

**PAINESVILLE TOWNSHIP LOCAL SCHOOL DISTRICT  
LAKE COUNTY**

**AUDIT REPORT**

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





Mary Taylor, CPA  
Auditor of State

Board of Education  
Painesville Township Local School District  
585 Riverside Drive  
Painesville, Ohio 44077

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

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

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

January 16, 2007

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

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

*Certified Public Accountants*

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

*Garfield Hts., Ohio 44125*

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**INDEPENDENT AUDITOR'S REPORT**

Board of Education  
Painesville Township Local School District  
Painesville, Ohio 44077

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Painesville Township Local School District, Ohio, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Painesville Township Local School District, Ohio's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Painesville Township Local School District, Ohio, as of June 30, 2006, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the general fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2006, on our consideration of the Painesville Township Local School District, Ohio's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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

November 13, 2006

**PAINESVILLE TOWNSHIP LOCAL SCHOOL DISTRICT**  
**Management's Discussion and Analysis**  
**for the Fiscal Year Ended June 30, 2006**  
**Unaudited**

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The discussion and analysis of the Painesville Township Local School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2006. The intent of this 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 financial performance.

**Financial Highlights**

Key financial highlights for fiscal year 2006 are as follows:

- Net assets of governmental activities increased by \$738,214.
- General revenues accounted for \$36,545,233 in revenue or 87 percent of all revenues. Program specific revenues in the form of charges for services, grants, contributions, and interest accounted for \$5,481,007 or 13 percent of total revenues of \$42,026,240.
- Total assets of governmental activities increased by \$2,510,054 as cash and cash equivalents increased by \$1,696,437, receivables increased by \$767,907 and capital assets increased by \$86,691.
- The District had \$39,559,259 in expense related to governmental activities; \$3,752,240 of these expenses were offset by program specific charges for services, grants, contributions, and interest. General revenues of \$36,545,233 were adequate to provide for these programs.
- The District has one major fund: the general fund. The general fund had \$36,085,969 (includes other financing sources) in revenues and \$36,371,794 (includes other financing uses) in expenditures. The general fund's balance decreased to \$4,553,439 from \$4,872,553.

**Using this Annual Financial Report**

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 *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 provides 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. In the case of the District, the general fund is by far the most significant fund.



**PAINESVILLE TOWNSHIP LOCAL SCHOOL DISTRICT**  
**Management's Discussion and Analysis**  
**for the Fiscal Year Ended June 30, 2006**  
**Unaudited**

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***Reporting the School District as a Whole***

*Statement of Net Assets and Statement of Activities*

While this document contains information about 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 2006?" The Statement of Net Assets and Statement of Activities answer this question. These statements include *all assets* and *all 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* of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the District's 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 Statement of Activities, the District reports governmental activities. Governmental activities are the activities where most of the District's programs and services are reported including, but not limited to, instruction, support services, operation and maintenance of plant, pupil transportation, and extracurricular activities.

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

*Fund Financial Statements*

The analysis of the District's major funds begins on page 12 of the 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. The District's major governmental fund is the general fund.

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

**PAINESVILLE TOWNSHIP LOCAL SCHOOL DISTRICT**  
**Management's Discussion and Analysis**  
**for the Fiscal Year Ended June 30, 2006**  
**Unaudited**

**The School 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 2006 compared to 2005:

**Table 1 - Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	2006	2005 as Restated	2006	2005 as Restated	2006	2005 as Restated
<b>Assets</b>						
Current and						
Other Assets	\$ 37,524,937	\$ 35,101,574	\$ 297,057	\$ 261,286	\$ 37,821,994	\$ 35,362,860
Capital Assets	<u>16,127,927</u>	<u>16,041,236</u>	<u>130,117</u>	<u>92,802</u>	<u>16,258,044</u>	<u>16,134,038</u>
<b>Total Assets</b>	<u>\$ 53,652,864</u>	<u>\$ 51,142,810</u>	<u>\$ 427,174</u>	<u>\$ 354,088</u>	<u>\$ 54,080,038</u>	<u>\$ 51,496,898</u>
<b>Liabilities</b>						
Long-Term Liabilities	\$ 8,432,685	\$ 9,339,410	\$ 0	\$ 0	\$ 8,432,685	\$ 9,339,410
Other Liabilities	<u>30,587,975</u>	<u>27,971,303</u>	<u>107,121</u>	<u>41,233</u>	<u>30,695,096</u>	<u>28,012,536</u>
<b>Total Liabilities</b>	<u>39,020,660</u>	<u>37,310,713</u>	<u>107,121</u>	<u>41,233</u>	<u>39,127,781</u>	<u>37,351,946</u>
<b>Net Assets</b>						
Invested in Capital Assets,						
Net of Debt	8,685,270	7,430,234	130,117	92,802	8,815,387	7,523,036
Restricted	804,528	799,214	0	0	804,528	799,214
Unrestricted (Deficit)	<u>5,142,406</u>	<u>5,664,542</u>	<u>189,936</u>	<u>158,160</u>	<u>5,332,342</u>	<u>5,822,702</u>
<b>Total Net Assets</b>	<u>\$ 14,632,204</u>	<u>\$ 13,893,990</u>	<u>\$ 320,053</u>	<u>\$ 250,962</u>	<u>\$ 14,952,257</u>	<u>\$ 14,144,952</u>

Total assets increased by \$2,583,140 as cash and cash equivalents increased by \$1,665,472, receivables increased by \$824,491, and capital assets increased by \$124,006. Unrestricted net assets of the District, the part of net assets that can be used to finance day-to-day activities without constraints established by grants or legal requirements, decreased by \$490,360.

Table 2 shows the changes in net assets for fiscal year 2006 and also presents a comparative analysis to fiscal year 2005 for governmental activities, business-type activities, and both governmental and business-type activities combined.

**PAINESVILLE TOWNSHIP LOCAL SCHOOL DISTRICT**  
**Management's Discussion and Analysis**  
**for the Fiscal Year Ended June 30, 2006**  
**Unaudited**

