



**Auditor of State
Betty Montgomery**

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT
LAKE COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Painesville City Local School District
Lake County
58 Jefferson Street
Painesville, Ohio 44077

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the major fund, and the aggregate remaining fund information of Painesville City Local School District, Lake County, Ohio, (the District) as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

As described in Note 3, during the year ended June 30, 2003, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments*, the District restated the General Fund balance and Internal Service Fund retained earnings.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 5, 2004, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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



Betty Montgomery
Auditor of State

May 5, 2004

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2003
(Unaudited)**

The discussion and analysis of Painesville City Local School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2003. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the District's performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Government issued June, 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A. However, because this is the first year of implementing the new reporting model, certain necessary comparative information of the previous year was not prepared. Considering the financial resources necessary to prepare this information for the prior year, and that the GASB Statement No. 34 permits the omission of the comparative information in the first year of adoption of the new reporting model, the Board has elected to exclude the information in this report. Subsequent reports will include the comparative information.

Financial Highlights

Key financial highlights for fiscal year 2003 are as follows:

- In total, net assets increased \$2.61 million. Net assets of governmental activities increased \$2.49 million which represents a 54.4% increase from 2002. Net assets of business-type activities increased \$.12 million or 34.9% from 2002.
- General revenues accounted for \$24.86 million in revenue or 83.1% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$5.05 million or 16.9% of total revenues of \$29.87 million.
- Total assets of governmental activities increased by \$2.40 million as taxes receivable increased by \$.37 million while cash and other receivables increased by \$1.76 million.
- The District had \$27.38 million in expenses related to governmental activities; only \$5.05 million of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$24.82 million were adequate to provide for these programs.
- As the major fund, the General Fund had \$25.31 million in revenues and \$22.70 million in expenditures. The General Fund's fund balance increased from \$3.91 to \$6.38 million.

Using the Basic Financial Statements

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

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

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the questions, "How did we do financially during 2003?" The *Statement of Net Assets* and the *Statement of Activities* answers this question. These statements include *all assets* and *liabilities* using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the financial position has improved or diminished. The causes of this change may be the result of many factors, both financial and non-financial. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the Statement of Net Assets and the Statement of Activities, the District is divided into two distinct kinds of activities:

- **Governmental Activities** – Most of the District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.
- **Business-Type Activities** – These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The District's food service, uniform school supply and child care are reported as business activities.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major fund is presented in the Fund Financial Statements. Fund financial reports provide detailed information about the District's major fund. 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 fund.

Governmental Funds Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the 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.

Proprietary Funds Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match.

The District as a Whole

Recall that 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 2002 compared to 2003:

Table 1
Net Assets

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>
Assets						
Current and Other Assets	\$17,793,246	\$20,424,332	\$344,462	\$443,154	\$18,137,708	\$20,867,486
Capital Assets	<u>3,384,425</u>	<u>3,149,603</u>	<u>56,927</u>	<u>89,022</u>	<u>3,441,352</u>	<u>3,238,625</u>
Total Assets	<u>21,177,671</u>	<u>23,573,935</u>	<u>401,389</u>	<u>532,176</u>	<u>21,579,060</u>	<u>24,106,111</u>
Liabilities						
Long-Term Liabilities	1,859,023	3,421,021	22,466	27,379	1,881,489	3,448,400
Other Liabilities	<u>14,736,945</u>	<u>13,078,775</u>	<u>48,874</u>	<u>59,561</u>	<u>14,785,819</u>	<u>13,138,336</u>
Total Liabilities	<u>16,595,968</u>	<u>16,499,796</u>	<u>71,340</u>	<u>86,940</u>	<u>16,667,308</u>	<u>16,586,736</u>
Net Assets						
Invested in Capital						
Assets Net of Debt	879,909	1,495,647	56,927	89,022	936,836	1,584,669
Restricted	338,672	575,665	0	0	338,672	575,665
Unrestricted	<u>3,363,122</u>	<u>5,002,827</u>	<u>273,121</u>	<u>356,214</u>	<u>3,636,244</u>	<u>5,359,041</u>
Total Net Assets	<u>\$4,581,703</u>	<u>\$7,074,139</u>	<u>\$330,048</u>	<u>\$445,236</u>	<u>\$4,911,752</u>	<u>\$7,519,375</u>

Total assets increased \$2.53 million. Equity in pooled cash and cash equivalents increased \$1.84 million. Taxes receivable increased \$.37 million. Total liabilities decreased \$.81 million, resulting in a net asset increase of \$2.61 million.

The net assets of the District business-type activities increased by \$.12 million. Since the increase was slight, management has reviewed and, where feasible, increased fees. This action should ensure that business-type activities remain self-supporting.

Table 2 shows the change in net assets for fiscal year 2003. Since this is the first year the District has prepared financial statements following GASB Statement 34, revenue and expense comparisons to fiscal year 2002 are not available.

Table 2
Changes in Net Assets

	Governmental Activities 2003	Business-Type Activities 2003	Total 2003
Revenues			
Program Revenues:			
Charges for Services	\$328,593	\$247,541	\$576,134
Operating Grants	4,695,146	880,311	5,575,457
Capital Grants	24,061	0	24,061
General Revenue:			
Property Taxes	10,921,237	0	10,921,237
Grants and Entitlements	13,113,783	0	13,113,783
Other	<u>787,427</u>	<u>35,021</u>	<u>822,448</u>
Total Revenues	<u>29,870,247</u>	<u>1,162,873</u>	<u>31,033,120</u>
Program Expenses:			
Instruction	15,794,664	0	15,794,664
Support Services:			
Pupil and Instructional Staff	3,390,963	0	3,390,963
General and School Administrative,			
Fiscal and Business	3,640,793	0	3,640,793
Operations and Maintenance	2,288,195	0	2,288,195
Pupil Transportation	1,030,874	0	1,030,874
Central	287,188	0	287,188
Community Services	389,102	0	389,102
Extracurricular Activities	466,452	0	466,452
Interest and Fiscal Charges	89,580	0	89,580
Food Service	0	1,015,431	1,015,431
Uniform School Supply	0	635	635
Customer Service	<u>0</u>	<u>31,619</u>	<u>31,619</u>
Total Expenses	<u>27,377,811</u>	<u>1,047,685</u>	<u>28,425,496</u>
Increase in Net Assets	<u>\$2,492,436</u>	<u>\$115,188</u>	<u>\$2,607,624</u>

Governmental Activities

The District revenues are mainly from two sources. Property taxes levied for general purposes and grants and entitlements comprised 80.5% of the District's revenues for governmental activities.

The District depends greatly on property taxes as a revenue source. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenues generated by a levy will not increase solely as a result of inflation. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home were reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

Thus Ohio districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to the voters to maintain a constant level of service. Property taxes made up 37% of revenue for governmental activities for the District in fiscal year 2003.

Instruction comprises 57.7% of governmental program expenses. Support services expenses were 38.9% of governmental program expenses. All other expenses and interest expense was 3.4%. Interest expense was attributable to the outstanding bond and borrowing for capital projects.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements. Comparisons to 2002 have not been made since they are not available.

Table 3
Governmental Activities

	Total Cost of Services <u>2003</u>	Net Cost of Services <u>2003</u>
Instruction	\$15,794,664	\$12,972,810
Support Services:		
Pupil and Instructional Staff	3,390,963	1,934,995
General and School Administrative, Fiscal and Business	3,640,793	3,422,156
Operations and Maintenance	2,288,195	2,274,234
Pupil Transportation	1,030,874	981,522
Central	287,188	287,188
Community Services	389,102	(5,782)
Extracurricular Activities	466,452	373,308
Interest and Fiscal Charges	<u>89,580</u>	<u>89,580</u>
Total Expenses	<u>\$27,377,811</u>	<u>\$22,330,011</u>

Business-Type Activities

Business-type activities, include the food service operation, the sale of uniform school supplies and child care. These programs had revenues of \$1.16 million and expenses of \$1.05 million for fiscal year 2003. Business activities receive no support from tax revenues.

The District's Funds

Information about the District's major fund is presented in the Fund Financial Statements. This fund is accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$30,683,986 and expenditures and other financing uses of \$28,091,776. The net change in fund balance increased \$2,592,210, or 61.6% for the year.

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 budgeted fund is the General Fund.

