



**PAINESVILLE CITY LOCAL SCHOOL DISTRICT  
LAKE COUNTY  
SINGLE AUDIT  
FOR THE YEAR ENDED JUNE 30, 2004**



**Auditor of State  
Betty Montgomery**



**PAINESVILLE CITY LOCAL SCHOOL DISTRICT  
LAKE COUNTY**

**TABLE OF CONTENTS**

<b>Title</b>	<b>Page</b>
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Statement of Net Assets .....	10
Statement of Activities.....	11
Balance Sheet – Governmental Funds .....	12
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities.....	13
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds .....	14
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	15
Statement of Net Assets – Proprietary Funds.....	16
Statement of Revenues, Expenses, and Changes in Fund Balances – Proprietary Funds .....	17
Statement of Cash Flows – Proprietary Funds .....	18
Statement of Fiduciary Net Assets – Fiduciary Funds.....	19
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds .....	20
Notes to the Basic Financial Statements .....	21
Required Supplementary Information:	
Schedule of Revenues, Expenditures, and Changes in Fund Balance Budget and Actual (Non-GAAP Budgetary Basis) .....	48
Notes to the Required Supplementary Information.....	49
Schedule of Federal Awards Receipts and Expenditures.....	51
Notes to Schedule of Federal Awards Receipt and Expenditures .....	53
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	55
Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.....	57
Schedule of Findings.....	59

**This page intentionally left blank.**



## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Painesville City Local School Districts, Lake County, Ohio, as of June 30, 2004, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 21, during the year ended June 30, 2004, the beginning net asset/fund balances of the special revenue and enterprise fund and governmental and business type activities have been adjusted for the reclassification of the enterprise funds.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 3, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The schedule of federal awards receipts and expenditures provides additional information and 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 schedule of federal awards receipts and expenditures to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

**Betty Montgomery**  
Auditor of State

June 3, 2005

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT  
LAKE COUNTY, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2004  
(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, 2004. 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.

**Financial Highlights**

Key financial highlights for fiscal year 2004 are as follows:

- Net assets of governmental activities increased \$473,981 which represents a 6.1% increase from 2003.
- General revenues accounted for \$26,162,484 in revenue or 81.3% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$6,019,204 or 18.7% of total revenues of \$32,181,688.
- Total assets of governmental activities increased by \$24,329,739 as taxes receivable increased by \$895,320 while cash and other receivables increased by \$23,366,553.
- The District had \$31,707,707 in expenses related to governmental activities; only \$6,019,204 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$26,162,484 were also used to provide for these programs.
- As a major fund, the General Fund had \$25,567,092 in revenues and \$25,122,939 in expenditures. The General Fund's fund balance increased from \$6,375,350 to \$6,775,712. As a major fund, the Building Fund had \$0 in revenues and \$7,500 in expenditures. The Building Fund's fund balance increased from \$0 to \$22,992,500.

**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 the *Statement 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 and the Building Fund are the major funds 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 question, "How did we do financially during 2004?" The *Statement of Net Assets* and the *Statement of Activities* answer this question. These statements include *all assets* and *liabilities* using the accrual basis of accounting similar to the accounting used by most private-sector companies. 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 overall financial position of the District is presented in the following manner:

- Governmental Activities – Most of the District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, food service and child care.

## **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 funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds.

**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.



## 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 2003 compared to 2004:

Table 1  
Net Assets

	<u>Governmental Activities</u>	
	<u>2003 Restated</u>	<u>2004</u>
Assets		
Current and Other Assets	\$20,867,487	\$45,129,249
Capital Assets	<u>3,506,882</u>	<u>3,574,859</u>
Total Assets	<u>24,374,369</u>	<u>48,704,108</u>
Liabilities		
Long-Term Liabilities	3,448,400	26,231,514
Other Liabilities	<u>13,138,336</u>	<u>14,210,980</u>
Total Liabilities	<u>16,586,736</u>	<u>40,442,494</u>
Net Assets		
Invested in Capital		
Assets Net of Debt	1,852,926	2,096,900
Restricted	1,114,355	1,446,261
Unrestricted	<u>4,820,352</u>	<u>4,718,453</u>
Total Net Assets	<u>\$7,787,633</u>	<u>\$8,261,614</u>

Total assets increased \$24,329,739. Equity in pooled cash and cash equivalents increased \$23,205,978. Taxes receivable increased \$895,320. Total liabilities increased \$23,855,758, resulting in a net asset increase of \$473,981.

Table 2 shows the change in net assets for fiscal year 2004.

Table 2  
Changes in Net Assets

	Governmental Activities <u>2003 Restated</u>	Governmental Activities <u>2004</u>
Revenues		
Program Revenues:		
Charges for Services	\$576,134	\$654,301
Operating Grants	5,575,457	5,353,963
Capital Grants	24,061	10,940
General Revenue:		
Property Taxes	10,921,237	11,735,386
Grants and Entitlements	13,113,783	14,033,386
Other	<u>822,448</u>	<u>393,712</u>
Total Revenues	<u>31,033,120</u>	<u>32,181,688</u>
Program Expenses:		
Instruction	15,526,406	17,848,780
Support Services:		
Pupil and Instructional Staff	3,390,963	4,044,468
School and General Administration, Fiscal and Business	3,640,793	3,775,784
Operations and Maintenance	2,288,195	2,417,267
Pupil Transportation	1,030,874	1,293,033
Central	287,188	295,422
Operation of Non-Instructional Services	1,436,787	1,424,753
Extracurricular Activities	466,452	549,212
Interest and Fiscal Charges	<u>89,580</u>	<u>58,988</u>
Total Expenses	<u>28,157,238</u>	<u>31,707,707</u>
Increase in Net Assets	<u>2,875,882</u>	<u>473,981</u>
Ending Net Assets	<u>\$7,787,633</u>	<u>\$8,261,614</u>

**Governmental Activities**

The District revenues are mainly from two sources. Property taxes levied for general purposes, debt service and capital projects and grants and entitlements comprised 80.1% 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 36.5% of revenue for governmental activities for the District in fiscal year 2004.

Instruction comprises 56.3% of governmental program expenses. Support services expenses were 37.3% of governmental program expenses. All other expenses and interest expense was 6.4%. 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. These services are mainly supported by tax revenue and unrestricted State entitlements.