**Table 2 - Change in Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
<b>Revenues</b>						
Program Revenues:						
Charges for Services	\$ 2,036,460	\$ 2,480,846	\$ 1,728,767	\$ 1,638,183	\$ 3,765,227	\$ 4,119,029
Operating Grants and Contributions	1,715,780	1,784,516	0	0	1,715,780	1,784,516
General Revenues:						
Property Taxes	26,468,469	26,484,708	0	0	26,468,469	26,484,708
Grants and Entitlements	9,653,736	9,716,004	0	0	9,653,736	9,716,004
Investment Earnings	414,776	169,445	0	0	414,776	169,445
Other	<u>8,252</u>	<u>65,778</u>	<u>0</u>	<u>0</u>	<u>8,252</u>	<u>65,778</u>
<b>Total Revenues</b>	<u>40,297,473</u>	<u>40,701,297</u>	<u>1,728,767</u>	<u>1,638,183</u>	<u>42,026,240</u>	<u>42,339,480</u>
<b>Program Expenses</b>						
Instruction:						
Regular	17,624,546	17,026,564	0	0	17,624,546	17,026,564
Special	2,991,000	2,704,224	0	0	2,991,000	2,704,224
Other	863,590	488,686	0	0	863,590	488,686
Support Services:						
Pupil	1,765,845	1,843,951	0	0	1,765,845	1,843,951
Instructional Staff	1,620,461	1,440,642	0	0	1,620,461	1,440,642
Board of Education	20,275	20,110	0	0	20,275	20,110
Administration	3,608,191	3,666,353	0	0	3,608,191	3,666,353
Fiscal	854,852	776,135	0	0	854,852	776,135
Business	75,301	100,529	0	0	75,301	100,529
Operation and Maintenance						
of Plant	4,485,018	2,522,131	0	0	4,485,018	2,522,131
Pupil Transportation	4,474,116	4,343,016	0	0	4,474,116	4,343,016
Central	55,886	61,218	0	0	55,886	61,218
Operation of Non-Instructional						
Services	124,288	1,117,493	0	0	124,288	1,117,493
Extracurricular Activities	749,805	707,876	0	0	749,805	707,876
Interest and Fiscal Charges	246,085	263,211	0	0	246,085	263,211
Food Service	0	0	1,377,862	1,267,476	1,377,862	1,267,476
Adult Education	0	0	0	205	0	205
Special Education	<u>0</u>	<u>0</u>	<u>281,815</u>	<u>286,168</u>	<u>281,815</u>	<u>286,168</u>
<b>Total Program Expenses</b>		<u>39,559,259</u>	<u>37,082,139</u>	<u>1,659,677</u>	<u>1,553,849</u>	<u>41,218,936</u>
						<u>38,635,988</u>
Increase (Decrease) in Net Assets	<u>\$ 738,214</u>	<u>\$ 3,619,158</u>	<u>\$ 69,090</u>	<u>\$ 84,334</u>	<u>\$ 807,304</u>	<u>\$ 3,703,492</u>

***Governmental Activities***

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenue generated by the levy will not increase 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 its value was 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.

**PAINESVILLE TOWNSHIP LOCAL SCHOOL DISTRICT**  
**Management's Discussion and Analysis**  
**for the Fiscal Year Ended June 30, 2006**  
**Unaudited**

Thus, school 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 65.7 percent of revenues for governmental activities for the District in fiscal year 2006.

Instruction comprises 54.3 percent of governmental program expenses. Interest expense was .6 percent of governmental program expenses. Interest expense was attributable to the outstanding bond and borrowing for capital projects.

Operation and Maintenance of Plant increased due to larger projects taking place in the spring of 2006 that were paid for out of the General Fund. Also, earnings on investments have increased due to higher cash balances and higher interest rates. The large decrease in the expense of Operation of Non-Instructional Services is due to the purchase of the County home in 2005 and now is at par with 2004 and 2003 amounts.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements. A comparative analysis of 2006 to 2005 is presented.

**Table 3 - Governmental Activities**

	Total Cost of Services 2006	Total Cost of Services 2005	Net Cost of Services 2006	Net Cost of Services 2005
Instruction	\$ 21,479,136	\$ 20,219,474	\$ (19,238,589)	\$ (17,321,403)
Support Services:				
Pupil and Instructional Staff	3,386,306	3,284,593	(2,837,726)	(2,768,967)
Board of Education, Administration, Fiscal, and Business	4,558,619	4,563,127	(4,484,841)	(4,490,276)
Operation and Maintenance of Plant	4,485,018	2,522,131	(4,474,246)	(2,506,420)
Pupil Transportation	4,474,116	4,343,016	(4,326,511)	(4,220,633)
Central	55,886	61,218	(55,886)	(61,218)
Operation of Non-Instructional Services	124,288	1,117,493	(52,078)	(1,036,061)
Extracurricular Activities	749,805	707,876	(91,057)	(148,588)
Interest and Fiscal Charges	246,085	263,211	(246,085)	(263,211)
<b>Total Expenses</b>	<u>\$ 39,559,259</u>	<u>\$ 37,082,139</u>	<u>\$ (35,807,019)</u>	<u>\$ (32,816,777)</u>

**The School District's Funds**

The District's major funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenue of \$41,808,994 (includes other financing sources) and expenditures of \$41,932,170 (includes other financing uses). The net change in fund balance for the year was most significant in the general fund, a decrease of \$319,094, which includes the change in reserve for inventory.

**PAINESVILLE TOWNSHIP LOCAL SCHOOL DISTRICT**  
**Management's Discussion and Analysis**  
**for the Fiscal Year Ended June 30, 2006**  
**Unaudited**

***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 year 2006, the District amended its general fund budget, but not significantly. The District uses a modified site-based budgeting technique which is designed to tightly control total site budgets but provide flexibility for site management.

For the general fund, the original and final budget basis revenue and other financing sources estimate was \$36,088,855. During fiscal year 2006, the District budgeted \$24,792,635 for property tax revenue. The District received \$26,376,416 in property tax revenue. This variance was simply caused by under-estimation of the revenue line item.

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal year 2006, the District had \$16,258,044 invested in land, buildings, furniture and equipment, and vehicles. Table 4 shows fiscal year 2006 balances compared to 2005:

**Table 4 - Capital Assets at June 30**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Land and						
Improvements	\$ 3,787,612	\$ 3,602,447	\$ 0	\$ 0	\$ 3,787,612	\$ 3,602,447
Buildings and						
Improvements	8,781,930	9,000,708	0	0	8,781,930	9,000,708
Furniture and Equipment	1,008,218	1,066,740	130,117	92,802	1,138,335	1,159,542
Vehicles	<u>2,550,167</u>	<u>2,371,341</u>	<u>0</u>	<u>0</u>	<u>2,550,167</u>	<u>2,371,341</u>
	<u>\$16,127,927</u>	<u>\$ 16,041,236</u>	<u>\$ 130,117</u>	<u>\$ 92,802</u>	<u>\$ 16,258,044</u>	<u>\$ 16,134,038</u>

Overall capital assets increased \$124,006 from fiscal year 2005 to fiscal year 2006.

***Debt***

At June 30, 2006, the District had \$8,092,657 in bonds and notes outstanding. The bonds remaining from the 1993 Series were refunded in June 2003. \$6.435 million in debt, carrying an average interest rate of 5.75 percent, was refunded with new bonds carrying an average interest rate of 3.05 percent. On June 23, 2005, the District issued \$541,002 in general obligation (GO) bonds, carrying an average interest rate of 5.33 percent with an average maturity of 6.86 years, and \$1,000,000 long-term promissory note with 0 percent interest. Table 5 summarizes outstanding debt.