During the course of fiscal 2003, the District amended its general fund budget numerous times, however none were significant. The District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management. During the course of the year, the District revised the Budget in an attempt to deal with unexpected changes in revenues and expenditures.

For the General Fund, budget basis revenue was \$24.53 million, above original budget estimates of \$23.59 million. Of this \$.93 million difference, most was due to a conservative estimate for taxes and intergovernmental revenue.

The District's ending unobligated cash balance was \$1.48 million above the final budgeted amount.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2003, the District had \$3.24 million invested in land, buildings, equipment and vehicles. Table 4 shows fiscal 2003 balances compared to fiscal 2002:

Table 4
Capital Assets at June 30
(Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2002	2003	2002	2003	2002	2003
Land	\$104,355	\$104,355	\$0	\$0	\$104,355	\$104,355
Buildings and Improvements	1,885,012	1,882,664	0	0	1,885,012	1,882,664
Furniture and Equipment	<u>1,395,058</u>	<u>1,162,584</u>	<u>56,927</u>	<u>89,022</u>	<u>1,451,985</u>	<u>1,251,606</u>
Total Net Assets	<u>\$3,384,425</u>	<u>\$3,149,603</u>	<u>\$56,927</u>	<u>\$89,022</u>	<u>\$3,441,352</u>	<u>\$3,238,625</u>

The increase in capital assets is due to \$.33 million in acquisitions, offset by the recognition of \$.53 million in depreciation expense and retirement of \$.06 million in assets, net of depreciation. This District continues its ongoing commitment to maintaining and improving its capital assets.

Debt

At June 30, 2003, the District had \$1,643,818 in debt outstanding, \$165,859 due within one year. Table 5 summarizes total debt outstanding.

Table 5
Outstanding Debt, at Year End

	Governmental Activities <u>2003</u>	Governmental Activities <u>2002</u>
Bonds Payable:		
Stadium Project	\$0	\$1,075,000
Stadium Project – Refinancing	<u>1,000,000</u>	<u>0</u>
Subtotal Bonds	1,000,000	1,075,000
Notes Payable:		
Project – Bank One	0	72,965
Project – National City	<u>351,228</u>	<u>373,291</u>
Subtotal Notes	351,228	446,256
Capital Lease Payable:		
Phone Lease	<u>292,590</u>	<u>337,763</u>
Total Outstanding Debt at Year End	<u>\$1,643,818</u>	<u>\$1,859,019</u>

Economic Outlook

Externally, the Ohio Supreme Court found the State of Ohio in March 1997, to be operating an unconstitutional educational system, one that was neither “adequate” nor “equitable.” Since 1997, the State has directed its tax revenue growth toward school districts with little property tax wealth. In May of 2000, the Ohio Supreme Court again ruled that, while the State had made some progress, the current funding system for schools is far too dependent on property taxes which are inherently not “equitable” nor “adequate”. The Court directed the Governor and the legislature to address the fundamental issues creating the inequities. In 2001, the Ohio legislature crafted a school-funding program to address the Court’s concerns.

This scenario requires management to plan carefully and prudently to provide the resources to meet student needs over the next several years. Financially, the future of the District is not without challenges. Management must diligently plan future expenditures.

In addition, the District’s system of budgeting and internal controls is well regarded. All of the District’s financial abilities will be needed to meet the challenges of the future. With careful planning and monitoring of the District’s finances, the District’s management is confident that the District can continue to provide a quality education for our students and provide a secure financial future.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors 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 questions about this report or need additional financial information, contact Rick Taylor, Treasurer at Painesville City Local School District, 58 Jefferson Street, Painesville, Ohio 44077. Or E-mail at pc_taylor@lgca.org.

Painesville City Local School District
Statement of Net Assets
June 30, 2003

	Governmental Activities	Business-Type Activities	Total
Assets:			
Equity in Pooled Cash and Investments	\$8,597,695	\$434,922	\$9,032,617
Cash and Cash Equivalents with Fiscal Agent	519,560	0	519,560
Receivables:			
Taxes	10,325,551	0	10,325,551
Accounts	333,574	99	333,673
Intergovernmental	644,342	0	644,342
Internal Balances	3,610	(3,610)	0
Inventory	0	11,743	11,743
Nondepreciable Capital Assets	104,355	0	104,355
Depreciable Capital Assets, Net	3,045,248	89,022	3,134,270
Total Assets	23,573,935	532,176	24,106,111
Liabilities:			
Accounts Payable	328,564	13,708	342,272
Accrued Wages and Benefits	3,215,659	44,332	3,259,991
Accrued Interest Payable	4,280	0	4,280
Deferred Revenue	9,275,531	1,521	9,277,052
Other Liabilities	14,317	0	14,317
Claims Payable	240,424	0	240,424
Long-Term Liabilities:			
Due Within One Year	407,231	2,656	409,887
Due In More Than One Year	3,013,790	24,723	3,038,513
Total Liabilities	16,499,796	86,940	16,586,736
Net Assets:			
Invested in Capital Assets, Net of Related Debt	1,495,647	89,022	1,584,669
Restricted for:			
Debt Service	153,130	0	153,130
Capital Projects	135,873	0	135,873
Special Revenue	286,662	0	286,662
Set Asides	538,690	0	538,690
Unrestricted	4,464,137	356,214	4,820,351
Total Net Assets	\$7,074,139	\$445,236	\$7,519,375

See accompanying notes.

Painesville City Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2003

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Instruction:				
Regular	\$9,757,117	\$183,227	\$754,902	\$0
Special	2,852,725	275	1,135,836	0
Vocational	484,513	0	7,274	0
Other	2,700,309	5,794	734,546	0
Support Services:				
Pupil	1,731,014	14,487	731,249	0
Instructional Staff	1,659,949	7,796	702,436	0
General Administration	136,548	0	0	0
School Administration	2,999,270	87	218,550	0
Fiscal	417,101	0	0	0
Business	87,874	0	0	0
Operations and Maintenance	2,288,195	8,523	5,438	0
Pupil Transportation	1,030,874	13,353	11,938	24,061
Central	287,188	0	0	0
Community Services	389,102	1,907	392,977	0
Extracurricular Activities	466,452	93,144	0	0
Interest and Fiscal Charges	89,580	0	0	0
Total Governmental Activities	27,377,811	328,593	4,695,146	24,061
Business-Type Activities:				
Food Service	1,015,431	245,748	880,311	0
Uniform School Supply	635	1,694	0	0
Child Care	31,619	99	0	0
Total Business-Type Activities	1,047,685	247,541	880,311	0
Totals	\$28,425,496	\$576,134	\$5,575,457	\$24,061

General Revenues:
Property Taxes Levied for:
 General Purposes
 Debt Service
 Capital Projects
Grants and Entitlements not Restricted to Specific Programs
Unrestricted Contributions
Investment Earnings
Other Revenues

Total General Revenues & Transfers

Change in Net Assets

Net Assets Beginning of Year

Net Assets End of Year

See accompanying notes.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(\$8,818,988)	\$0	(\$8,818,988)
(1,716,614)	0	(1,716,614)
(477,239)	0	(477,239)
(1,959,969)	0	(1,959,969)
(985,278)	0	(985,278)
(949,717)	0	(949,717)
(136,548)	0	(136,548)
(2,780,633)	0	(2,780,633)
(417,101)	0	(417,101)
(87,874)	0	(87,874)
(2,274,234)	0	(2,274,234)
(981,522)	0	(981,522)
(287,188)	0	(287,188)
5,782	0	5,782
(373,308)	0	(373,308)
(89,580)	0	(89,580)
<u>(22,330,011)</u>	<u>0</u>	<u>(22,330,011)</u>
0	110,628	110,628
0	1,059	1,059
0	(31,520)	(31,520)
<u>0</u>	<u>80,167</u>	<u>80,167</u>
<u>(\$22,330,011)</u>	<u>\$80,167</u>	<u>(\$22,249,844)</u>
10,597,618	0	10,597,618
139,942	0	139,942
183,677	0	183,677
13,113,783	0	13,113,783
78,345	0	78,345
148,326	4,482	152,808
560,756	30,539	591,295
<u>24,822,447</u>	<u>35,021</u>	<u>24,857,468</u>
2,492,436	115,188	2,607,624
4,581,703	330,048	4,911,751
<u>\$7,074,139</u>	<u>\$445,236</u>	<u>\$7,519,375</u>

