,057</u>
Title II-D Technology FY 2005	84.318	047902-TJS1-2005	2,778
Title II-D Technology FY 2006	84.318	047902-TJS1-2006	<u>991</u>
			<u>3,769</u>
Title II-A FY 2005	84.367	047902-TRS1-2005	6,319
Title II-A FY 2006	84.367	047902-TRS1-2006	<u>38,532</u>
			<u>44,851</u>
<b>Total U.S. Department of Education</b>			<u>488,431</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u>\$ 585,396</u>

See accompanying notes to Supplemental Schedule of Expenditures of Federal Awards - Cash

**PERRY LOCAL SCHOOL DISTRICT  
NOTES TO THE SUPPLEMENTAL SCHEDULE OF  
EXPENDITURES OF FEDERAL AWARDS - CASH  
JUNE 30, 2006**

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NOTE 1: **BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards - Cash includes the federal grant activity of Perry Local School District and is presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

**JAMES G. ZUPKA, C.P.A., INC.**

*Certified Public Accountants*

*5240 East 98<sup>th</sup> Street*

*Garfield Hts., Ohio 44125*

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

Board of Education  
Perry Local School District  
Perry, Ohio

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, Ohio, as of and for the year ended June 30, 2006, which collectively comprise the Perry Local School District, Ohio's basic financial statements and have issued our report thereon dated December 15, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Perry Local School District, Ohio's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2006-1.

We also noted certain additional matters that we reported to the management of the Perry Local School District, Ohio, in a separate letter dated December 15, 2006.

This report is intended solely for the information and use of the audit committee, management, the 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.

James G. Zupka, CPA, Inc.  
Certified Public Accountants

December 15, 2006

**JAMES G. ZUPKA, C.P.A., INC.**

*Certified Public Accountants*

*5240 East 98<sup>th</sup> Street*

*Garfield Hts., Ohio 44125*

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Member American Institute of Certified Public Accountants

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Ohio Society of Certified Public Accountants

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

Board of Education  
Perry Local School District  
Perry, Ohio

**Compliance**

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Perry Local School District, Ohio'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 Perry Local School District, Ohio's compliance with those requirements.

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

### **Internal Control Over Compliance**

The management of the Perry Local School District, Ohio, 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 Perry Local School District, Ohio'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.

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 caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, the 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.

James G. Zupka, CPA, Inc.  
Certified Public Accountants

December 15, 2006

**PERRY LOCAL SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A-133 & .505  
JUNE 30, 2006**

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

2006(i)	Type of Financial Statement Opinion	Unqualified
2006(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
2006(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
2006(iii)	Was there any reported noncompliance at the financial statement level (GAGAS)?	Yes
2006(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
2006(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
2006(v)	Type of Major Program's Compliance Opinion	Unqualified
2006(vi)	Are there any reportable findings under .510?	No
2006(vii)	Major Programs (list):  Special Education-IDEA, Part B and IDEA Preschool	  CFDA #84.027 and 84.173
2006(viii)	Dollar Threshold: Type A\B Program	Type A: \$300,000 or more Type B: All others less than \$300,000
2006(ix)	Low Risk Auditee?	No

**PERRY LOCAL SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A-133 & .505  
JUNE 30, 2006**

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

**FINDING 2006-1 - Negative Fund Balances**

Ohio Revised Code Section 5705.10 requires that monies paid into any fund be used only for the purposes for which such fund is established. The School District had deficit cash fund balances in the following funds at June 30, 2006:

Special Revenue Funds:	
Ohio Reads Program	\$ 542
Student Intervention	24,693
Safe Schools Helpline	279
Food Services	54,285
Title II	34,652

These negative fund balances were subsequently corrected.

Deficit cash fund balances are an indication that revenues from other sources were used to pay obligations of these funds. Additionally, money spent for purposes other than specific grant agreements could result in the loss of future grant awards. Fund activity should be monitored to prevent future expenditures in excess of available resources. In those cases where additional funds are required, the resources should either be transferred or advanced to the fund in accordance with the Ohio Revised Code.

**Corrective Action Plan**

Deficit cash balances exist in five funds for the year ending June 30, 2006. Each of the funds requires some corrective action at year end. We have detailed this information as follows:

**Ohio Reads Program - Deficit: \$542**

The Ohio Reads program from fiscal year 2004 had a deficit of \$555.05. This amount should have been transferred from the General Fund to the 460-9004 in June 2004.

**Student Intervention - Deficit: \$24,693**

The Student Intervention program should have had \$24,693 in expenses reclassified to the General Fund to cover the excess employee costs that are being charged to the grant. This was missed prior to the June 30<sup>th</sup> closing.

**Safe Schools Helpline - Deficit: \$279**

The Board should have reclassified \$279 in expenses from the Safe Schools Helpline from the General Fund. This was missed prior to the June 30<sup>th</sup> closing.

**PERRY LOCAL SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A-133 & .505  
JUNE 30, 2006**

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3. **FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS** (Continued)

**FINDING 2006-1 - Negative Fund Balances** (Continued)

*Corrective Action Plan* (Continued)

Food Services - Deficit: \$54,285

The deficit that exists in Food Services is due to a credit that was due to the District at fiscal year end 2006. After June 30th, the credit was issued to the Board. Although a transfer was made to the food services fund, it was based upon an expected credit that would take place on June 30<sup>th</sup>, and an effort was made to not over transfer into a fund unnecessarily. Additionally, the credit would have reduced expenditures from the fund.

Title II - Deficit: \$34,652

Federal grant funds are paid to districts as reimbursements for expended grant dollars. Funds for the reimbursement were requested from the Ohio Department of Education in June 2006. All other Federal fund received payment to cover deficits, but there was a lapse in receiving the funds for ths particular grant. Funds were received within days of June 30<sup>th</sup>. Overall, expenditures were below the total grant allocation.

4. **FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None.

**PERRY LOCAL SCHOOL DISTRICT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2006**

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The prior audit report, as of June 30, 2005, included no reportable conditions or citations. The management letter recommendations have been corrected, repeated, or procedures instituted to prevent occurrences in this audit period.



**Mary Taylor, CPA**  
Auditor of State

**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  
MARCH 20, 2007**