**PAINESVILLE TOWNSHIP LOCAL SCHOOL DISTRICT**  
**Management's Discussion and Analysis**  
**for the Fiscal Year Ended June 30, 2006**  
**Unaudited**

**Table 5 - Outstanding Debt at Year End**

	Governmental Activities <u>2006</u>	Governmental Activities <u>2005</u>
Limited Tax General Obligation Bond	\$ 507,657	\$ 541,002
2003 School Improvement Bonds	6,435,000	7,070,000
2001 Tax Anticipation Notes	650,000	1,300,000
Long-term Promissory Note with Zero Interest	<u>500,000</u>	<u>1,000,000</u>
<b>Total</b>	<u>\$ 8,092,657</u>	<u>\$ 9,911,002</u>

**Economic Factors**

The District is dependent on its local taxpayers. Based on the current financial information, the new levy, which passed in August of 2004, and the ability to maintain current program and staffing levels, the District will be able to maintain financial stability.

Based on these factors, the Board of Education and administration of the District must maintain careful financial planning and prudent fiscal management in order to preserve the financial stability of the District, as well as careful planning to ensure that significant outlays may be made in the future to address our facility needs.

**Contacting the School District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, 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 any questions about this report or need additional information, contact Michael J. Vaccariello, Treasurer/CFO at Painesville Township Local School District, 585 Riverside Drive, Painesville, Ohio 44077 or email at [pa\\_vaccariello@lgca.org](mailto:pa_vaccariello@lgca.org).

**PAINESVILLE TOWNSHIP LOCAL SCHOOL DISTRICT**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2006**

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
<b><u>Assets</u></b>			
Equity in Pooled Cash and Cash Equivalents	\$ 6,212,470	\$ 211,275	\$ 6,423,745
Restricted Cash	585,565	0	585,565
Cash with Fiscal Agent	949,211	0	949,211
Receivables:			
Taxes	26,817,971	0	26,817,971
Accounts	51,350	56,584	107,934
Intergovernmental	2,755,247	0	2,755,247
Internal Balances	(10,608)	10,608	0
Materials and Supplies Inventory	163,731	18,590	182,321
Nondepreciable Capital Assets	220,803	0	220,803
Depreciable Capital Assets, Net	<u>15,907,124</u>	<u>130,117</u>	<u>16,037,241</u>
<b>Total Assets</b>	<b><u>\$ 53,652,864</u></b>	<b><u>\$ 427,174</u></b>	<b><u>\$ 54,080,038</u></b>
<b><u>Liabilities</u></b>			
Accounts Payable	\$ 323,082	\$ 5,037	\$ 328,119
Accrued Wages and Benefits	3,150,508	102,084	3,252,592
Intergovernmental Payable	1,061,219	0	1,061,219
Deferred Charges	101,258	0	101,258
Claims Liability	411,144	0	411,144
Deferred Revenue	24,874,003	0	24,874,003
Accrued Interest Payable	16,761	0	16,761
Tax Anticipation Notes	650,000	0	650,000
Long-Term Liabilities			
Due Within One Year	1,192,868	0	1,192,868
Due In More Than One Year	<u>7,239,817</u>	<u>0</u>	<u>7,239,817</u>
<b>Total Liabilities</b>	<b><u>\$ 39,020,660</u></b>	<b><u>\$ 107,121</u></b>	<b><u>\$ 39,127,781</u></b>
<b><u>Net Assets</u></b>			
Invested in Capital Assets, Net of Related Debt	\$ 8,685,270	\$ 130,117	\$ 8,815,387
Restricted for:			
Debt Service	529,124	0	529,124
Other Purposes	275,404	0	275,404
Unrestricted	<u>5,142,406</u>	<u>189,936</u>	<u>5,332,342</u>
<b>Total Net Assets</b>	<b><u>\$ 14,632,204</u></b>	<b><u>\$ 320,053</u></b>	<b><u>\$ 14,952,257</u></b>

See accompanying notes to the basic financial statements.

**PAINESVILLE TOWNSHIP LOCAL SCHOOL DISTRICT**  
**STATEMENT OF ACTIVITIES**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>		
	<u>Expenses</u>	<u>Charges for Services and Sales</u>	<u>Operating Grants, Contributions and Interest</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b><u>Governmental Activities</u></b>						
Instruction:						
Regular	\$ 17,624,546	\$ 982,256	\$ 148,761	\$ (16,493,529)	\$ 0	\$ (16,493,529)
Special	2,991,000	297,204	812,326	(1,881,470)	0	(1,881,470)
Other	863,590	0	0	(863,590)	0	(863,590)
Support Services:						
Pupil	1,765,845	0	326,175	(1,439,670)	0	(1,439,670)
Instructional Staff	1,620,461	0	222,405	(1,398,056)	0	(1,398,056)
Board of Education	20,275	0	0	(20,275)	0	(20,275)
Administration	3,608,191	0	34,104	(3,574,087)	0	(3,574,087)
Business	75,301	0	39,674	(35,627)	0	(35,627)
Pupil Transportation	4,474,116	102,598	45,007	(4,326,511)	0	(4,326,511)
Central	55,886	0	0	(55,886)	0	(55,886)
Fiscal Services	854,852	0	0	(854,852)	0	(854,852)
Operation and Maintenance of Plant	4,485,018	10,772	0	(4,474,246)	0	(4,474,246)
Non-Instructional Services	124,288	42,545	29,665	(52,078)	0	(52,078)
Extracurricular Activities	749,805	601,085	57,663	(91,057)	0	(91,057)
Interest and Fiscal Charges	246,085	0	0	(246,085)	0	(246,085)
<b>Total Governmental Activities</b>	<u>39,559,259</u>	<u>2,036,460</u>	<u>1,715,780</u>	<u>(35,807,019)</u>	<u>0</u>	<u>(35,807,019)</u>
<b><u>Business-Type Activities</u></b>						
Food Service Fund	1,377,862	1,464,751	0	0	86,889	86,889
Special Education Fund	281,815	264,016	0	0	(17,799)	(17,799)
<b>Total Business-Type Activities</b>	<u>1,659,677</u>	<u>1,728,767</u>	<u>0</u>	<u>0</u>	<u>69,090</u>	<u>69,090</u>
<b>Totals</b>	<u>\$ 41,218,936</u>	<u>\$ 3,765,227</u>	<u>\$ 1,715,780</u>	<u>(35,807,019)</u>	<u>69,090</u>	<u>(35,737,929)</u>
<b><u>General Revenues and Transfers</u></b>						
Property Taxes Levied for:						
General Purposes				24,338,704	0	24,338,704
Debt Service				756,719	0	756,719
Capital Outlay				1,373,046	0	1,373,046
Grants and Entitlements not Restricted to Specific Programs				9,653,736	0	9,653,736
Investment Earnings				414,776	0	414,776
Gain on Sale of Assets				6,051	0	6,051
Miscellaneous				2,201	0	2,201
<b>Total General Revenues and Transfers</b>				<u>36,545,233</u>	<u>0</u>	<u>36,545,233</u>
Change in Net Assets				738,214	69,090	807,304
Net Assets Beginning of Year, as Restated				<u>13,893,990</u>	<u>250,962</u>	<u>14,144,952</u>
<b>Net Assets End of Year</b>				<u>\$ 14,632,204</u>	<u>\$ 320,052</u>	<u>\$ 14,952,256</u>

See accompanying notes to the basic financial statements.