Painesville City Local School District
Balance Sheet
Governmental Funds
June 30, 2003

	General	Other Governmental Funds	Total Governmental Funds
Assets:			
Equity in Pooled Cash and Investments	\$7,361,477	\$697,528	\$8,059,005
Restricted Cash and Investments	538,690	0	538,690
Receivables:			
Taxes	9,973,120	352,431	10,325,551
Accounts	333,574	0	333,574
Intergovernmental	0	644,342	644,342
Interfund	23,671	0	23,671
Total Assets	18,230,532	1,694,301	19,924,833
Liabilities and Fund Balances:			
Liabilities:			
Accounts Payable	242,664	85,900	328,564
Accrued Wages and Benefits	2,556,784	530,746	3,087,530
Compensated Absences	97,069	7,659	104,728
Interfund Payable	0	20,061	20,061
Deferred Revenue	8,944,348	648,905	9,593,253
Other Liabilities	14,317	0	14,317
Total Liabilities	11,855,182	1,293,271	13,148,453
Fund Balances:			
Reserved for Encumbrances	1,187,175	155,961	1,343,136
Reserved for Property Tax Advances	1,028,772	43,037	1,071,809
Reserved for Budget Stabilization	105,468	0	105,468
Unreserved, Designated for Budget Stabilization	433,222	0	433,222
Unreserved, Undesignated, Reported in:			
General Fund	3,620,713	0	3,620,713
Special Revenue Funds	0	(22,586)	(22,586)
Debt Service Funds	0	138,600	138,600
Capital Projects Funds	0	86,018	86,018
Total Fund Balances	6,375,350	401,030	6,776,380
Total Liabilities and Fund Balances	\$18,230,532	\$1,694,301	\$19,924,833

See accompanying notes.

Painesville City Local School District
Reconciliation of Total Governmental Fund Balance to
Net Assets of Governmental Activities
June 30, 2003

Total Governmental Fund Balance	\$6,776,380
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	3,149,603
Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds.	317,722
An 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.	279,136
In the statement of net assets, interest is accrued, whereas in the governmental funds interest is reported as a liability only when it will require the use of current financial resources.	(4,280)
Some liabilities, such as compensated absences and accrued benefits, do not require the use of current financial resources and therefore are not reported as liabilities in governmental funds.	(1,800,604)
Long-term liabilities, are not due and payable in the current period and therefore are not reported in the funds.	<u>(1,643,818)</u>
Net Assets of Governmental Activities	<u>\$7,074,139</u>

See accompanying notes.

Painesville City Local School District
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended June 30, 2003

	General	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	\$10,597,618	\$323,618	\$10,921,236
Tuition and Fees	178,811	2,141	180,952
Investment Earnings	140,165	8,160	148,325
Intergovernmental	13,849,575	3,742,125	17,591,700
Extracurricular Activities	6,361	112,756	119,117
Other Revenues	538,967	47,728	586,695
Total Revenues	25,311,497	4,236,528	29,548,025
Expenditures:			
Current:			
Instruction:			
Regular	8,607,079	843,468	9,450,547
Special	1,885,388	903,246	2,788,634
Vocational	444,654	5,039	449,693
Other	2,638,634	61,675	2,700,309
Support Services:			
Pupil	1,088,650	635,689	1,724,339
Instructional Staff	932,606	674,394	1,607,000
General Administration	135,179	0	135,179
School Administration	2,680,261	210,711	2,890,972
Fiscal	413,392	3,929	417,321
Business	87,874	0	87,874
Operations and Maintenance	2,132,620	127,346	2,259,966
Pupil Transportation	973,658	10,311	983,969
Central	277,018	5,389	282,407
Community Services	215	411,258	411,473
Extracurricular Activities	344,063	117,822	461,885
Debt Service:			
Principal Retirement	45,173	1,170,028	1,215,201
Interest and Fiscal Charges	15,705	77,841	93,546
Total Expenditures	22,702,169	5,258,146	27,960,315
Excess of Revenues Over (Under) Expenditures	2,609,328	(1,021,618)	1,587,710
Other Financing Sources (Uses):			
Proceeds from Sale of Fixed Assets	4,500	0	4,500
Proceeds of Long-Term Capital-Related Debt	0	1,000,000	1,000,000
Transfers In	0	131,461	131,461
Transfers (Out)	(131,428)	(33)	(131,461)
Total Other Financing Sources (Uses)	(126,928)	1,131,428	1,004,500
Net Change in Fund Balance	2,482,400	109,810	2,592,210
Fund Balance Beginning of Year	3,914,572	291,220	4,205,792
Change in Reserve for Inventory	(21,622)	0	(21,622)
Fund Balance End of Year	\$6,375,350	\$401,030	\$6,776,380

See accompanying notes.

Painesville City Local School District
 Reconciliation of the Statement of Revenues, Expenditures, and Changes
 in Fund Balance of Governmental Funds to the Statement of Activities
 For the Fiscal Year Ended June 30, 2003

Net Change in Fund Balance - Total Governmental Funds	\$2,592,210
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.	(234,822)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	317,722
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	1,215,201
In the statement of activities, interest is accrued, whereas in governmental funds, an interest expenditure is reported when due.	3,966
Some expenses reported in the statement of activities, such as compensated absences and accrued benefits, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	(404,592)
The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.	24,373
Consumable inventory is reported using the purchase method on a modified accrual basis, but is reported using the consumption method for full accrual.	(21,622)
Proceeds from debt issues are an other financing source in the funds, but a debt issue increases long-term liabilities in the statement of net assets.	(1,000,000)
Change in Net Assets of Governmental Activities	<u>\$2,492,436</u>

See accompanying notes.

Painesville City Local School District
Statement of Net Assets
Proprietary Funds
June 30, 2003

	Business-Type Activities Enterprise Funds	Governmental Activities- Internal Service Fund
Assets:		
Equity in Pooled Cash and Investments	\$434,922	\$0
Cash and Cash Equivalents with Fiscal Agent	0	519,560
Receivables:		
Accounts	99	0
Inventory	11,743	0
Total Current Assets	446,764	519,560
Depreciable Capital Assets, Net	89,022	0
Total Assets	535,786	519,560
Liabilities:		
Current Liabilities:		
Accounts Payable	13,708	0
Accrued Wages and Benefits	44,332	0
Compensated Absences	2,656	0
Interfund Payable	3,610	0
Deferred Revenue	1,521	0
Claims Payable	0	240,424
Total Current Liabilities	65,827	240,424
Long-Term Liabilities:		
Compensated Absences	24,723	0
Total Liabilities	90,550	240,424
Net Assets:		
Invested in Capital Assets, Net of Related Debt	89,022	0
Unrestricted	356,214	279,136
Total Net Assets	\$445,236	\$279,136

See accompanying notes.

Painesville City Local School District
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2003

	Business-Type Activities Enterprise Funds	Governmental Activities- Internal Service Fund
Operating Revenues:		
Sales	\$245,748	\$0
Tuition and Fees	99	0
Charges for Services	1,694	1,674,895
Other Revenues	30,539	0
Total Operating Revenues	278,080	1,674,895
Operating Expenses:		
Personal Services	565,146	0
Contactual Services	13,118	1,650,522
Materials and Supplies	449,872	0
Depreciation	17,207	0
Other Expenses	2,342	0
Total Operating Expenses	1,047,685	1,650,522
Operating Income (Loss)	(769,605)	24,373
Non-Operating Revenues (Expenses):		
Investment Earnings	4,482	0
Donated Commodities	31,332	0
Operating Grants	848,979	0
Total Non-Operating Revenues (Expenses)	884,793	0
Change in Net Assets	115,188	24,373
Net Assets Beginning of Year	330,048	254,763
Net Assets End of Year	\$445,236	\$279,136

See accompanying notes.