Table 3  
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	<u>2003 Restated</u>	<u>2004</u>	<u>2003 Restated</u>	<u>2004</u>
Instruction	\$15,526,406	\$17,848,780	(\$12,704,552)	(\$15,567,639)
Support Services:				
Pupil and Instructional Staff	3,390,963	4,044,468	(1,934,995)	(2,490,540)
School and General Administration,				
Fiscal and Business	3,640,793	3,775,784	(3,422,156)	(3,541,356)
Operations and Maintenance	2,288,195	2,417,267	(2,274,234)	(2,399,321)
Pupil Transportation	1,030,874	1,293,033	(981,522)	(1,259,587)
Central	287,188	295,422	(287,188)	(295,422)
Operation of Non-Instructional Services	1,436,787	1,424,753	85,949	284,461
Extracurricular Activities	466,452	549,212	(373,308)	(360,111)
Interest and Fiscal Charges	<u>89,580</u>	<u>58,988</u>	<u>(89,580)</u>	<u>(58,988)</u>
<b>Total Expenses</b>	<b><u>\$28,157,238</u></b>	<b><u>\$31,707,707</u></b>	<b><u>(\$21,981,586)</u></b>	<b><u>(\$25,688,503)</u></b>

### The District's Funds

Information about the District's major funds is presented in the Fund Financial Statements. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$54,894,281 and expenditures and other financing uses of \$31,351,317. The net change in fund balance increased \$23,542,964, or 330.1% for the year. The increase is due to proceeds of \$23,000,000 from the bond anticipation note.

### 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 2004, 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 \$25,498,753, above original budget estimates of \$25,289,903. Of this \$208,850 difference, most was due to a conservative estimate for taxes and intergovernmental revenue.

The District's ending unobligated cash balance was \$1,000,700 above the final budgeted amount.

## **Capital Assets and Debt Administration**

### *Capital Assets*

At the end of fiscal 2004, the District had \$3,574,859 invested in land, buildings, equipment and vehicles. Table 4 shows fiscal 2004 balances compared to fiscal 2003:

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

	<u>Governmental Activities</u>	
	<u>2003 Restated</u>	<u>2004</u>
Land and Improvements	\$104,355	\$114,355
Buildings and Improvements	1,882,664	1,915,006
Furniture and Equipment	<u>1,519,863</u>	<u>1,545,498</u>
Total Net Assets	<u>\$3,506,882</u>	<u>\$3,574,859</u>

The increase in capital assets is due to \$619,456 in acquisitions, offset by the recognition of \$551,479 in depreciation expense. This District continues its ongoing commitment to maintaining and improving its capital assets.

## Debt

At June 30, 2004, the District had \$24,477,959 in debt outstanding, \$179,677 due within one year. Table 5 summarizes total debt outstanding.

Table 5  
Outstanding Debt, at Year End

	Governmental Activities 2003	Governmental Activities 2004
Bonds Payable:		
Bond Anticipation Note	\$0	\$23,000,000
Stadium Project – Refinancing	1,000,000	905,000
Notes Payable:		
Project – National City	351,228	327,830
Capital Lease Payable:		
Phone Lease	<u>292,590</u>	<u>245,129</u>
Total Outstanding Debt at Year End	<u>\$1,643,818</u>	<u>\$24,477,959</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](mailto:pc_taylor@lgca.org).

Painesville City Local School District  
Statement of Net Assets  
June 30, 2004

	<u>Governmental Activities</u>
Assets:	
Equity in Pooled Cash and Investments	\$32,671,817
Restricted Cash and Investments	105,468
Cash and Cash Equivalents with Fiscal Agent	184,577
Receivables:	
Taxes	11,220,871
Accounts	32,585
Intergovernmental	902,298
Inventory	11,633
Nondepreciable Capital Assets	114,355
Depreciable Capital Assets, Net	<u>3,460,504</u>
Total Assets	<u>48,704,108</u>
Liabilities:	
Accounts Payable	546,618
Accrued Wages and Benefits	3,903,687
Accrued Interest Payable	3,652
Deferred Revenue	9,346,421
Other Liabilities	14,317
Claims Payable	396,285
Long-Term Liabilities:	
Due Within One Year	497,083
Due In More Than One Year	<u>25,734,431</u>
Total Liabilities	<u>40,442,494</u>
Net Assets:	
Invested in Capital Assets, Net of Related Debt	2,096,900
Restricted for:	
Special Revenue	970,142
Debt Service	189,638
Capital Projects	181,013
Set-Aside	105,468
Unrestricted	<u>4,718,453</u>
Total Net Assets	<u><u>\$8,261,614</u></u>

See accompanying notes to the basic financial statements.

Painesville City Local School District  
Statement of Activities  
For the Fiscal Year Ended June 30, 2004

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<b>Governmental Activities:</b>					
<b>Instruction:</b>					
Regular	\$11,190,220	\$226,662	\$961,406	\$0	(\$10,002,152)
Special	3,223,519	451	1,004,405	0	(2,218,663)
Vocational	497,583	0	5,143	0	(492,440)
Other	2,937,458	8,000	75,074	0	(2,854,384)
<b>Support Services:</b>					
Pupil	2,015,862	18,851	697,174	0	(1,299,837)
Instructional Staff	2,028,606	10,148	827,755	0	(1,190,703)
General Administration	118,460	0	0	0	(118,460)
School Administration	3,033,309	113	234,315	0	(2,798,881)
Fiscal	555,453	0	0	0	(555,453)
Business	68,562	0	0	0	(68,562)
Operations and Maintenance	2,417,267	7,880	10,066	0	(2,399,321)
Pupil Transportation	1,293,033	2,284	20,222	10,940	(1,259,587)
Central	295,422	0	0	0	(295,422)
Operation of Non-Instructional Services	1,424,753	260,811	1,448,403	0	284,461
Extracurricular Activities	549,212	119,101	70,000	0	(360,111)
Interest and Fiscal Charges	58,988	0	0	0	(58,988)
<b>Totals</b>	<b>\$31,707,707</b>	<b>\$654,301</b>	<b>\$5,353,963</b>	<b>\$10,940</b>	<b>(\$25,688,503)</b>

**General Revenues:**

**Property Taxes Levied for:**

General Purposes	11,400,465
Debt Service Purposes	149,080
Capital Projects Purposes	185,841
Grants and Entitlements not Restricted to Specific Programs	14,033,386
Unrestricted Contributions	7,496
Investment Earnings	114,857
Other Revenues	271,359

**Total General Revenues and Transfers** 26,162,484

Change in Net Assets 473,981

Net Assets Beginning of Year (Restated) 7,787,633

Net Assets End of Year \$8,261,614

See accompanying notes to the basic financial statements.