**PAINESVILLE TOWNSHIP LOCAL SCHOOL DISTRICT**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**JUNE 30, 2006**

	<u>General</u>	Other Governmental <u>Funds</u>	<u>Totals</u>
<b><u>Assets</u></b>			
Equity in Pooled Cash and Cash Equivalents	\$ 4,811,806	\$ 1,400,664	\$ 6,212,470
Restricted Assets:			
Restricted Cash and Cash Equivalents	585,565	0	585,565
Receivables:			
Taxes	24,636,484	2,181,487	26,817,971
Due from Other Funds	2,000	0	2,000
Accounts	49,350	0	49,350
Intergovernmental	2,755,247	0	2,755,247
Materials and Supplies Inventory	<u>163,731</u>	<u>0</u>	<u>163,731</u>
<b>Total Assets</b>	<b><u>\$ 33,004,183</u></b>	<b><u>\$ 3,582,151</u></b>	<b><u>\$36,586,334</u></b>
<b><u>Liabilities and Fund Balances</u></b>			
<b><u>Liabilities</u></b>			
Accounts Payable	\$ 274,643	\$ 48,439	\$ 323,082
Accrued Wages and Benefits	3,045,162	105,346	3,150,508
Due to Other Governments	1,061,219	0	1,061,219
Due to Other Funds	8,608	2,000	10,608
Deferred Revenue	24,061,092	1,928,128	25,989,220
Tax Anticipation Notes	<u>0</u>	<u>650,000</u>	<u>650,000</u>
Total Liabilities	<u>28,450,724</u>	<u>2,733,913</u>	<u>31,184,637</u>
<b><u>Fund Balances</u></b>			
Reserved for:			
Encumbrances	324,522	202,842	527,364
Inventory	163,731	0	163,731
Budget Stabilization	585,565	0	585,565
Property Taxes	1,585,608	136,469	1,722,077
Unreserved, Undesignated	<u>1,894,033</u>	<u>508,927</u>	<u>2,402,960</u>
Total Fund Balances	<u>4,553,459</u>	<u>848,238</u>	<u>5,401,697</u>
<b>Total Liabilities and Fund Balances</b>	<b><u>\$33,004,183</u></b>	<b><u>\$ 3,582,151</u></b>	<b><u>\$ 36,586,334</u></b>

See accompanying notes to the basic financial statements.

**PAINESVILLE TOWNSHIP LOCAL SCHOOL DISTRICT  
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2006**

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<b>Total Governmental Fund Balances</b>		\$ 5,401,697
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not functional resources and therefore are not reported in the funds.		16,127,927
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		1,115,217
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		538,067
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Long-term Promissory Note	(500,000)	
Limited Tax General Obligation Bond	(507,657)	
General Obligation Bonds	(6,435,000)	
Compensated Absences	(990,028)	
Accrued Interest Payable	<u>(16,761)</u>	
Total		(8,449,446)
Bond premium net of issuance cost on the refunding issuance in governmental activities is deferred and to be amortized over the life of the new issuance, net of amortization		<u>(101,258)</u>
<b>Net Assets of Governmental Activities</b>		<b><u>\$ 14,632,204</u></b>

**PAINESVILLE TOWNSHIP LOCAL SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -**  
**GOVERNMENTAL FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>			
Taxes	\$ 24,402,956	\$ 1,997,581	\$ 26,400,537
Intergovernmental	9,772,100	1,689,899	11,461,999
Tuition and Fees	1,058,490	0	1,058,490
Transportation Fees	102,578	0	102,578
Earnings on Investments	373,480	32,316	405,796
Extracurricular Activities	0	505,123	505,123
Classroom Materials and Fees	331,070	0	331,070
Miscellaneous	38,986	57,663	96,649
<b>Total Revenues</b>	<u>36,079,660</u>	<u>4,282,582</u>	<u>40,362,242</u>
<b>Expenditures</b>			
Current:			
Instruction:			
Regular	16,693,371	345,786	17,039,157
Special	2,532,076	459,347	2,991,423
Other	821,881	0	821,881
Support Services:			
Pupil	1,379,015	400,942	1,779,957
Instructional Staff	1,361,856	258,605	1,620,461
Board of Education	17,918	0	17,918
Administration	3,436,890	140,120	3,577,010
Business	75,300	0	75,300
Pupil Transportation	4,197,615	445,498	4,643,113
Central	16,212	39,674	55,886
Fiscal Services	831,825	22,440	854,265
Operation and Maintenance of Plant	4,443,956	341,275	785,231
Non-Instructional Services	62,179	548,411	610,590
Extracurricular Activities	333,271	326,949	660,220
Debt Service:			
Principal Retirement	0	668,345	668,345
Interest and Fiscal Charges	0	249,310	249,310
<b>Total Expenditures</b>	<u>36,203,365</u>	<u>4,246,702</u>	<u>40,450,067</u>
Excess of Revenues Over(Under) Expenditures	<u>(123,705)</u>	<u>35,880</u>	<u>(87,825)</u>
<b>Other Financing Sources (Uses)</b>			
Proceeds from Sale of Assets	6,051	0	6,051
Refund of Prior Year Receipts	0	(41,709)	(41,709)
Refund of Prior Year Expenditures	258	49	307
Transfers In	0	1,440,394	1,440,394
Transfers Out	(168,429)	(1,271,965)	(1,440,394)
<b>Total Other Financing Sources (Uses)</b>	<u>(162,120)</u>	<u>126,769</u>	<u>(35,351)</u>
Net Change in Fund Balances	<u>(285,825)</u>	<u>162,649</u>	<u>(123,176)</u>
Fund Balances Beginning of Year, as Restated	4,872,553	685,589	5,558,142
Decrease in Reserve for Inventory	(33,269)	0	(33,269)
<b>Fund Balances End of Year</b>	<u>\$ 4,553,459</u>	<u>\$ 848,238</u>	<u>\$ 5,401,697</u>

See accompanying notes to the basic financial statements.

**PAINESVILLE TOWNSHIP LOCAL SCHOOL DISTRICT  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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**Net Change in Fund Balances - Total Governmental Funds** \$ (123,176)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.