Painesville City Local School District
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2003

	Business-Type Activities Enterprise Funds	Governmental Activities- Internal Service Fund
Cash Flows from Operating Activities:		
Cash Received from Customers	\$277,981	\$1,674,895
Cash Payments to Employees	(554,102)	0
Cash Payments to Suppliers	(415,902)	0
Cash Payments for Claims	0	(1,642,168)
Net Cash Provided (Used) by Operating Activities	<u>(692,023)</u>	<u>32,727</u>
Cash Flows from Noncapital Financing Activities:		
Operating Grants Received	848,979	0
Payments from Other Funds	462	0
Payments to Other Funds	(1,285)	0
Net Cash Provided (Used) by Noncapital Financing Activities	<u>848,156</u>	<u>0</u>
Cash Flows from Capital and Related Financing Activities:		
Payments for Capital Acquisitions	(49,302)	0
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(49,302)</u>	<u>0</u>
Cash Flows from Investing Activities:		
Earnings on Investments	4,482	0
Net Cash Provided (Used) by Cash Flows from Investing Activities	<u>4,482</u>	<u>0</u>
Net Increase (Decrease) in Cash and Cash Equivalents	111,313	32,727
Cash and Cash Equivalents Beginning of Year	<u>323,609</u>	<u>486,833</u>
Cash and Cash Equivalents End of Year	<u><u>434,922</u></u>	<u><u>519,560</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities		
Operating Income (Loss)	(769,605)	24,373
Adjustments:		
Depreciation	17,207	0
Donated Commodities	31,332	0
Changes in Assets & Liabilities:		
(Increase) Decrease in Receivables	(99)	0
(Increase) Decrease in Inventory	9,110	0
Increase (Decrease) in Payables	3,104	8,354
Increase (Decrease) in Accrued Liabilities	21,648	0
Increase (Decrease) in Deferred Revenue	(4,720)	0
Net Cash Provided (Used) by Operating Activities	<u><u>(\$692,023)</u></u>	<u><u>\$32,727</u></u>
Schedule of Noncash Capital Activities:		
During the fiscal year, the Food Service Fund received contributed food commodities valued at	\$31,332	

See accompanying notes.

Painesville City Local School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2003

	Private Purpose Trust	Agency
Assets:		
Equity in Pooled Cash and Investments	\$12,598	\$46,414
Total Assets	<u>12,598</u>	<u>\$46,414</u>
Liabilities:		
Accounts Payable	0	337
Other Liabilities	0	46,077
Total Liabilities	<u>0</u>	<u>\$46,414</u>
Net Assets:		
Held in Trust for Scholarships	<u>12,598</u>	
Total Net Assets	<u>\$12,598</u>	

See accompanying notes.

Painesville City Local School District
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2003

	<u>Private Purpose Trust</u>
Additions:	
Investment Earnings	\$120
Other	<u>1,517</u>
Total Additions	<u>1,637</u>
Deductions:	
Scholarships	<u>3,132</u>
Total Deductions	<u>3,132</u>
Change in Net Assets	(1,495)
Net Assets Beginning of Year	<u>14,093</u>
Net Assets End of Year	<u><u>\$12,598</u></u>

See accompanying notes.

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT
LAKE COUNTY, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2003**

1. DESCRIPTION OF THE DISTRICT

The Painesville City 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 is a local district as defined by Section 3311.03 of the Ohio Revised Code. The District operates under a five member elected Board of Education and is responsible for the provision of public education to residents of the District.

The District is located in Lake County.

Average daily membership (ADM) as of June 1, 2003 was 2,776. The District employed 208 certificated employees and 169 noncertificated employees. It currently operates seven instructional facilities.

REPORTING ENTITY

In accordance with Governmental Accounting Standards Board [GASB] Statement 14, the financial reporting entity consists of a primary government and its component units. The District is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate, and is fiscally independent of other state and local governments.

There are no component units combined with the District for financial statement presentation purposes, and it is not included in any other governmental reporting entity. Consequently, the District's financial statements include only the funds of those organizational entities for which its elected governing body is financially accountable. The District's major operations include education, pupil transportation, food service, and maintenance of District facilities.

The District participates in five Jointly Governed Organizations, a shared risk pool and an insurance purchasing pool, that are further described in the notes to the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

FUND ACCOUNTING

The District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the District are grouped into the categories governmental, proprietary and fiduciary.

Governmental Funds

Governmental funds focus 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 is the District's major governmental fund:

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

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

Proprietary Fund

Proprietary fund reporting focuses on the determination of operating income changes in net assets, financial position and cash flows. Proprietary funds are classified as Enterprise or Internal Service.

Enterprise Funds – The enterprise fund may be used to account for any activity for which a fee is charged to external users for goods or services.

Internal Service Fund – The internal service fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the District, or to other governments on a cost reimbursement basis.

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 only trust fund is a private purpose trust which accounts for scholarship programs for students.

MEASUREMENT FOCUS

Government-wide Financial Statements

The government-wide statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the District are included on the statement of net assets. Fiduciary Funds are not included in entity-wide statements.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program 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 and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

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, all proprietary fund types are 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 proprietary activities.

Fiduciary Funds are reported using the economic resources measurement focus.

BASIS OF ACCOUNTING

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Differences in the actual 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.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, included 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. 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 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 nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year end: property taxes available for advance, grants and interest.

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of June 30, 2003, but which were levied to finance fiscal year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

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 the governmental funds.

CASH AND CASH EQUIVALENTS

Cash received by the District is pooled for investment purposes. Interest in the pool is presented as "equity in pooled cash and investments" on the financial statements. The District utilizes a shared risk pool as a claims servicer. The balance in this pool is presented on the financial statements as "cash and cash equivalents with fiscal agent".

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

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2003. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio 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 STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2003.

Following Ohio statutes, the Board has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue during fiscal year 2003 amounted to \$152,808.

For presentation on the financial statements, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

For purposes of the statement of cash flows, the Enterprise Funds' portion of pooled cash and investments is considered a cash equivalent because the District is able to withdraw resources from the enterprise funds without prior notice or penalty.

INVENTORY

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased. Inventories of proprietary funds consist of donated food, purchased food, and school supplies held for resale and are expensed when used.

CAPITAL ASSETS

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars (\$1,000). 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. Interest incurred during the construction of capital assets is also capitalized.

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-Type Activities Estimated Lives</u>
Buildings and Improvements	10 - 50 years	N/A
Equipment	5 - 10 years	5 - 10 years

COMPENSATED ABSENCES

The District reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for 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. The District records a liability for accumulated unused vacation time, when earned, for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the District's past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The entire amount of compensated absences is reported as a fund liability in Proprietary Funds.

The District's policies regarding compensated absences are determined by the state laws and/or negotiated agreements. In summary, the policies are as follows:

<u>Vacation</u> How Earned	<u>Certified</u> Not Eligible	<u>Administrators</u> Per Contract	<u>Non-Certificated</u> 0 days for less than 1 year of service, 10-25 days depending on length of service after 1 year of service
Maximum Accumulation	Not Applicable	Per Contract	Two years vacation leave
Vested	Not Applicable	Per Contract	After first year of employment
Termination Entitlement	Not Applicable	Per Contract	Paid upon termination
<u>Sick Leave</u> How Earned	1 1/4 days per month of employment (15 days per year)	1 1/4 days per month of employment (15 days per year)	Per Contract
Maximum Accumulation	232 days	Unlimited	Unlimited
Vested	As Earned	As Earned	As Earned
Termination Entitlement	40% of accumulated sick leave up to 52 days	40% of accumulated sick leave up to 52 days	40% of accumulated sick leave up to 42 days

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 proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, compensated absences and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year. In general, liabilities that mature or come due for payment during the fiscal year are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements when due.

NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

ESTIMATES

The preparation of the 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.

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 sales for food service and uniform school supplies. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund.

CONTRIBUTIONS OF CAPITAL

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

INTERFUND ACTIVITY

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

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

BUDGETARY PROCESS

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

Tax Budget

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates. By no later than January 20, the Board-adopted budget is filed with the Lake County Budget Commission for rate determination.

Estimated Resources

Prior to April 1, the Board accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the Commission's certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further 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 amended 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 issued during fiscal year 2003.

Appropriations

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution must be legally enacted by the Board of Education at the fund and function level of expenditures, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control.

Any revisions that alter the total of any fund appropriation or alter total function appropriations within a fund, must be approved by the Board of Education. The Board may pass supplemental fund appropriations so long as the total appropriations by fund does not exceed the amounts set forth in the most recent Certificate of Estimated Resources. During the year, several supplemental appropriations were legally enacted. The budget figures, which appear in the statements of budgetary comparisons, represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds, other than agency funds, consistent with statutory provisions.

Encumbrances

As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriations and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at fiscal year end are reported as a reservation of fund balance for subsequent year expenditures for governmental funds.