Painesville City Local School District  
 Balance Sheet  
 Governmental Funds  
 June 30, 2004

	General	Building	Other Governmental Funds	Total Governmental Funds
<b>Assets:</b>				
Equity in Pooled Cash and Investments	\$8,496,138	\$23,000,000	\$1,175,679	\$32,671,817
Restricted Cash and Investments	105,468	0	0	105,468
<b>Receivables:</b>				
Taxes	10,049,614	0	1,171,257	11,220,871
Accounts	32,405	0	180	32,585
Intergovernmental	0	0	902,298	902,298
Interfund	200,493	0	0	200,493
Inventory	0	0	11,633	11,633
<b>Total Assets</b>	<b>18,884,118</b>	<b>23,000,000</b>	<b>3,261,047</b>	<b>45,145,165</b>
<b>Liabilities and Fund Balances:</b>				
<b>Liabilities:</b>				
Accounts Payable	400,423	7,500	138,695	546,618
Accrued Wages and Benefits	2,814,922	0	719,011	3,533,933
Compensated Absences	163,006	0	15,042	178,048
Interfund Payable	0	0	200,493	200,493
Deferred Revenue	8,715,738	0	1,280,460	9,996,198
Other Liabilities	14,317	0	0	14,317
<b>Total Liabilities</b>	<b>12,108,406</b>	<b>7,500</b>	<b>2,353,701</b>	<b>14,469,607</b>
<b>Fund Balances:</b>				
Reserved for Encumbrances	1,712,528	28,020	579,236	2,319,784
Reserved for Inventory	0	0	11,633	11,633
Reserved for Property Tax Advances	1,333,876	0	44,715	1,378,591
Reserved for Budget Stabilization	105,468	0	0	105,468
Unreserved, Designated for Budget Stabilization	433,222	0	0	433,222
<b>Unreserved, Undesignated, Reported in:</b>				
General Fund	3,190,618	0	0	3,190,618
Special Revenue Funds	0	0	20,847	20,847
Debt Service Funds	0	0	173,416	173,416
Capital Projects Funds	0	22,964,480	77,499	23,041,979
<b>Total Fund Balances</b>	<b>6,775,712</b>	<b>22,992,500</b>	<b>907,346</b>	<b>30,675,558</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$18,884,118</b>	<b>\$23,000,000</b>	<b>\$3,261,047</b>	<b>\$45,145,165</b>

See accompanying notes to the basic financial statements.



Painesville City Local School District  
 Reconciliation of Total Governmental Fund Balance to  
 Net Assets of Governmental Activities  
 June 30, 2004

---

Total Governmental Fund Balance		\$30,675,558
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.		3,574,859
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Delinquent Property Taxes	499,332	
Intergovernmental	<u>150,445</u>	
		649,777
An internal service fund is used by management to charge back costs to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		(211,708)
In the statement of net assets interest payable is accrued when incurred, whereas in the governmental funds interest is reported as a liability only when it will require the use of current financial resources.		(3,652)
Some liabilities reported in the statement of net assets do not require the use of current financial resources and therefore are not reported as liabilities in governmental funds.		
Pension Obligation	(369,754)	
Compensated Absences	<u>(1,575,507)</u>	
		(1,945,261)
Long-term liabilities, are not due and payable in the current period and therefore are not reported in the funds.		<u>(24,477,959)</u>
Net Assets of Governmental Activities		<u>\$8,261,614</u>

See accompanying notes to the basic financial statements.

Painesville City Local School District  
Statement of Revenues, Expenditures  
and Changes in Fund Balance  
Governmental Funds  
For the Fiscal Year Ended June 30, 2004

	General	Building	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>				
Taxes	\$10,916,954	\$0	\$319,100	\$11,236,054
Tuition and Fees	212,242	0	29,507	241,749
Investment Earnings	108,711	0	6,146	114,857
Intergovernmental	14,067,620	0	5,488,240	19,555,860
Extracurricular Activities	6,553	0	132,856	139,409
Charges for Services	0	0	245,263	245,263
Other Revenues	255,012	0	60,574	315,586
<b>Total Revenues</b>	<b>25,567,092</b>	<b>0</b>	<b>6,281,686</b>	<b>31,848,778</b>
<b>Expenditures:</b>				
<b>Current:</b>				
<b>Instruction:</b>				
Regular	9,591,074	0	1,017,197	10,608,271
Special	1,969,034	0	1,223,792	3,192,826
Vocational	465,791	0	14,708	480,499
Other	2,882,850	0	54,608	2,937,458
<b>Support Services:</b>				
Pupil	1,152,227	0	812,515	1,964,742
Instructional Staff	960,455	0	1,021,131	1,981,586
General Administration	117,229	0	0	117,229
School Administration	2,850,448	0	208,043	3,058,491
Fiscal	547,302	0	5,366	552,668
Business	68,562	0	0	68,562
Operations and Maintenance	2,245,667	0	91,386	2,337,053
Pupil Transportation	1,187,135	0	7,388	1,194,523
Central	290,612	0	3,332	293,944
Operation of Non-Instructional Services	14,128	0	1,404,836	1,418,964
Extracurricular Activities	387,096	0	145,979	533,075
Capital Outlay	332,451	7,500	1,353	341,304
<b>Debt Service:</b>				
Principal Retirement	47,461	0	118,398	165,859
Interest and Fiscal Charges	13,417	0	46,199	59,616
<b>Total Expenditures</b>	<b>25,122,939</b>	<b>7,500</b>	<b>6,176,231</b>	<b>31,306,670</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>444,153</b>	<b>(7,500)</b>	<b>105,455</b>	<b>542,108</b>
<b>Other Financing Sources (Uses):</b>				
Proceeds from Sale of Capital Assets	856	0	0	856
Proceeds of Long-Term Capital-Related Debt	0	23,000,000	0	23,000,000
Transfers In	0	0	44,647	44,647
Transfers (Out)	(44,647)	0	0	(44,647)
<b>Total Other Financing Sources (Uses)</b>	<b>(43,791)</b>	<b>23,000,000</b>	<b>44,647</b>	<b>23,000,856</b>
<b>Net Change in Fund Balance</b>	<b>400,362</b>	<b>22,992,500</b>	<b>150,102</b>	<b>23,542,964</b>
<b>Fund Balance Beginning of Year (Restated)</b>	<b>6,375,350</b>	<b>0</b>	<b>757,244</b>	<b>7,132,594</b>
<b>Fund Balance End of Year</b>	<b>\$6,775,712</b>	<b>\$22,992,500</b>	<b>\$907,346</b>	<b>\$30,675,558</b>

See accompanying notes to the basic financial statements.

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, 2004

---

Net Change in Fund Balance - Total Governmental Funds \$23,542,964

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

Governmental funds report capital asset additions 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 of the difference between capital  
 asset additions and depreciation in the current period.