Capital Additions	\$ 947,055	
Disposal of Capital Assets	(25,109)	
Current Year Depreciation	<u>(835,255)</u>	
<b>Total</b>		<b>86,691</b>

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

Taxes	<u>(82,221)</u>	
<b>Total</b>		<b>(82,221)</b>

Bond premiums, net of issuance cost, amortization 10,126

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 1,168,345

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds an interest expenditure is reported when due. 3,225

Some expenses reported in the statement of activities, such as compensated absences and a change in inventory, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Compensated Absences Payable	(261,620)	
Change in Inventory	<u>(33,269)</u>	
<b>Total</b>		<b>(294,889)</b>

The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities. (29,887)

**Change in Net Assets of Governmental Activities** \$ 738,214

**PAINESVILLE TOWNSHIP LOCAL SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -**  
**BUDGET (NON-GAAP BASIS) AND ACTUAL -**  
**GENERAL FUND**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	Budgeted Amounts		Actual	Variance
	Original	Final		Final Budget Positive (Negative)
<b>Revenues</b>				
Taxes	\$24,792,635	\$24,792,635	\$26,376,416	\$ 1,583,781
Intergovernmental	9,692,440	9,692,440	9,772,100	79,660
Tuition	1,085,980	1,085,980	1,058,490	(27,490)
Transportation Fees	80,000	80,000	102,723	22,723
Earnings on Investments	129,800	129,800	381,192	251,392
Classroom Materials and Fees	281,000	281,000	331,012	50,012
Miscellaneous	22,000	22,000	54,250	32,250
<b>Total Revenues</b>	<u>36,083,855</u>	<u>36,083,855</u>	<u>38,076,183</u>	<u>1,992,328</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	16,979,126	16,832,879	16,481,903	350,976
Special	2,625,755	2,725,755	2,606,090	119,665
Other	503,000	737,572	776,261	(38,689)
Support Services:				
Pupil	1,513,471	1,613,471	1,406,997	206,474
Instructional Staff	1,363,525	1,562,246	1,370,727	191,519
Board of Education	19,450	19,450	17,919	1,531
Administration	3,531,550	3,531,211	3,473,776	57,435
Fiscal Services	929,165	884,237	870,012	14,225
Business	116,505	168,344	83,365	84,979
Operation and Maintenance of Plant	4,143,804	4,293,804	4,503,734	(209,930)
Pupil Transportation	4,002,317	4,252,978	4,248,989	3,989
Central	17,540	17,540	17,237	303
Non-Instructional Services	137,381	75,200	64,072	11,128
Extracurricular Activities	340,046	407,949	334,763	73,186
<b>Total Expenditures</b>	<u>36,222,635</u>	<u>37,122,636</u>	<u>36,255,845</u>	<u>866,791</u>
Excess of Revenue Over (Under) Expenditures	<u>(138,780)</u>	<u>(1,038,781)</u>	<u>1,820,338</u>	<u>2,859,119</u>
<b>Other Financing Sources (Uses)</b>				
Proceeds from Sale of Assets	5,000	5,000	6,051	1,051
Other Miscellaneous Uses	(50,000)	(50,000)	0	50,000
Refund of Prior Year Expenditures	0	0	258	258
Advances Out	(50,000)	(50,000)	(2,000)	48,000
Transfers Out	(150,000)	(150,000)	(168,429)	(18,429)
<b>Total Other Financing Sources (Uses)</b>	<u>(245,000)</u>	<u>(245,000)</u>	<u>(164,120)</u>	<u>80,880</u>
Net Change in Fund Balance	<u>(383,780)</u>	<u>(1,283,781)</u>	<u>1,656,218</u>	<u>2,939,999</u>
Fund Balance at Beginning of Year	2,225,166	2,225,166	2,225,156	(10)
Prior Year Encumbrances Appropriated	<u>916,828</u>	<u>916,828</u>	<u>916,828</u>	<u>0</u>
<b>Fund Balance at End of Year</b>	<u>\$ 2,758,214</u>	<u>\$ 1,858,213</u>	<u>\$ 4,798,202</u>	<u>\$(2,939,989)</u>

See accompanying notes to the basic financial statements.

**PAINESVILLE TOWNSHIP LOCAL SCHOOL DISTRICT  
STATEMENT OF FUND NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2006**

	Business- Type <u>Activities</u> Nonmajor Enterprise <u>Funds</u>	Governmental <u>Activities</u> Internal Service <u>Funds</u>
<b><u>Assets</u></b>		
Equity in Pooled Cash and Cash Equivalents	\$ 211,275	\$ 949,211
Materials and Supplies Inventory	18,590	0
Accounts Receivable	58,584	0
Due from Other Funds	8,608	0
Depreciable Capital Assets, net	<u>130,117</u>	<u>0</u>
<b>Total Assets</b>	<b><u>\$ 427,174</u></b>	<b><u>\$ 949,211</u></b>
<b><u>Liabilities</u></b>		
Accounts Payable	\$ 5,037	\$ 0
Claim Liability	0	411,144
Accrued Wages and Benefits	<u>102,084</u>	<u>0</u>
<b>Total Liabilities</b>	<b><u>\$ 107,121</u></b>	<b><u>\$ 411,144</u></b>
<b><u>Net Assets</u></b>		
Invested in Capital Assets, Net of Related Debt	\$ 130,117	\$ 0
Unrestricted	<u>189,936</u>	<u>538,067</u>
<b>Total Net Assets</b>	<b><u>\$ 320,053</u></b>	<b><u>\$ 538,067</u></b>

See accompanying notes to the basic financial statements.

**PAINESVILLE TOWNSHIP LOCAL SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>Business- Type Activities Nonmajor Enterprise Funds</u>	<u>Governmental Activities Internal Service Funds</u>
<b><u>Operating Revenues</u></b>		
Food Services	\$ 1,068,213	\$ 0
Charges for Services	0	3,673,968
Miscellaneous Revenue	<u>264,016</u>	<u>0</u>
<b>Total Operating Revenues</b>	<u>1,332,229</u>	<u>3,673,968</u>
 <b><u>Operating Expenses</u></b>		
Salaries and Wages	632,451	0
Fringe Benefits	223,954	3,703,855
Contractual Services	67,108	0
Supplies and Materials	722,318	0
Depreciation	<u>13,846</u>	<u>0</u>
<b>Total Operating Expenses</b>	<u>1,659,677</u>	<u>3,703,855</u>
Operating (Loss)	<u>(327,448)</u>	<u>(29,887)</u>
<b><u>Non-Operating Revenues (Expenses)</u></b>		
Operating Grants	374,096	0
Donated Commodities	14,730	0
Interest Income	<u>7,712</u>	<u>0</u>
<b>Total Non-Operating Revenues (Expenses)</b>	<u>396,538</u>	<u>0</u>
Changes in Net Assets	69,090	(29,887)
 Net Assets Beginning of Year, as Restated	<u>250,962</u>	<u>567,954</u>
 <b>Net Assets End of Year</b>	<u>\$ 320,052</u>	<u>\$ 538,067</u>

See accompanying notes to the basic financial statements.