Lapsing of Appropriations

At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

FUND EQUITY

Reserved fund balances indicate a portion of fund equity which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for encumbrances, property taxes and budget stabilization. The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute. The unreserved portion of fund equity, reflected for the Governmental Funds, is available for use within the specific purpose of those funds.

3. CHANGES IN ACCOUNTING PRINCIPLES

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

GASB 34 creates new basic financial statements for reporting on the District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the school district not being able to present budgetary comparisons for the general and each major special revenue fund. The government-wide financial statements split the District's programs between business-type and governmental activities. Except for the restatement explained below, the beginning net asset amount for the business-type activities equals fund equity of the Enterprise Funds from last year. The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at June 30, 2003.

RESTATEMENT OF FUND BALANCE

The implementation of these statements had the following effects on fund balance of the major and non-major funds of the District as they were previously reported. The transition from governmental fund balances to net assets of the governmental activities is also presented.

	<u>General</u>	<u>Nonmajor</u>	<u>Total</u>
Fund Balances, June 30, 2002	\$4,168,483	\$291,224	\$4,459,707
Fund Reclassification	(253,911)	(4)	(253,915)
Adjusted Fund Balances, June 30, 2002	<u>\$3,914,572</u>	<u>\$291,220</u>	<u>\$4,205,792</u>
GASB 34 Adjustments:			
Capital Assets			3,384,425
Accrued Interest Payable			(8,246)
Compensated Absences Payable			(1,158,286)
Accrued Wages and Benefits			(237,726)
Long Term Liabilities			(2,278,914)
Internal Service, Net Assets			254,763
Prior Period Adjustment:			
Capital Lease			<u>419,895</u>
Governmental Activities Net Assets, June 30, 2002			<u>\$4,581,703</u>

The General Fund reclassification of \$253,911 is a result of erroneously recording part of the Internal Service Fund in the General Fund in the prior year. The prior period adjustment of \$419,895 relating to the Capital Lease is due to erroneously capitalizing operating leases in the prior year.

At June 30, 2002, fixed assets were restated in the Enterprise Funds. This restatement had the following effect on fund equity as it was previously reported:

	<u>Food Service</u>	<u>Uniform School Supply</u>	<u>Child Care</u>	<u>Total</u>
Fund Equity, June 30, 2002	\$334,704	(\$4,433)	\$4,016	\$334,287
Fixed Assets	<u>(4,239)</u>	<u>0</u>	<u>0</u>	<u>(4,239)</u>
Adjusted Net Assets, June 30, 2002	<u>\$330,465</u>	<u>(\$4,433)</u>	<u>\$4,016</u>	<u>\$330,048</u>

4. EQUITY IN POOLED CASH AND INVESTMENTS

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and cash equivalents."

State statute requires the classification of monies held by the District into three categories:

Active Monies – Those monies required to be kept in a "cash" or "near cash" status for immediate use by the District. Such monies must by law be maintained either as cash in the District treasury, in depository accounts payable or withdrawable on demand.

Inactive Monies – Those monies not required for use within the current two year period of designated depositories. Ohio law permits inactive monies to be deposited or invested as certificates of deposit maturing not later than the end of the current period of designated depositories, or as savings or deposit accounts, including, but not limited to passbook accounts.

Interim Monies – 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. Ohio law permits interim monies to be invested or deposited in the following securities:

- (1) Bonds, notes, or other obligations of or guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest.
- (2) Bonds, notes, debentures, or other obligations or securities issued by any federal governmental agency.
- (3) Written repurchase agreements in the securities enumerated above.

- (4) Interim deposits in the eligible institutions applying for interim monies to be evidenced by time certificates of deposit maturing not more than one year from date of deposit, or by savings or deposit accounts, including, but not limited to, passbook accounts.
- (5) Bonds, and other obligations of the State of Ohio.
- (6) The Ohio State Treasurer's investment pool (STAR Ohio).
- (7) Commercial paper and banker's acceptances which meet the requirements established by Ohio Revised Code, Sec. 135.142.

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

At June 30, 2003, the District's internal service fund had a balance of \$519,560 with Lake County Council of Governments Health Care Benefits Program, a shared risk pool. 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 Plan's fiscal agent, the Mentor Exempted Village School District, 6451 Center Street, Mentor, Ohio 44060.

Deposits – At the year end, the carrying amount of the District's deposits was \$181,281. The bank balance of deposits was \$371,488 of which \$265,067 was covered by federal depository insurance. The remaining balance of \$106,421 was covered by 105% public depository pool, which was collateralized with securities held by the pledging financial institution's trust department but not in the District's name.

Investments – The District's investments are categorized to give an indication of the level of risk assumed by the entity at year end (GASB Statement 3):

Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name.

Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name.

Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its department or agent, but not in the District's name.

Based on the above criteria, the District's investments at year-end are classified as follows:

<u>Description</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Carrying Amount/ Fair Value</u>
State Treasury Pool*	\$0	\$0	\$0	\$5,910,348
Federal Agency Security	<u>0</u>	<u>0</u>	<u>3,000,000</u>	<u>3,000,000</u>
Total Investments	<u>\$0</u>	<u>\$0</u>	<u>\$3,000,000</u>	<u>\$8,910,348</u>

*The District's Investment in the Ohio State Treasury Pool is not categorized because it is not evidenced by securities that exist in physical or book entry form.

5. PROPERTY TAXES

Real property taxes collected in 2003 were levied in April on the assessed values as of January 1, 2002, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. A re-evaluation of real property is required to be completed no less than every six years, with a statistical update every third year. The most recent re-evaluation was completed in January, 1999.

Tangible personal property tax is assessed on equipment and inventory held by businesses. Tangible property is assessed at 25 percent of true value for capital assets and 24 percent of true value for inventory. In 2003, each business was eligible to receive a \$10,000 exemption in assessed value which was reimbursed by the State.

Real property taxes are payable annually or semi-annually. In 2003, if paid annually, payment was due by January 20th. If paid semi-annually, the first payment (at least 1/2 amount billed) was due January 20th with the remainder due on June 20th.

The Lake County Auditor remits portions of the taxes collected to all taxing districts with periodic settlements of real and public utility property taxes in February and August and tangible personal property taxes in June and October. The District records billed but uncollected property taxes as receivables at their estimated net realizable value.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, personal property and public utility taxes which became measurable at June 30, 2003. Delinquent property taxes collected within 60 days are included as a receivable and tax revenue as of June 30, 2003. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is available to finance current year operations. The receivable is, therefore, offset by a credit to deferred revenue for that portion not intended to finance current year operations.

The amount available as an advance at June 30, 2003, was \$1,028,772 for General Fund and \$43,037 for Other Nonmajor Governmental Funds, and is recognized as revenue, with a corresponding reserve to fund balance since the Board did not appropriate these receivables for fiscal year 2003 operations. The amount available for advance at June 30, 2002 was \$512,727 for General Fund and \$21,850 for Nonmajor, with a corresponding reserve to fund balance since the Board did not appropriate those receivables for fiscal year 2002 operations. The increase in advances available is a result of how the County collected its funds.

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

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

	<u>Amount</u>
Agricultural/Residential and Other Real Estate	\$181,733,050
Public Utility Personal	5,575,870
Tangible Personal Property	<u>33,278,985</u>
Total	<u>\$220,587,905</u>

6. RECEIVABLES

Receivables at June 30, 2003, consisted of taxes, accounts (rent and student fees), intergovernmental grants and interest. 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 year guarantee of federal funds.

7. CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
Government Activities				
Land	\$104,355	\$0	\$0	\$104,355
Buildings and Improvements	7,474,013	115,000	0	7,589,013
Equipment	4,514,191	164,148	63,297	4,615,042
Totals at Historical Cost	<u>\$12,092,559</u>	<u>\$279,148</u>	<u>\$63,297</u>	<u>\$12,308,410</u>
Less Accumulated Depreciation:				
Buildings and Improvements	5,589,001	117,348	0	5,706,349
Equipment	3,119,133	396,622	63,297	3,452,458
Total Accumulated Depreciation	<u>\$8,708,134</u>	<u>\$513,970</u>	<u>\$63,297</u>	<u>\$9,158,807</u>
Governmental Activities Capital Assets, Net	<u>\$3,384,425</u>	<u>(\$234,822)</u>	<u>\$ 0</u>	<u>\$3,149,603</u>
Business-Type Activities				
Equipment	\$301,120	\$49,302	\$ 0	\$350,422
Total at Historical Cost	<u>\$301,120</u>	<u>\$49,302</u>	<u>\$ 0</u>	<u>\$350,422</u>
Less Accumulated Depreciation:				
Equipment	\$244,193	\$17,207	\$ 0	\$261,400
Total Accumulated Depreciation	<u>\$244,193</u>	<u>\$17,207</u>	<u>\$ 0</u>	<u>\$261,400</u>
Business-Type Activities Capital Assets, Net	<u>\$56,927</u>	<u>\$32,095</u>	<u>\$ 0</u>	<u>\$89,022</u>

*Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$193,908
Special	11,061
Vocational	12,855
Support Services:	
Pupil	8,106
Instructional Staff	61,749
General Administration	1,369
School Administration	18,057
Fiscal	2,330
Operations and Maintenance	99,405
Pupil Transportation	72,016
Community Services	9,339
Extracurricular Activities	23,775
Total Depreciation Expense	<u>\$513,970</u>

8. LEGAL DEBT MARGIN

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The Code further provides that unvoted indebtedness shall not exceed 1/10 of 1 percent of the property valuation of the District.

The effects of these debt limitations at June 30, 2003, are a voted debt margin of \$19,991,511 and an unvoted debt margin of \$220,588.

9. LONG-TERM LIABILITIES

	<u>Maturity Dates</u>	<u>Beginning Principal Outstanding</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Principal Outstanding</u>	<u>Due In One Year</u>
<u>Governmental Activities:</u>						
<u>General Obligation Bonds:</u>						
Stadium Project 1992 5.95%	12/01/12	\$1,075,000	\$ 0	\$ 1,075,000	\$ 0	\$0
Stadium Project-Refinancing 2002 6.05%	6/01/14	0	1,000,000	0	1,000,000	95,000
Total General Obligation Bonds		1,075,000	1,000,000	1,075,000	1,000,000	95,000
Notes Payable	6/01/14	446,256	0	95,028	351,228	23,398
Compensated Absences		1,158,286	618,917	0	1,777,203	241,372
Capital Leases	6/01/09	337,763	0	45,173	292,590	47,461
Total Governmental Activities Long-Term Liabilities		<u>\$3,017,305</u>	<u>\$1,618,917</u>	<u>\$1,215,201</u>	<u>\$3,421,021</u>	<u>\$407,231</u>
<u>Business-Type Activities:</u>						
Compensated Absences		\$21,984	\$5,395	\$0	\$27,379	\$2,656

Principal and interest requirements to retire general obligation debt outstanding at year end are as follows:

<u>Fiscal Year</u> <u>Ending June 30,</u>	<u>General Obligation Bonds</u>			<u>Notes Payable</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$95,000	\$24,950	\$119,950	\$23,398	\$21,249	\$44,647
2005	105,000	23,350	128,350	24,813	19,834	44,647
2006	105,000	21,460	126,460	26,315	18,332	44,647
2007	105,000	19,176	124,176	27,907	16,740	44,647
2008	105,000	16,577	121,577	29,595	15,052	44,647
2009-2013	485,000	137,247	622,247	177,100	46,135	223,235
2014	0	0	0	42,100	2,547	44,647
Totals	<u>\$1,000,000</u>	<u>\$242,760</u>	<u>\$1,242,760</u>	<u>\$351,228</u>	<u>\$139,889</u>	<u>\$491,117</u>

The bond issue is a general obligation of the District for which the full faith and credit of the District is pledged for repayment. Payment of principal and interest relating to this liability is recorded as an expenditure in the Debt Service Fund.

On September 1, 2002, the School District issued \$1,000,000 in general obligation bonds with interest rates varying from 1.60 to 3.55 percent. Proceeds were used to refund \$1,000,000 of the outstanding 1992 School Improvement Bonds.

The School District completed the refunding to reduce its total debt service payments over the next 10 years by \$148,632 and to obtain an economic gain (difference between the present value of the old and new debt service payments) of \$148,632.

10. LEASES

CAPITAL LEASES

The District has a capital lease for June 30, 2003 for a phone system.

The lease for the phone system meets the criteria of capital lease as defined by statement of Financial Accounting Standards No. 13 "Accounting for Leases", which defines a capital lease generally as one that transfers benefits and risks of ownership to the lessee. Capital lease payments for the high school and elementary will be made from the General fund and lease payments for the phone system will be made from the Permanent Improvement Fund.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of fiscal year end.

<u>Fiscal Year</u> <u>Ending June 30, 2003</u>	<u>Long-Term</u> <u>Debt</u>
2004	\$60,878
2005	60,878
2006	60,878
2007	60,878
2008	60,878
2009	<u>30,439</u>
Total Minimum Lease Payments	334,829
Less: Amount Representing Interest	<u>(42,239)</u>
Present Value of Minimum Lease Payments	<u>\$292,590</u>

11. PENSION PLANS

SCHOOL EMPLOYEES RETIREMENT SYSTEM

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

Plan members are required to contribute 9% of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14% of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17% of annual covered salary was the portion being used to fund pension obligations. For fiscal year 2002, 5.46% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$537,732, \$614,282, and \$586,436 respectively; 49.1% has been contributed for fiscal year 2003 and 100% for fiscal year 2002 and 2001.

STATE TEACHERS RETIREMENT SYSTEM

The School District participates in 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, Ohio 43215-3371 or by calling (614) 227-4090.

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

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

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3% of their annual covered salaries. The School District was required to contribute 14%; 13% was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5%. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for members and employer contributions.

The School District's required contributions for pension obligations for the fiscal years ended June 30, 2003, 2002, and 2001 were \$1,648,044, \$1,684,472, and \$1,665,445 respectively; 83.5% has been contributed for fiscal year 2003 and 100% for fiscal year 2002 and 2001.

12. POST EMPLOYMENT BENEFITS

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

All STRS Ohio benefit recipients and sponsored dependants are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2003, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$126,773 for fiscal year 2003.

STRS Ohio pays health care benefits from the Health Care Reserve Fund. At June 30, 2002, (the latest information available) the balance in the Fund was \$3.011 billion. For the year ended June 30, 2002, net health care costs paid by STRS Ohio were \$354,697,000 and STRS Ohio had 105,300 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll, a decrease of 2.71 percent from fiscal year 2002. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay was established at \$14,500. For the District, the amount contributed to fund health care benefits, including the surcharge, during the 2003 fiscal year equaled \$451,348.

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, 2002 (the latest information available), were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of \$335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits.

13. CONTINGENT LIABILITIES

GRANTS

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds.

However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District as of June 30, 2003.

LITIGATION

The District is not currently a party to any significant legal proceedings.

14. LAKE COUNTY SCHOOL FINANCING DISTRICT

The Board of Education of the Lake County School District 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 Financing District: the provision of necessary personnel, materials, supplies and transportation for instruction in language arts, social studies, mathematics, fine and practical arts, health and physical education, science and business education.

The Board of Education of the Lake County School District 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 Painesville City Local School District) each 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 60 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 – Intergovernmental".

15. JOINTLY GOVERNED ORGANIZATIONS

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 School District's continued participation. Financial information can be obtained by writing the Auburn Career Center, 8140 Auburn Road, Painesville, Ohio 44077.

Lake Geauga Computer Association - The Lake Geauga Computer Association (LGCA) is a jointly governed organization that was first formed for the purpose of providing computer services for accounting, grading, scheduling, EMIS and other applications to its eighteen (18) member school districts. Each of the districts supports LGCA based upon a per pupil charge. The executive committee (governing board) consists of the superintendents and treasurers of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the governing board. LGCA's continued existence is not dependent on the District's continued participation. LGCA is not accumulating significant financial resources or experiencing financial distress, which would cause additional financial benefits or burden on the District. Financial information can be obtained from: Lake Geauga Computer Association, 8140 Auburn Road, Painesville, Ohio 44077.

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 (16) 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 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, Mentor Exempted Village School District, 6451 Center Street, Mentor, Ohio 44060.

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 (16) member school districts. The transportation committee (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. ESRTA 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, Ohio 44094.