Capital assets used in governmental activities	619,456	
Depreciation Expense	<u>(551,479)</u>	67,977

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

Delinquent Property Taxes	499,332	
Intergovernmental	<u>(167,278)</u>	332,054

Repayment of bond principal is an expenditure in the  
 governmental funds, but the repayment reduces long-term  
 liabilities in the statement of net assets. 165,859

In the statement of activities interest expense is accrued when incurred,  
 whereas in governmental funds an interest expenditure is reported  
 when due. 628

Some expenses reported in the statement of activities do not require the  
 use of current financial resources and therefore are not reported as  
 expenditures in governmental funds.

Pension Obligation	(241,625)	
Compensated Absences	<u>96,968</u>	(144,657)

The internal service fund used by management to charge back costs  
 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. (490,844)

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. (23,000,000)

Change in Net Assets of Governmental Activities \$473,981

See accompanying notes to the basic financial statements.

Painesville City Local School District  
Statement of Net Assets  
Proprietary Funds  
June 30, 2004

---

---

	<u>Governmental Activities- Internal Service Fund</u>
Assets:	
Cash and Cash Equivalents with Fiscal Agent	<u>\$184,577</u>
Total Current Assets	<u>184,577</u>
Total Assets	<u>184,577</u>
Liabilities:	
Current Liabilities:	
Claims Payable	<u>396,285</u>
Total Liabilities	<u>396,285</u>
Net Assets:	
Unrestricted	<u>(211,708)</u>
Total Net Assets	<u><u>(\$211,708)</u></u>

See accompanying notes to the basic financial statements

Painesville City Local School District  
Statement of Revenues, Expenses  
and Changes in Fund Net Assets  
Proprietary Funds  
For the Fiscal Year Ended June 30, 2004

	<u>Governmental Activities- Internal Service Fund</u>
Operating Revenues:	
Charges for Services	<u>\$2,161,219</u>
Total Operating Revenues	<u>2,161,219</u>
Operating Expenses:	
Contactual Services	<u>2,652,063</u>
Total Operating Expenses	<u>2,652,063</u>
Operating Income (Loss)	<u>(490,844)</u>
Change in Net Assets	(490,844)
Net Assets Beginning of Year	<u>279,136</u>
Net Assets End of Year	<u><u>(\$211,708)</u></u>

See accompanying notes to the basic financial statements.

Painesville City Local School District  
Statement of Cash Flows  
Proprietary Funds  
For the Fiscal Year Ended June 30, 2004

---

	<u>Governmental Activities- Internal Service Fund</u>
Cash Flows from Operating Activities:	
Cash Received from Customers	\$2,161,219
Cash Payments to Suppliers	<u>(2,496,202)</u>
Net Cash Provided (Used) by Operating Activities	<u>(334,983)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(334,983)
Cash and Cash Equivalents Beginning of Year	<u>519,560</u>
Cash and Cash Equivalents End of Year	<u><u>184,577</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Operating Income (Loss)	(490,844)
Changes in Assets & Liabilities:	
Increase (Decrease) in Payables	<u>155,861</u>
Net Cash Provided (Used) by Operating Activities	<u><u>(\$334,983)</u></u>

Painesville City Local School District  
Statement of Fiduciary Net Assets  
Fiduciary Funds  
June 30, 2004

	Private Purpose Trust	Agency
Assets:		
Equity in Pooled Cash and Investments	\$13,365	\$53,280
Receivables:		
Total Assets	<u>13,365</u>	<u>\$53,280</u>
Liabilities:		
Accounts Payable	0	6,623
Other Liabilities	0	46,657
Total Liabilities	<u>0</u>	<u>\$53,280</u>
Net Assets:		
Held in Trust	<u>13,365</u>	
Total Net Assets	<u>\$13,365</u>	

See accompanying notes to the basic financial statements.

Painesville City Local School District  
Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds  
For the Fiscal Year Ended June 30, 2004

---

---

	Private Purpose Trust
Additions:	
Investment Earnings	\$91
Other	2,425
Total Additions	2,516
Deductions:	
Regular	9
Other	1,740
Total Deductions	1,749
Change in Net Assets	767
Net Assets Beginning of Year	12,598
Net Assets End of Year	\$13,365

See accompanying notes to the basic financial statements.



**PAINESVILLE CITY LOCAL SCHOOL DISTRICT  
LAKE COUNTY, OHIO  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2004**

**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, 2004 was 2,754. The District employed 220 certificated employees and 201 noncertificated employees. It currently operates seven instructional facilities.

**REPORTING ENTITY**

In accordance with Governmental Accounting Standards Board 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 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 are the District's major governmental funds:

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.

Building Fund - The building fund is used to account for the receipts and expenditures related to the building of new schools.

The other governmental funds of the 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.

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. The District has an agency fund, which accounts for all student activities.

## **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 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 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, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

#### Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The 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 2004. 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, 2004.

Following Ohio statutes, the Board has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during the fiscal year amounted to \$108,711, which includes \$40,679 assigned from other School District funds.

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 internal service portion of pooled cash and investments is considered a cash equivalent because the District is able to withdraw resources from the internal service without prior notice or penalty.

**INVENTORY**

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventory consists of food held for resale and consumable supplies.

**CAPITAL ASSETS**

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>
Buildings and Improvements	10 - 50 years
Equipment	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 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 contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current 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. 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 charges for services for the primary activity of the fund. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund.

## **INTERFUND ACTIVITY**

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after 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 2004.

## 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 level of expenditures, which is the legal level 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 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 inventory, 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. 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 Statement of Net Assets as "Equity in Pooled Cash and Investments."

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, 2004, the District's internal service fund had a cash balance of \$184,577 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 Lake County Educational Service Center, 30 South Park Place, Suite 30, Painesville, Ohio 44077.

Deposits – At the year end, the carrying amount of the District's deposits was \$917,911. The bank balance of deposits was \$1,117,302 of which \$100,000 was covered by federal depository insurance. The remaining balance of \$1,017,302 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 Treasurer Pool*	\$0	\$0	\$0	\$5,924,144
Federal Agency Security	<u>0</u>	<u>0</u>	<u>26,001,875</u>	<u>26,001,875</u>
Total Investments	<u>\$0</u>	<u>\$0</u>	<u>\$26,001,875</u>	<u>\$31,926,019</u>

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

#### 4. PROPERTY TAXES

Real property taxes collected in 2004 were levied in April on the assessed values as of January 1, 2003, 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, 2003.