**PAINESVILLE TOWNSHIP LOCAL SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>Business- Type Activities Nonmajor Enterprise Funds</u>	<u>Governmental Activities Internal Service Funds</u>
<i>Increase (Decrease) in Cash and Cash Equivalents</i>		
<b><u>Cash Flows from Operating Activities</u></b>		
Cash Received from Customers	\$ 1,068,213	\$ 3,673,968
Cash Received from Other Operating Sources	256,303	0
Cash Payments to Suppliers for Goods and Services	(773,181)	0
Cash Payments to Employees for Services	(621,975)	0
Cash Payments for Employee Benefits	(223,954)	(3,832,854)
Cash Payments for Other	(67,108)	0
<b>Net Cash Provided by (Used for) Operating Activities</b>	<u>(361,702)</u>	<u>(158,886)</u>
<b><u>Cash Flows from Noncapital Financing Activities</u></b>		
Operating Grants Received	374,096	0
<b>Net Cash Provided by (Used for) Noncapital Financing Activities</b>	<u>374,096</u>	<u>0</u>
<b><u>Cash Flows from Capital Activities</u></b>		
Acquisition of Assets	(51,161)	0
<b>Net Cash Used for Capital Activities</b>	<u>(51,161)</u>	<u>0</u>
<b><u>Cash Flows from Investing Activities</u></b>		
Earnings on Investments	7,712	0
<b>Net Cash Provided by Investing Activities</b>	<u>7,712</u>	<u>0</u>
Net Decrease in Cash and Cash Equivalents	(31,055)	(158,886)
Cash and Cash Equivalents, Beginning of Year	242,331	1,108,097
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 211,276</u>	<u>\$ 949,211</u>
<b><u>Reconciliation of Operating Income (Loss) to Net Cash Used for Operating Activities</u></b>		
Operating (Loss)	\$ (327,448)	\$ (29,887)
Adjustments:		
Depreciation	13,846	0
(Increase) Decrease in Assets:		
Inventory Held for Resale	12,202	0
Accounts Receivable	(58,584)	0
Interfund Receivable	(5,715)	0
Increase (Decrease) in Liabilities:		
Accounts Payable	(6,479)	0
Accrued Wages and Benefits	10,476	0
Claims Payable	0	(128,999)
Total Adjustments	<u>(34,254)</u>	<u>(128,999)</u>
<b>Net Cash Provided by (Used for) Operating Activities</b>	<u>\$ (361,702)</u>	<u>\$ (158,886)</u>

**Schedule of Noncash Financing Activities**

During the year, the Food Services Enterprise Fund received Donated Commodities of \$14,730.

See accompanying notes to the basic financial statements.



**PAINESVILLE TOWNSHIP LOCAL SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2006**

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	<u>Agency</u>
<b><u>Assets</u></b>	
Equity in Pooled Cash and Cash Equivalents	\$ 211,409
Due from Students	<u>1,057,492</u>
<b>Total Assets</b>	<b><u><u>\$ 1,268,901</u></u></b>
<b><u>Liabilities</u></b>	
Accounts Payable	\$ 2,505
Due to Other Governments	<u>1,266,396</u>
<b>Total Liabilities</b>	<b><u><u>\$ 1,268,901</u></u></b>

See accompanying notes to the basic financial statements.

**PAINESVILLE TOWNSHIP LOCAL SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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**NOTE 1: DESCRIPTION OF THE DISTRICT**

The Painesville Township 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 was 4,445. The District employed 293 certificated employees and 267 classified employees. It currently operates six elementary schools, a middle school, a junior high school, and a high school.

**The Reporting Entity**

The reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the financial statements of the District are not misleading. The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For the Painesville Township Local School District, this includes general operations, education, pupil transportation, food service, and maintenance of District facilities.

The Hershey Montessori School in Concord Township is the only non-public school which operates within the District’s boundaries.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization’s governing board and:

- (1) the District is able to significantly influence the programs or services performed or provided by the organization; or
- (2) the District is legally entitled to or can otherwise access the organization’s resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to the organization; or the District is obligated for the debt of the organization.

Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes. The District has no component units.

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

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NOTE 1: **DESCRIPTION OF THE DISTRICT** (Continued)

The District is associated with two jointly governed organizations. These organizations are discussed in Note 16 to the basic financial statements. These organizations are the Ohio Schools' Council Association and the Lake Geauga Computer Association (LGCA).

NOTE 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 its proprietary activities, provided they do not conflict with or contradict GASB pronouncements. The District has elected not to apply FASB pronouncements and interpretations issued after November 30, 1989, to its business-type activities and enterprise funds. The more significant of the District's accounting policies are described below:

A. **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 financial 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 of 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 purpose 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 of the District 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.

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

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NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

A. **Fund Accounting** (Continued)

**Governmental Funds** (Continued)

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

**Proprietary Fund Types**

Proprietary funds focus on the determination of the changes in net assets, financial position, and cash flows and are classified as either enterprise or internal service.

**Enterprise Funds** - Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. These funds account for food services, the latchkey programs, and adult education.

**Internal Service Funds** - Internal service funds 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 governmental units, on a cost-reimbursement basis. The District accounts for a self-insurance program, which provides medical and dental benefits to employees.

**Fiduciary Fund Types**

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. The District does not have any trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District has only one agency fund, the Student Activities fund.

B. **Basis of Presentation**

**Government-wide Financial Statements**

The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

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

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NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

B. **Basis of Presentation** (Continued)

**Government-wide Financial Statements** (Continued)

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

**Fund Financial Statements**

Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Internal service funds are combined and the totals are presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures, and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

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

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NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

B. **Basis of Presentation** (Continued)

**Fund Financial Statements** (Continued)

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund operating statements present 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.

C. **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.

**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 year end.

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

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NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

C. **Basis of Accounting** (Continued)

**Revenues – Exchange and Non-Exchange Transactions** (Continued)

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

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

**Deferred Revenue**

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

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

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

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

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NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

C. **Basis of Accounting** (Continued)

**Expenses/Expenditures**

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

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

D. **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 cash equivalents” on the financial statements. The District’s internal service fund had a balance of \$949,211 with the Lake County Council of Governments Health Care Benefits Program, a claim servicing pool (See Note 14). The balance in this account is presented on the financial statements as “Cash with Fiscal Agent”.

During fiscal year 2006, investments were limited to overnight Repurchase Agreements, Treasury Money Markets, and the State Treasury Asset Reserve of Ohio (STAROhio).

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.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2006 amounted to \$373,480. The amount allocated from the other funds during fiscal year 2006 amounted to \$100,100.

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.



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

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NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**E. Restricted Assets**

Restricted assets represent cash and cash equivalents and other current assets whose use is limited by legal requirements. Restricted assets in the general fund include amounts required by statute to be set aside for the purchase of textbooks and other instructional material and the creation of a reserve for budget stabilization. See Note 20 for calculation of year end reserve balances.