Ohio Schools Council Association - The Ohio Schools Council Association (the Council) is a jointly governed organization among eighty-two school districts. The jointly governed organization was formed to bring quality products and services at the lowest possible cost to the member districts. The Council's Board consists of seven superintendents of the participating districts whose term rotates every year. The degree of control exercised by any school district is limited to its representation on the Board. In fiscal year 2002, the District paid \$500 to the Council. Financial information can be obtained by contacting the Executive Secretary of the Ohio Schools Council at 6133 Rockside Road, Suite 10, Independence, Ohio 44131.

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, a 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.

16. CLAIMS SERVICING POOL

The District participates in Lake County Council of Governments Health Care Benefits Program (HCBP) Self-Insurance Program, a shared risk 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.

17. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2003, the District contracted with Ohio School Plan for property and general liability insurance. There is a \$3,000,000 limit of liability.

Commercial umbrella liability is protected by Nationwide Insurance with a \$5,000,000 single and aggregate occurrence limit. Vehicles are covered by Indiana Insurance and have a \$500 deductible for comprehensive collision. Automobile liability has a \$1,000,000 combined single limit of liability. Settled claims have not exceeded this commercial coverage in any of the past three years.

The District has elected to provide medical coverage through a self insured program. The District uses the internal service fund to account for and finance its uninsured risks of loss in this program. The claims are serviced through Lake County Schools Council of Governments Health Care Benefits Program. The claims liability of \$240,424 reported in the internal service fund at June 30, 2003 is based on the requirements of Governmental Accounting Standards Board Statement No. 10 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.

Changes in the District's share of the claims liability amount in 2003 and 2002 were:

	Balance at Beginning of Year	Current Year Claims	Claim Payments	Balance at End of Year
2003	\$232,070	\$1,683,249	\$1,674,895	\$240,424
2002	\$207,376	\$1,894,242	\$1,869,548	\$232,070

18. OSBA INSURANCE PURCHASING POOL

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

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.

19. STATE SCHOOL FUNDING DECISION

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

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

20. COMPLIANCE AND ACCOUNTABILITY

The following individual funds had a deficit fund balance/net assets at year end:

<u>Fund</u>	<u>Deficit</u>
Special Revenue:	
Disadvantaged Pupil Impact Aid	\$218,688
Title III	12,431
Community Development	56
Title I	13,527
Title VI	768
Drug-Free Schools	3,105
Improving Teacher Grants	8,113
Enterprise:	
Uniform School Supply	3,374

21. FUND BALANCE RESERVES FOR SET-ASIDES

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for 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.

For fiscal year ended June 30, 2003, the School District was no longer required to set aside funds in the budget reserve set-aside, with the exception of refund monies received from the Bureau of Workers' Compensation, which must be spent for specified purposes.

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

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside Reserve Balance as of June 30, 2002	(\$170,839)	\$ 0	\$105,468
Current Year Set-aside Requirement	368,285	368,285	0
Qualified Disbursements	(422,019)	0	0
Current Year Offsets	<u>0</u>	<u>(395,010)</u>	<u>0</u>
Total	<u>(\$224,573)</u>	<u>(\$26,725)</u>	\$105,468
Set-aside Reserve Balance			
Carried Forward to Future Years	(\$224,573)	\$ 0	\$105,468
Designation Balance as of June 30, 2003	\$ 0	\$ 0	<u>\$433,222</u>
Restricted Cash as of June 30, 2003			<u>\$538,690</u>

Effective April 10, 2001, Am. Sub. Senate Bill 345 amended ORC Section 5705.29 effectively eliminating the requirement for the District to establish and maintain a budget stabilization reserve. The non-BWC (Bureau of Workers' Compensation) portion of monies previously reported in the budget stabilization reserve are now reported as designated fund balance for budget stabilization in the General Fund. On June 11, 2001, the Board passed a resolution authorizing the transfer of the non-BWC portion of the budget stabilization reserve to the General Fund designated fund balance. The money set aside in this account can only be used in the event of funding deficit or catastrophic emergency and then only by Board resolution. The District is still required by State law to maintain the textbook reserve and the capital acquisition reserve.

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

22. INTERFUND TRANSACTIONS

Interfund transactions at June 30, 2003, consisted of the following individual fund receivables and payables:

Interfund Receivables/Payables:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$23,671	
Special Revenue Fund:		
Public School		\$65
Other Grants		3,446
Miscellaneous State Grants		500
Community Development		4,141
Title I		8,494
Title VI		1,008
Drug-Free Schools		1,162
Miscellaneous Federal Grants		1,245
Enterprise Fund:		
Uniform School Supply	_____	_____ 3,610
	<u>\$23,671</u>	<u>\$23,671</u>

**REQUIRED
SUPPLEMENTARY
INFORMATION**

Painesville City Local School District
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2003

	General Fund			Variance Favorable (Unfavorable)
	Original Budget	Final Budget	Actual	
Revenues:				
Taxes	\$9,697,840	\$9,811,445	\$10,081,573	\$270,128
Tuition and Fees	197,638	199,953	205,458	5,505
Interest	137,052	138,657	142,475	3,818
Intergovernmental	13,316,997	13,472,999	13,843,937	370,938
Extracurricular Activities	6,119	6,191	6,361	170
Other Revenues	236,203	238,970	245,549	6,579
Total Revenues	23,591,849	23,868,215	24,525,353	657,138
Expenditures:				
Current:				
Instruction:				
Regular	8,177,611	9,167,284	8,869,486	297,798
Special	1,776,445	1,991,435	1,926,743	64,692
Vocational	429,543	481,527	465,885	15,642
Other	2,892,771	3,242,861	3,137,517	105,344
Support Services:				
Pupil	1,021,776	1,170,894	1,123,453	47,441
Instructional Staff	860,922	965,113	933,761	31,352
General Administration	2,467,628	2,766,266	2,676,404	89,862
School Administration	128,001	143,492	138,831	4,661
Fiscal	409,623	459,197	444,280	14,917
Business	111,012	124,447	120,404	4,043
Operations and Maintenance	2,114,266	2,370,140	2,293,146	76,994
Pupil Transportation	1,099,292	1,232,331	1,192,299	40,032
Central	268,214	300,673	290,906	9,767
Extracurricular Activities	320,120	358,862	347,204	11,658
Capital Outlay	184,605	206,947	200,224	6,723
Debt Service:				
Principal Retirement	45,173	45,173	45,173	0
Interest and Fiscal Charges	10,956	17,749	15,705	2,044
Total Expenditures	22,317,958	25,044,391	24,221,421	822,970
Excess of Revenues Over (Under) Expenditures	1,273,891	(1,176,176)	303,932	1,480,108
Other financing sources (uses):				
Proceeds from Sale of Fixed Assets	4,496	4,491	4,500	9
Advances In	80,522	80,454	80,602	148
Advances (Out)	(86,156)	(85,949)	(86,065)	(116)
Transfers (Out)	(131,566)	(131,250)	(131,427)	(177)
Total Other Financing Sources (Uses)	(132,704)	(132,254)	(132,390)	(136)
Net Change in Fund Balance	1,141,187	(1,308,430)	171,542	1,479,972
Fund Balance Beginning of Year (includes prior year encumbrances appropriated)	6,298,153	6,298,153	6,298,153	0
Fund Balance End of Year	\$7,439,340	\$4,989,723	\$6,469,695	\$1,479,972

See accompanying notes.

PAINESVILLE CITY LOCAL SCHOOL DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For The Year Ended June 30, 2003

1. BUDGETARY PROCESS

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriations 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 Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by Board. The legal level of control has been established by Board at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the final amended certificate of estimated resources issued during the fiscal year 2003.

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

While the District is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Combined Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual 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 for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types and expendable trust funds (GAAP basis).
4. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions.