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 23 percent of true value for inventory. In 2004, 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 2004, 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, 2004. Delinquent property taxes collected within 60 days are included as a receivable and tax revenue as of June 30, 2004. 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, 2004, was \$1,333,876 for General Fund and \$44,715 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 2004 operations. The amount available for advance at June 30, 2003 was \$1,028,772 for General Fund and \$43,037 for Nonmajor, with a corresponding reserve to fund balance since the Board did not appropriate those receivables for fiscal year 2003 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 2004 taxes were collected are:

	<u>First Half Amount</u>	<u>Second Half Amount</u>
Agricultural/Residential and Other Real Estate	\$210,703,880	\$209,702,730
Public Utility Personal	5,585,360	5,575,470
Tangible Personal Property	<u>30,235,229</u>	<u>29,718,924</u>
Total	<u>\$246,524,469</u>	<u>\$244,997,124</u>

## 5. RECEIVABLES

Receivables at June 30, 2004, 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.

## 6. CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
<b>Government Activities</b>				
<i>Capital assets not being depreciated:</i>				
Land	\$104,355	\$10,000	\$0	\$114,355
<i>Capital assets being depreciated:</i>				
Buildings Improvements	7,589,013	156,253	0	7,745,266
Equipment	<u>4,965,464</u>	<u>453,203</u>	<u>(93,824)</u>	<u>5,324,843</u>
Totals at Historical Cost	<u>\$12,658,832</u>	<u>\$619,456</u>	<u>(\$93,824)</u>	<u>\$13,184,464</u>
<i>Less Accumulated Depreciation:</i>				
Buildings and Improvements	5,706,349	123,911	0	5,830,260
Equipment	<u>3,445,601</u>	<u>427,568</u>	<u>(93,824)</u>	<u>3,779,345</u>
Total Accumulated Depreciation	<u>\$9,151,950</u>	<u>\$551,479</u>	<u>(\$93,824)</u>	<u>\$9,609,605</u>
<b>Governmental Activities Capital Assets, Net</b>	<u>\$3,506,882</u>			<u>\$3,574,859</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$186,524
Special	12,578
Vocational	8,746
Support Services:	
Pupil	7,478
Instructional Staff	44,622
General Administration	1,231
School Administration	17,327
Fiscal	2,485
Operations and Maintenance	108,692
Pupil Transportation	96,734
Central	336
Operation of Non-Instructional Services	39,066
Extracurricular Activities	<u>25,660</u>
Total Depreciation Expense	<u>\$551,479</u>

**7. 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>						
Bond Anticipation						
Notes-OSFC 1.76%	2/17/04	\$0	\$23,000,000	\$0	\$23,000,000	\$0
Stadium Project-Refinancing						
2002 1.60-3.55%	6/01/14	<u>1,000,000</u>	<u>0</u>	<u>95,000</u>	<u>\$905,000</u>	<u>105,000</u>
Total Anticipation Notes/Bonds Payable		1,000,000	23,000,000	95,000	23,905,000	105,000
Notes Payable	6/01/14	351,228	0	23,398	327,830	24,813
Compensated Absences		1,804,582	193,001	244,028	1,753,555	317,406
Capital Leases	6/01/09	<u>292,590</u>	<u>0</u>	<u>47,461</u>	<u>245,129</u>	<u>49,864</u>
Total Governmental Activities Long-Term Liabilities		<u>\$3,448,400</u>	<u>\$23,193,001</u>	<u>\$409,887</u>	<u>\$26,231,514</u>	<u>\$497,083</u>

The Bond Anticipation Notes-OSFC were refinanced subsequent to year end.

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

<u>Fiscal Year</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>
<u>Ending June 30,</u>						
2005	\$105,000	\$23,350	\$128,350	\$24,813	\$18,983	\$43,796
2006	105,000	21,460	126,460	26,315	17,536	43,851
2007	105,000	19,176	124,176	27,907	15,896	43,803
2008	105,000	16,577	121,577	29,595	14,157	43,752
2009	110,000	13,562	123,562	31,386	12,312	43,698
2010-2014	<u>375,000</u>	<u>123,685</u>	<u>498,685</u>	<u>187,814</u>	<u>29,741</u>	<u>217,555</u>
Totals	<u>\$905,000</u>	<u>\$217,810</u>	<u>\$1,122,810</u>	<u>\$327,830</u>	<u>\$108,625</u>	<u>\$436,455</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.

**8. LEASES**

**CAPITAL LEASES**

The District has a capital lease for June 30, 2004 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.</u>	<u>Long-Term</u> <u>Debt</u>
2005	\$60,878
2006	60,878
2007	60,878
2008	60,878
2009	<u>30,439</u>
Total Minimum Lease Payments	273,951
Less: Amount Representing Interest	<u>(28,822)</u>
Present Value of Minimum Lease Payments	<u>\$245,129</u>

## 9. PENSION PLANS

### SCHOOL EMPLOYEES RETIREMENT SYSTEM

The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling 614-222-5853.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09% of annual covered salary was the portion being used to fund pension obligations. For fiscal year 2003, 8.17% 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 District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$351,503, \$537,732, and \$614,282 respectively; 38.0% has been contributed for fiscal year 2004 and 100% for fiscal year 2003 and 2002.

### STATE TEACHERS RETIREMENT SYSTEM

The 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, 2004, plan members were required to contribute 10% of their annual covered salaries. The District was required to contribute 14%; 13% was the portion used to fund pension obligations. For fiscal year 2003 the portion used to fund pension obligations was 9.3%. 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 District's required contributions for pension obligations for the fiscal years ended June 30, 2004, 2003, and 2002 were \$1,721,736, \$1,648,044, and \$1,684,472 respectively; 82.0% has been contributed for fiscal year 2004 and 100% for fiscal year 2003 and 2002.

## **10. 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, 2004, 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 \$122,981 for fiscal year 2004.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. As of June 30, 2004, the balance in the Fund was \$3.1 billion. For the year ended June 30, 2004, net health care costs paid by STRS Ohio were \$268,739,000 and STRS Ohio had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75% 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, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay was established at \$25,400. For the District, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$189,865.

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

## **11. 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, 2004.

## **LITIGATION**

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

## **12. 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".

## **13. 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 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, Lake County Educational Service Center, 30 South Park Place, Suite 320, Painesville, Ohio 44077.

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. ESRTS is not accumulating significant financial resources or experiencing fiscal distress, which would cause additional financial benefit or burden on the District. Financial information can be obtained by writing the fiscal agent, Kirtland Board of Education, 9152 Chillicothe Road, Kirtland, 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 2004, 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.