**F. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2006 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure is reported in the year in which services are consumed. The District has no prepaid expenses as of June 30, 2006.

**G. Inventory**

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

On fund financial statements, inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental funds types when purchased. Inventories of proprietary funds consist of donated food, purchased food, and school supplies held for resale and are expensed when used.

**H. Capital Assets**

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

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

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

H. **Capital Assets** (Continued)

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars. 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 except land and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-Type Activities Estimated Lives</u>
Land Improvement	20-40 years	N/A
Buildings and Improvements	10-80 years	N/A
Furniture and Equipment	5-10 years	5-10 years
Vehicles	10 years	N/A
Textbooks	5 years	N/A

I. **Interfund Transactions**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

J. **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.

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

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NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

J. **Compensated Absences** (Continued)

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 an estimate based on the District's past experience of making termination payments.

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

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

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities, and long-term obligations payable from 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, contractually required pension contributions, and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current expendable available financial resources. In general, payments made more than sixty days after year end are considered not 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.

L. **Fund Balance Reserves**

The District reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates this portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances, textbooks, inventories of supplies and materials, prepaids, property tax, 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.

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

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NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**M. Net Assets**

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

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

**N. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are tuition for adult education classes, sales for food service, latchkey programs, and charges for services for self-insurance programs. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund.

**O. Contributions of Capital**

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

**P. Interfund Transactions**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

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

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NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Q. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the District and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2006.

**R. Estimates**

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

**S. Budgetary Data**

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 legal 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.

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

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NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

S. **Budgetary Data** (Continued)

*Estimated Resources*

Prior to March 15, the Board of Education 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 School 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 2006.

*Appropriations*

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certification saying no new certificate is necessary, the annual appropriation resolution is legally enacted by the Board of Education. Prior to the passage of the annual appropriation measure, the Board may pass a temporary 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 provided the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. The amounts reported as the original budgeted amounts in the budgetary statements reflect the appropriation in the first complete appropriated budget, including amounts automatically carried over from prior years. The amounts reported as the final budgeted amounts 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.

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

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

S. **Budgetary Data** (Continued)

*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 appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at year end are reported as a reservation of fund balance for subsequent year expenditures for governmental funds and reported in the notes to the financial statements for proprietary 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.

NOTE 3: **RESTATEMENT OF NET ASSETS AND FUND BALANCE**

In 2005, there was an understatement of SERS liability.

**Modified Basis of Accounting**

	<u>General Fund</u>
Fund Balance at June 30, 2005	\$ 5,435,839
Understatement of SERS Pension Liability	<u>(563,286)</u>
Adjusted Fund Balance at June 30, 2005	<u>\$ 4,872,553</u>

**Full Accrual Basis of Accounting**

	<u>Governmental</u>	<u>Business-</u>
		<u>Type</u>
Net Assets at June 30, 2005	\$13,832,097	\$ 312,855
Reclassification of SERS Pension Liability	<u>61,893</u>	<u>(61,893)</u>
Adjusted Net Assets at June 30, 2005	<u>\$13,893,990</u>	<u>\$ 250,962</u>

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

**NOTE 4: BUDGETARY BASIS OF ACCOUNTING**

While the District is reporting financial position, results of operations, and changes in fund balances/retained earnings on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP) and Actual - All Governmental Fund Types and Similar Trust Fund and the Statement of Revenues, Expenses and Changes in Fund Equity - Budget (Non-GAAP) and Actual - All Proprietary Fund Types are 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 that:

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

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund and the major special revenue funds.

Net Change in Fund Balance - General Fund	
GAAP Basis	\$ (285,825)
Net Adjustments for Revenue Accruals	543,193
Net Adjustments for Expenditure Accruals	1,998,016
Adjustments for Encumbrances	<u>(599,166)</u>
Budget Basis	<u><u>\$ 1,656,218</u></u>

**NOTE 5: DEPOSITS AND INVESTMENTS**

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

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



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

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NOTE 5: **DEPOSITS AND INVESTMENTS** (Continued)

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

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

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

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

1. United States Treasury notes, bills, bonds, or other obligation or security issued by the United States Treasury or any other obligation guaranteed as to payment of principal and interest by the United States;
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;

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

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NOTE 5: **DEPOSITS AND INVESTMENTS** (Continued)

5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. Investments may only be made through specified dealers and institutions.

**Cash on Hand**

At fiscal year end, the District had \$250 in undeposited cash on hand, which is included on the balance sheet of the District as part of "Equity in Pooled Cash and Cash Equivalents".

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

**Deposits**

At June 30, 2006, the carrying amount of the District's deposits was \$7,141,054 and the bank balance was \$7,706,294. Of the District's bank balance, \$203,188 was covered by Federal Depository Insurance and \$7,503,106 was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name.

Although the securities were held by the pledging institution's trust department and all statutory requirements for the investments of money had been followed, noncompliance with Federal requirements could potentially subject the District to a successful claim by the FDIC.

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

NOTE 5: **DEPOSITS AND INVESTMENTS** (Continued)

Deposits (Continued)

Custodial credit risk is the risk that, in the event of a bank failure, the District's deposit may not be returned. The District's policy is to place deposits with major local banks approved by the District's Board of Education. All deposits, except for deposits held by fiscal and escrow agents, are collateralized with eligible securities in amounts equal to at least 105 percent of the carrying value of the deposits. Such collateral, as permitted by Chapter 135 of the ORC, is held in financial institution pools at Federal Reserve banks, or at member banks of the Federal Reserve system in the name of the respective depository bank, and pledged as a pool of collateral against all of the public deposits it holds, or as specific collateral held at a Federal Reserve bank in the name of the District.

Investments

The District has a formal investment policy. The objective of the policy shall be the preservation of capital and protection of principal while earning interest. The District follows GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, and records all its investments at fair value. All investments are in an internal investment pool.

Cash and investments at year-end were as follows:

Investment Type	Fair Value	Credit Rating (*)	Investment Maturities (in Years)	
			< 1	1-2
STAROhio	\$ 1,674	AAA	\$ 1,674	\$ 0
Repurchase Agreement	77,742	A-2	77,742	0
Carrying Amount of Deposits	7,141,054		7,141,054	0
Petty Cash	250		250	0
Cash with Fiscal Agent	949,210		949,210	0
Total	<u>\$ 8,169,930</u>		<u>\$ 8,169,930</u>	<u>\$ 0</u>

\*Credit rating was obtained from Standard & Poor's for all investments.

Interest Rate Risk

As a means of limited its exposure to fair value of losses caused by rising interest rates, the District's investment policy requires that operating funds be invested primarily in short-term investments maturing within five years from the date of purchase and that the District's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments. The stated intent of the policy is to avoid the need to sell securities prior to maturity.