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

Net Change in Fund Balance

	<u>General</u>
GAAP Basis	\$2,482,400
Net Adjustment for Revenue Accruals	(705,542)
Net Adjustment for Expenditure Accruals	(175,565)
Encumbrances	<u>(1,429,751)</u>
 Budget Basis	 <u>\$171,542</u>

PAINESVILLE CITY LOCAL SCHOOL DISTRICT
LAKE COUNTY

SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2003

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM OR CLUSTER TITLE	Federal CFDA Number	Pass-Through Entity Number	Receipts	Non-cash Receipts	Disburse- ments	Non-cash Disburse- ments
U.S. DEPARTMENT OF EDUCATION						
Passed-Through State Department of Education:						
Special Education Cluster						
Preschool Grant						
	84.173	044628-PG-S1-03P	22,011	0	21,367	0
	84.173	044628-PG-S1-02P	0	0	5	0
			<u>22,011</u>	<u>0</u>	<u>21,372</u>	<u>0</u>
Educational Handicap VI-B						
	84.027	044628-6B-SF-03P	359,188	0	265,804	0
	84.027	044628-6B-SD-03P	15,000	0	11,327	0
	84.027	044628-6B-SF-02P	28,274	0	70,420	0
			<u>402,462</u>	<u>0</u>	<u>347,551</u>	<u>0</u>
Total Special Education Cluster						
			<u>424,473</u>	<u>0</u>	<u>368,923</u>	<u>0</u>
Title I						
	84.010	044628-C1-S1-03	499,433	0	498,051	0
	84.010	044628-C1-SD-03	15,556	0	13,997	0
	84.010	044628-C1-S1-02	116,509	0	156,771	0
	84.010	044628-C1-SD-02	3,146	0	2,172	0
			<u>634,644</u>	<u>0</u>	<u>670,991</u>	<u>0</u>
Innovative Education Program Strategies						
	84.298	044628-C2-S1-03	13,197	0	13,182	0
	84.298	044628-C2-S1-02	1,276	0	6,821	0
	84.298	044628-C2-S1-01	0	0	2,756	0
			<u>14,473</u>	<u>0</u>	<u>22,759</u>	<u>0</u>
Math/Science						
	84.281	044628-MS-S1-02	4	0	4,017	0
	84.281	044628-MS-S1-01	1,589	0	2,301	0
			<u>1,593</u>	<u>0</u>	<u>6,318</u>	<u>0</u>
Adult Education						
	84.002	044628-AB-S1-03	38,414	0	60,941	0
	84.002	044628-AB-S2-03	25,085	0	23,671	0
	84.002	044628-AB-S1-02	5,388	0	362	0
	84.002	044628-AB-S1-00	0	0	5,662	0
			<u>68,887</u>	<u>0</u>	<u>90,636</u>	<u>0</u>
Continuous Improvement						
	84.276	044628-G2-S2-02	0	0	14,580	0
	84.276	044628-G2-S2-01	0	0	120	0
			<u>0</u>	<u>0</u>	<u>14,700</u>	<u>0</u>
Migrant Education						
	84.011	044628-MG-S1-03	159,162	0	151,036	0
	84.011	044628-MG-S1-02	93,634	0	185,005	0
			<u>252,796</u>	<u>0</u>	<u>336,041</u>	<u>0</u>
Immigration Education						
	84.162	044628-E1-S1-02	0	0	11,517	0
Drug-Free Schools						
	84.186	044628-DR-S1-03	16,924	0	14,874	0
	84.186	044628-DR-S1-02	2,778	0	5,399	0
	84.186	044628-DR-S1-01	(166)	0	324	0
	84.186	044628-DR-S1-00	(487)	0	487	0
			<u>19,049</u>	<u>0</u>	<u>21,084</u>	<u>0</u>
Class Size Reduction						
	84.340	044628-CR-S1-02	23,516	0	29,514	0
	84.340	044628-CR-S1-01	0	0	5	0
			<u>23,516</u>	<u>0</u>	<u>29,519</u>	<u>0</u>
Assistive Technology Infusion Grant						
	84.352	044628-AT-S3-02	3,283	0	0	0
	84.352	044628-AT-S1-02	(58)	0	59	0
			<u>3,225</u>	<u>0</u>	<u>59</u>	<u>0</u>
Title II-D						
	84.318	044628-TJ-S1-03	12,161	0	8,578	0
Title III						
	84.365	044628-T3-S1-03	82,797	0	80,885	0
Title II-A						
	84.367	044628-TR-S1-03	160,117	0	143,868	0
Total U.S. Department of Education passed through State Department of Education						
			<u>1,697,731</u>	<u>0</u>	<u>1,805,878</u>	<u>0</u>

PAINESVILLE CITY LOCAL SCHOOL DISTRICT
LAKE COUNTY

SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2003 - (Continued)

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM OR CLUSTER TITLE	Federal CFDA Number	Pass-Through Entity Number	Receipts	Non-cash Receipts	Disburse- ments	Non-cash Disburse- ments
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through State Department of Education</i>						
<i>Child Nutrition Cluster</i>						
Food Distribution Program	10.550		0	31,332	0	31,332
School Breakfast Program	10.553	044628-05-PU-03	114,107	0	114,107	
	10.553	044628-05-PU-02	35,234	0	35,234	0
			<u>149,341</u>	<u>0</u>	<u>149,341</u>	<u>0</u>
National School Lunch Program	10.555	044628-LL-P4-03	494,850	0	494,850	0
	10.555	044628-LL-P1-03	216	0	216	0
	10.555	044628-LL-P4-02	148,774	0	148,774	0
			<u>643,840</u>	<u>0</u>	<u>643,840</u>	<u>0</u>
Summer Food Service Program	10.559	044628-23-PU-02	14,037	0	14,037	0
	10.559	044628-24-PU-02	1,907	0	1,907	0
			<u>15,944</u>	<u>0</u>	<u>15,944</u>	<u>0</u>
Total U.S. Department of Agriculture Child Nutrition Center passed through State Department of Education			<u>809,125</u>	<u>31,332</u>	<u>809,125</u>	<u>31,332</u>
CORPORATION FOR NATIONAL AND COMMUNITY SERVICES						
<i>Passed Through State Department of Education</i>						
<i>Learn and Serve America</i>						
	94.004	044628-SV-S1-03	7,162	0	5,039	0
	94.004	044628-SV-S3-01	(1,990)	0	5,588	0
	94.004	044628-SV-S3-01	0	0	1,990	0
Total Corporation for National and Community Services			<u>5,172</u>	<u>0</u>	<u>12,617</u>	<u>0</u>
U.S. DEPARTMENT OF HUMAN SERVICES						
<i>Passed Through the Ohio Department of Mental Retardation and Developmental Disabilities</i>						
Medical Assistance Program	93.778		76,430	0	76,430	0
Total U.S. Department of Health and Human Services			<u>76,430</u>	<u>0</u>	<u>76,430</u>	<u>0</u>
Total Expenditures of Federal Awards			<u>2,588,458</u>	<u>\$31,332</u>	<u>\$2,704,050</u>	<u>\$31,332</u>

See accompanying notes to Schedule of Expenditures of Federal Awards

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT
LAKE COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003**

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B--FOOD DISTRIBUTION

Nonmonetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2003, the District had no significant food commodities in inventory.

N/A – Not Applicable

CFDA – Catalog of Federal Domestic Assistance

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Auditor of State Betty Montgomery

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

Painesville City Local School District
Lake County
58 Jefferson Street
Painesville, Ohio 44077

We have audited the financial statements of Painesville City Local School District, Lake County, Ohio, (the District) as of and for the year ended June 30, 2003, and have issued our report thereon dated May 5, 2004, where in we reported the District implemented the provisions of Governmental Accounting Standards Board Statement No. 34, and the District restated the General Fund balance and Internal Service Fund retained earnings. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted an immaterial instance of noncompliance that we have reported to management of District in a separate letter dated May 5, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated May 5, 2004.

Lausche Building / 615 Superior Ave., NW / Twelfth Floor / Cleveland, OH 44113-1801
Telephone: (216) 787-3665 (800) 626-2297 Fax: (216) 787-3361
www.auditor.state.oh.us

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

This report is intended 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.

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

Betty Montgomery
Auditor of State

May 5, 2004



Auditor of State Betty Montgomery

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

Board of Education
Painesville City Local School District
Lake County
58 Jefferson Street
Painesville, Ohio 44077

Compliance

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

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2003.

Internal Control Over Compliance

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

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

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

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

Betty Montgomery
Auditor of State

May 5, 2004

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT
LAKE COUNTY
JUNE 30, 2003**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505**

1. SUMMARY OF AUDITOR'S RESULTS
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(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Title 1 (CFDA # 84.010); Migrant Education (CFDA # 84.011); Title VIB (CFDA #84.027); Preschool Grant (CFDA #84.173)
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
--

None.

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**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

PAINESVILLE CITY LOCAL SCHOOL DISTRICT

LAKE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 24, 2004**