**14. 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.

**15. 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 2004, 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 Indiana 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 \$396,285 reported in the internal service fund at June 30, 2004 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 2004 and 2003 were:

	Balance at Beginning of <u>Year</u>	Current Year <u>Claims</u>	Claim <u>Payments</u>	Balance at <u>End of Year</u>
2004	\$240,424	\$2,652,063	\$2,496,202	\$396,285
2003	\$232,070	\$1,683,249	\$1,674,895	\$240,424

## 16. 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.

## 17. 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.

## 18. 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:	
Teacher Development	(\$1,828)
Management Information System	(20,620)
Disadvantaged Pupil Impact Aid	(256,117)
Adult Basic Education	(35,743)
Title III	(6,097)
Title VI	(4,956)
Preschool	(45)
Improving Teacher Grants	(52,905)
Miscellaneous Federal Grants	(3,872)
Capital Projects:	
Building	(7,500)

Ohio Revised Code Section 5705.41(B) requires that no subdivision or taxing unit shall make any expenditure of money unless it has been properly appropriated. Expenditures exceeded appropriations in the following funds:

Year End Test – June 30, 2004

<u>Fund</u>	<u>Expenditures</u>	<u>Appropriations</u>	Excess <u>Expenditures</u>
Community Development (CDBG)	\$15,872	\$11,729	(\$4,143)

Mid Year Test – October 31, 2003

<u>Fund</u>	<u>Expenditures</u>	<u>Appropriations</u>	Excess <u>Expenditures</u>
EMIS	\$30,745	\$11,086	(\$19,659)
Data Communication	24,500	21,000	(3,500)
Community Development (CDBG)	7,872	223	(7,649)

## 19. FUND BALANCE RESERVES FOR SET-ASIDES

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

For fiscal year ended June 30, 2004, the 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>	Capital <u>Acquisition</u>	Budget <u>Stabilization</u>
Set-aside Reserve Balance as of June 30, 2003	(\$224,573)	\$ 0	\$105,468
Current Year Set-aside Requirement	406,970	406,970	0
Qualified Disbursements	(415,465)	0	0
Current Year Offsets	0	(657,588)	0
Total	<u>(\$233,068)</u>	<u>(\$250,618)</u>	<u>\$105,468</u>
Set-aside Reserve Balance			
Carried Forward to Future Years	(\$233,068)	\$ 0	\$ 0
Restricted Cash as of June 30, 2004	0	0	105,468
Designated Balance as of June 30, 2004	\$ 0	\$ 0	<u>\$433,222</u>
Total Restricted Cash/Designated Balance as of June 30, 2004			<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.

**20. INTERFUND TRANSACTIONS**

Interfund transactions at June 30, 2004, consisted of the following individual fund receivables and payables:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	<u>\$200,493</u>	<u>\$0</u>	<u>\$0</u>	<u>\$44,647</u>
Nonmajor Funds:				
Public School	0	65	0	0
Other Grants	0	3,807	0	0
Teacher Development	0	17,514	0	0
Management Information System	0	20,620	0	0
Ohio Reads	0	129	0	0
Miscellaneous State Grants	0	500	0	0
Adult Basic Education	0	49,319	0	0
Title VIB	0	64,689	0	0
Title III	0	15,616	0	0
Community Development	0	7,999	0	0
Title I	0	1,046	0	0
Title VI	0	5,213	0	0
Preschool	0	688	0	0
Miscellaneous Federal Grants	0	9,678	0	0
Uniform School Supply	0	3,610	0	0
Debt Service	<u>0</u>	<u>0</u>	<u>44,647</u>	<u>0</u>
Total Nonmajor funds	<u>0</u>	<u>200,493</u>	<u>44,647</u>	<u>0</u>
Total all funds	<u>\$200,493</u>	<u>\$200,493</u>	<u>\$44,647</u>	<u>\$44,647</u>

Transfers out of the General Fund were made to provide resources to the Debt Service Fund.



Interfund balances/transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; to segregate and to return money to the fund from which it was originally provided once a project is completed.

## 21. PRIOR PERIOD ADJUSTMENT

The beginning net asset/fund balances of the special revenue, enterprise funds and the governmental and business-type activities have been adjusted for the reclassification of enterprise funds and to correct accumulated depreciation as follows:

	Other <u>Governmental</u>	<u>Enterprise</u>	Governmental <u>Activities</u>	Business-Type <u>Activities</u>
June 30, 2003 Fund Balance				
Net Assets, as previously stated	\$401,030	\$445,236	\$7,074,139	\$445,236
Fund Reclassification	356,214	(445,236)	445,236	(445,236)
Net Governmental Capital Assets	<u>0</u>	<u>0</u>	<u>268,258</u>	<u>0</u>
June 30, 2003 Fund balance/ Net Assets, as restated	<u>\$757,244</u>	<u>\$0</u>	<u>\$7,787,633</u>	<u>\$0</u>

## 22. SUBSEQUENT EVENTS

On November 1, 2004, the District issued \$19,990,000 in school improvement bonds bearing an interest rate of 4.62%. On February 17, 2005, the District issued a \$3,000,000 school improvement bond anticipation note, bearing an interest rate of 2.71% maturing on February 16, 2006. On May 25, 2005 the District issued \$8,000,000 in bond anticipation notes for new school construction bearing an interest rate of 2.8%.

**REQUIRED  
SUPPLEMENTARY  
INFORMATION**

**THIS PAGE INTENTIONALLY LEFT BLANK**

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, 2004

	General Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
<b>Revenues:</b>				
Taxes	\$10,524,933	\$10,611,850	\$10,611,850	\$0
Tuition and Fees	220,472	247,500	222,293	(25,207)
Investment Earnings	107,125	160,050	108,010	(52,040)
Intergovernmental	13,957,989	13,943,277	14,073,257	129,980
Extracurricular Activities	6,499	29,000	6,553	(22,447)
Other Revenues	472,885	484,850	476,790	(8,060)
<b>Total Revenues</b>	<b>25,289,903</b>	<b>25,476,527</b>	<b>25,498,753</b>	<b>22,226</b>
<b>Expenditures:</b>				
<b>Current:</b>				
<b>Instruction:</b>				
Regular	9,330,710	9,477,551	9,530,458	(52,907)
Special	1,922,176	1,964,196	1,963,325	871
Vocational	462,450	498,981	472,350	26,631
Other	3,214,245	3,198,179	3,283,054	(84,875)
<b>Support Services:</b>				
Pupil	1,137,048	1,222,173	1,161,389	60,784
Instructional Staff	938,650	1,046,573	958,744	87,829
General Administration	118,597	133,327	121,136	12,191
School Administration	2,884,208	3,035,685	2,945,952	89,733
Fiscal	532,843	516,558	544,250	(27,692)
Business	68,596	117,136	70,064	47,072
Operations and Maintenance	2,334,920	2,742,196	2,384,905	357,291
Pupil Transportation	1,246,751	1,447,952	1,273,441	174,511
Central	287,913	349,428	294,077	55,351
Operation of Non-Instructional Services	14,078	23,609	14,379	9,230
Extracurricular Activities	383,304	420,966	391,510	29,456
Capital Outlay	534,945	432,616	546,397	(113,781)
<b>Debt Service:</b>				
Principal Retirement	47,461	47,461	47,461	0
Interest and Fiscal Charges	12,141	13,417	13,417	0
<b>Total Expenditures</b>	<b>25,471,036</b>	<b>26,688,004</b>	<b>26,016,309</b>	<b>671,695</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>(181,133)</b>	<b>(1,211,477)</b>	<b>(517,556)</b>	<b>693,921</b>
<b>Other financing sources (uses):</b>				
Proceeds from Sale of Capital Assets	849	5,000	856	(4,144)
Advances In	15,715	0	16,051	16,051
Advances (Out)	(197,540)	0	(199,171)	(199,171)
Budget Stabilization	0	(538,690)	0	538,690
Transfers In	65,642	0	66,184	66,184
Transfers (Out)	(108,508)	0	(110,831)	(110,831)
<b>Total Other Financing Sources (Uses)</b>	<b>(223,842)</b>	<b>(533,690)</b>	<b>(226,911)</b>	<b>306,779</b>
<b>Net Change in Fund Balance</b>	<b>(404,975)</b>	<b>(1,745,167)</b>	<b>(744,467)</b>	<b>1,000,700</b>
<b>Fund Balance Beginning of Year (includes prior year encumbrances appropriated)</b>	<b>7,869,858</b>	<b>7,869,858</b>	<b>7,869,858</b>	<b>0</b>
<b>Fund Balance End of Year</b>	<b>\$7,464,883</b>	<b>\$6,124,691</b>	<b>\$7,125,391</b>	<b>\$1,000,700</b>

See accompanying notes to the required supplementary information.

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT  
LAKE COUNTY, OHIO  
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
For The Year Ended June 30, 2004**

**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 the Board. The legal level of control has been established by the Board at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original budgeted amounts 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 2004.

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	\$400,362
Net Adjustment for Revenue Accruals	13,896
Net Adjustment for Expenditure Accruals	553,803
Encumbrances	<u>(1,712,528)</u>
Budget Basis	<u>(\$744,467)</u>

**PAINESVILLE CITY SCHOOL DISTRICT  
LAKE COUNTY  
SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR FISCAL YEAR ENDED JUNE 30, 2004**

Federal Grantor Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<b>U.S. Department of Agriculture</b>						
<i>Passed Through Ohio Department of Education:</i>						
Child Nutrition Cluster:						
Food Donation	N/A	10.550	\$0	\$30,530	\$0	\$30,184
School Breakfast Program	05-PU-2003	10.553	21,419	0	21,419	0
School Breakfast Program	05-PU-2004	10.553	112,478	0	112,478	0
Total School Breakfast Program			<u>133,897</u>	<u>0</u>	<u>133,897</u>	<u>0</u>
National School Lunch Program	LL-P4-2003	10.555	90,673	0	90,673	0
National School Lunch Program	LL-P4-2004	10.555	446,948	0	446,948	0
Total National School Lunch Program			<u>537,621</u>	<u>0</u>	<u>537,621</u>	<u>0</u>
Summer Food Service Program for Children	23-PU-2003	10.559	35,316	0	35,316	0
Total Summer Food Service Program for Children			<u>35,316</u>	<u>0</u>	<u>35,316</u>	<u>0</u>
<b>Total U.S. Department of Agriculture - Child Nutrition Cluster</b>			<u>706,834</u>	<u>30,530</u>	<u>706,834</u>	<u>30,184</u>
<b>U.S. Department of Education</b>						
<i>Passed Through Ohio Department of Education:</i>						
Adult Education State Grant Program	AB-S1-2003	84.002	5,600	0	5,635	0
Adult Education State Grant Program	AB-S2-2004	84.002	13,493	0	28,317	0
Total Adult Education State Grant Program			<u>19,093</u>	<u>0</u>	<u>33,952</u>	<u>0</u>
Title I Grants to Local Educational Agencies	C1-S1-2003	84.010	164,413	0	99,005	0
Title I Grants to Local Educational Agencies	C1-S1-2004	84.010	815,389	0	857,825	0
Title I Grants to Local Educational Agencies	C1-SD-2003	84.010	1,713	0	1,938	0
Title I Grants to Local Educational Agencies	C1-SD-2004	84.010	17,878	0	16,662	0
Total Title I Grants to Local Educational Agencies			<u>999,393</u>	<u>0</u>	<u>975,430</u>	<u>0</u>
Migrant Education	MG-S1-2003	84.011	218,478	0	256,329	0
Migrant Education	MG-S1-2004	84.011	227,206	0	160,574	0
Total Migrant Education			<u>445,684</u>	<u>0</u>	<u>416,903</u>	<u>0</u>
Special Education Cluster						
Special Education: Grants to States	6B-SD-2003	84.027	35,000	0	130,983	0
Special Education: Grants to States	6B-SD-2004	84.027	7,500	0	4,434	0
Special Education: Grants to States	6B-SF-2004	84.027	316,396	0	303,735	0
Total Special Education: Grants to States			<u>358,896</u>	<u>0</u>	<u>439,152</u>	<u>0</u>
Special Education: Preschool Grants	PG-D7-2003	84.173	3,200	0	2,809	0
Special Education: Preschool Grants	PG-S1-2003	84.173	(635)	0	0	0
Special Education: Preschool Grants	PG-S1-2004	84.173	20,387	0	21,081	0
Total Special Education: Preschool Grants			<u>22,952</u>	<u>0</u>	<u>23,890</u>	<u>0</u>
Total Special Education Cluster			<u>381,848</u>	<u>0</u>	<u>463,042</u>	<u>0</u>
Safe and Drug Free Schools and Communities State Grants	DR-S1-2003	84.186	3,619	0	12,038	0
Safe and Drug Free Schools and Communities State Grants	DR-S1-2004	84.186	18,355	0	10,497	0
Total Safe and Drug-Free Schools and Communities			<u>21,974</u>	<u>0</u>	<u>22,535</u>	<u>0</u>
Innovative Education Program Strategies	C2-S1-2003	84.298	4,690	0	6,312	0
Innovative Education Program Strategies	C2-S1-2004	84.298	19,732	0	19,059	0
Total Innovative Education Program Strategies			<u>24,422</u>	<u>0</u>	<u>25,371</u>	<u>0</u>
Technology Literacy Challenge Funds	TJ-S1-2003	84.318	(2,774)	0	0	0
Technology Literacy Challenge Funds	TJ-S1-2004	84.318	25,942	0	23,604	0
Total Technology Literacy Challenge Fund Grants			<u>23,168</u>	<u>0</u>	<u>23,604</u>	<u>0</u>
School Renovation Grants	AT-S3-2002	84.352	0	0	3,283	0
Total School Renovation Grants			<u>0</u>	<u>0</u>	<u>3,283</u>	<u>0</u>

**PAINESVILLE CITY SCHOOL DISTRICT  
LAKE COUNTY  
SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR FISCAL YEAR ENDED JUNE 30, 2004  
(CONTINUED)**

Federal Grantor Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
English Language Acquisition Grants (LEP) - Title III, Part A	T3-S1-2003	84.365	13,843	0	19,000	0
English Language Acquisition Grants (LEP) - Title III, Part A	T3-S1-2004	84.365	111,299	0	103,398	0
English Language Acquisition Grants (LEP) - Title III, Part A	T3-S2-2004	84.365	44,114	0	54,486	0
Total English Language Acquisition Grants (Title III)			<u>169,256</u>	<u>0</u>	<u>176,884</u>	<u>0</u>
Improving Teacher Quality State Grants	TR-S1-2003	84.367	25,990	0	56,600	0
Improving Teacher Quality State Grants	TR-S1-2004	84.367	229,945	0	213,502	0
Total Improving Teacher Quality State Grants			<u>255,935</u>	<u>0</u>	<u>270,102</u>	<u>0</u>
<b>Total U.S. Department of Education</b>			<u>2,340,773</u>	<u>0</u>	<u>2,411,106</u>	<u>0</u>
<b>Corporation for National and Community Services</b>						
<i>Passed Through Ohio Department of Education:</i>						
Learn and Serve America	SV-S1-2004	94.004	7,917	0	11,797	0
Learn and Serve America	SV-S4-2002	94.004	(272)	0	188	0
Total Learn and Serve America			<u>7,645</u>	<u>0</u>	<u>11,985</u>	<u>0</u>
<b>Total Corporation for National and Community Services</b>			<u>7,645</u>	<u>0</u>	<u>11,985</u>	<u>0</u>
<b>U. S. Department of Health and Human Services</b>						
<i>Passed Through the Ohio Department of MRDD:</i>						
Temporary Assistance for Needy Families	N/A	93.558	6,696	0	0	0
Total Temporary Assistance for Needy Families			<u>6,696</u>	<u>0</u>	<u>0</u>	<u>0</u>
Medical Assistance Program	N/A	93.778	60,295	0	60,295	0
Total Medical Assistance Program			<u>60,295</u>	<u>0</u>	<u>60,295</u>	<u>0</u>
<b>Total U.S. Department of Health and Human Services</b>			<u>66,991</u>	<u>0</u>	<u>60,295</u>	<u>0</u>
<b>Total Federal Assistance</b>			<u>\$3,122,243</u>	<u>\$30,530</u>	<u>\$3,190,220</u>	<u>\$30,184</u>



**PAINESVILLE CITY LOCAL SCHOOL DISTRICT  
LAKE COUNTY  
FOR THE YEAR ENDED JUNE 30, 2004**

**NOTES TO SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying schedule of federal awards receipts and expenditures is a summary of the activity of the District's federal awards programs. The schedule has been prepared on the cash basis of accounting.

**NOTE B - FOOD DISTRIBUTION**

Non-monetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed.

**NOTE C – NATIONAL SCHOOL BREAKFAST, NATIONAL SCHOOL LUNCH, AND SUMMER FOOD SERVICE PROGRAMS**

Federal monies received by the District for these programs are commingled with State grants and local revenues. It is assumed that federal monies are expended first.

**NOTE D – CARRYOVER FUNDS**

Negative receipts are shown in the Special Education: Preschool Grants, CFDA #84.173; Technology Literacy Challenge Fund Grants, CFDA #84.318; and Learn and Save America, CFDA #94.004. These negative receipts represent monies on the Final Expenditure Report that were unspent after the initial period of availability. These monies were in accordance with allowable carryover provisions and added to the following fiscal year award amounts.

CFDA - Catalog of Federal Domestic Assistance

**This page intentionally left blank.**



**Auditor of State  
Betty Montgomery**

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Painesville City Local School District (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated June 3, 2005, wherein we noted that the beginning net asset/fund balances of the special revenue and enterprise funds and governmental and business type activities have been restated for the reclassification of the enterprise funds. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated June 3, 2005 we reported an other matter involving internal control over financial reporting we did not deem a reportable condition.

**Compliance and Other Matters**

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the District's management dated June 3, 2005, we reported other matters related to noncompliance we deemed immaterial.

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](http://www.auditor.state.oh.us)

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

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

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

**Betty Montgomery**  
Auditor of State

June 3, 2005



## **Auditor of State Betty Montgomery**

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

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

To the Board of Education:

#### **Compliance**

We have audited the compliance of Painesville City Local School District (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 apply to each of its major federal programs for the year ended June 30, 2004. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. 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 reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe 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 apply to each of its major federal programs for the year ended June 30, 2004.

#### **Internal Control Over Compliance**

The District's management 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 directly and materially affect a major federal program 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 reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

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

**Betty Montgomery**  
Auditor of State

June 3, 2005

PAINESVILLE CITY LOCAL SCHOOL DISTRICT  
LAKE COUNTY  
SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 §.505  
JUNE 30, 2004

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

(d)(1)(i)	<i>Type of Financial Statement Opinion</i>	Unqualified
(d)(1)(ii)	<i>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</i>	No
(d)(1)(ii)	<i>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</i>	No
(d)(1)(iii)	<i>Was there any reported non-compliance at the financial statement level (GAGAS)?</i>	No
(d)(1)(iv)	<i>Were there any material internal control weakness conditions reported for major federal programs?</i>	No
(d)(1)(iv)	<i>Were there any other reportable internal control weakness conditions reported for major federal programs?</i>	No
(d)(1)(v)	<i>Type of Major Programs' Compliance Opinion</i>	Unqualified
(d)(1)(vi)	<i>Are there any reportable findings under Sec. .510?</i>	No
(d)(1)(vii)	<i>Major Programs (list)</i>	Child Nutrition Cluster: Food Distribution, CFDA #10.550; School Breakfast Program, CFDA #10.553; National School Lunch Program, CFDA #10.555; Summer Food Service Program for Children, CFDA #10.559  Title I, Part A, ESEA: #84.010
(d)(1)(viii)	<i>Dollar Threshold: Type A/B Programs</i>	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	<i>Low Risk Auditee?</i>	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







**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  
JULY 14, 2005**