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

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NOTE 5: **DEPOSITS AND INVESTMENTS** (Continued)

*Interest Rate Risk* (Continued)

The District's investment policy requires that investments made must mature within five years, unless they are matched to a separate obligation or debt of the District. The purpose of the investments is to maximize the returns on the District's excess cash balances consistent with safety of these monies and with the desired liquidity of the investments.

*Credit Risk*

The credit risk of the District's investments are in the table below. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The District has no investment policy that would further limit its investment choices.

*Custodial Credit Risk*

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The U.S. Agency notes are exposed to custodial credit risk in that they are uninsured, unregistered, and held by the counterparty's trust department or agent but not in the District's name. The District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

*Concentration of Credit Risk*

The District places no limit on the amount it may invest in any one issuer. The District's total investments are 97.8 percent in repurchase agreements.

NOTE 6: **PROPERTY TAXES**

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

Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the District. Property tax revenue received during calendar 2006 for real and public utility property taxes represents collections of calendar 2005 taxes. Property tax payments received during calendar 2006 for tangible personal property (other than public utility property) is for calendar 2006 taxes.

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

**NOTE 6: PROPERTY TAXES (Continued)**

2006 real property taxes are levied after April 1, 2006, on the assessed value listed as of January 1, 2006, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2005 real property taxes are collected in and intended to finance fiscal year 2006.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2006 public utility property taxes are levied after April 30, 2006 on the assessed value as of December 31, 2005, the lien date, and are collected in 2006 with real property taxes.

2005 tangible personal property taxes are levied after April 1, 2006, on the assessed value listed as of December 31, 2005. Collections are made in 2006. Tangible personal property assessments are 25 percent of true value.

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

	<u>2005</u>		<u>2006</u>	
	<u>Second-Half Collections</u>		<u>First-Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$ 800,281,190	90.14%	\$ 842,574,760	91.90%
Public Utility	22,107,240	2.49%	20,522,420	2.24%
Tangible Personal Property	<u>65,417,160</u>	<u>7.37%</u>	<u>53,743,968</u>	<u>5.86%</u>
	<u>\$ 887,805,590</u>	<u>100.00%</u>	<u>\$ 916,841,148</u>	<u>100.00%</u>
Tax Rate per \$1,000 of Assessed Valuation	\$ 54.69		\$ 54.69	

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits earlier or later payment dates to be established.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20.

The District receives property taxes from Lake County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2006 are available to finance fiscal year 2007 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

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

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NOTE 6: **PROPERTY TAXES** (Continued)

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the Painesville Township Local School District. The County Auditor periodically remits to the District its portion of taxes. Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property, and public utility taxes which became measurable as of June 30, 2006. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended 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, 2006, was \$1,722,077 and is recognized as revenue. \$1,585,608 was available to the general fund. \$48,320 was available to the bond retirement fund, and \$88,149 was available to the permanent improvement capital projects fund.

NOTE 7: **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 Ohio 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 Ohio Revised Code. The Financing District receives settlements of taxes levied and distributes them within ten days to each of the 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 total receivable of \$2,755,247 is included in the account "Receivables - Intergovernmental".

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

**NOTE 8: CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2006 was as follows:

	Balance at 6/30/05	Additions	Deletions	Balance at 6/30/06
<b>Governmental Activities</b>				
<i>Capital Assets, not being depreciated:</i>				
Land	\$ 220,803	\$ 0	\$ 0	\$ 220,803
<i>Total Capital Assets, not being depreciated</i>	<u>220,803</u>	<u>0</u>	<u>0</u>	<u>220,803</u>
<i>Capital Assets, being depreciated:</i>				
Land Improvements	3,916,983	285,527	0	4,202,510
Buildings and Improvements	14,314,245	49,850	0	14,364,095
Furniture and Equipment	3,660,880	142,922	26,313	3,777,489
Vehicles	<u>3,779,715</u>	<u>468,756</u>	<u>115,803</u>	<u>4,132,668</u>
<i>Total Capital Assets, being depreciated</i>	<u>25,671,823</u>	<u>947,055</u>	<u>142,116</u>	<u>26,476,762</u>
Total Capital Assets at Historical Cost	<u>25,892,626</u>	<u>947,055</u>	<u>142,116</u>	<u>26,697,565</u>
Less Accumulated Depreciation:				
Land Improvements	(535,339)	(100,362)	0	(635,701)
Buildings and Improvements	(5,313,537)	(268,628)	0	(5,582,165)
Furniture and Equipment	(2,594,140)	(197,638)	22,507	(2,769,271)
Vehicles	<u>(1,408,374)</u>	<u>(268,627)</u>	<u>94,500</u>	<u>(1,582,501)</u>
Total Accumulated Depreciation	<u>(9,851,390)</u>	<u>(835,255)</u>	<u>117,007</u>	<u>(10,569,638)</u>
<i>Total Capital Assets being depreciated, net</i>	<u>15,820,433</u>	<u>111,800</u>	<u>25,109</u>	<u>15,907,124</u>
<b>Governmental Activities Capital Assets, Net</b>	<u>\$16,041,236</u>	<u>\$ 111,800</u>	<u>\$ 25,109</u>	<u>\$16,127,927</u>
<b>Business-Type Activities</b>				
Furniture and Equipment	\$ 252,686	\$ 51,161	\$ 0	\$ 303,847
Less Accumulated Depreciation	<u>(159,884)</u>	<u>(13,846)</u>	<u>0</u>	<u>(173,730)</u>
<b>Business-Type Activities Capital Assets, Net</b>	<u>\$ 92,802</u>	<u>\$ 37,315</u>	<u>\$ 0</u>	<u>\$ 130,117</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 336,622
Support Services:	
Board of Education	2,356
Administration	39,332
Fiscal	2,982
Operation and Maintenance of Plant	101,993
Pupil Transportation	246,793
Operation of Non-Instructional Services	
Food Services	14,709
Extracurricular Activities	90,468
Total Depreciation Expense	<u>\$ 835,255</u>

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

**NOTE 9: LONG-TERM OBLIGATIONS**

The changes in the District's long-term obligations during fiscal year 2006 were as follows:

	Principal Outstanding 06/30/05	Additions	Deductions	Principal Outstanding 06/30/06	Amounts Due in One Year
<b><u>Governmental Activities</u></b>					
General Obligation Bonds					
2005 - 5.33%	\$ 541,002	\$ 0	\$ (33,345)	\$ 507,657	\$ 35,122
School Improvement Bonds					
2003 - 3.05%	7,070,000	0	(635,000)	6,435,000	650,000
Long-term Promissory Note -					
2005 - 0%	1,000,000	0	(500,000)	500,000	500,000
Compensated Absences	<u>728,408</u>	<u>303,820</u>	<u>(42,200)</u>	<u>990,028</u>	<u>7,746</u>
<b>Total Governmental Long-Term Liabilities</b>	<b><u>\$9,339,410</u></b>	<b><u>\$ 303,820</u></b>	<b><u>\$(1,210,545)</u></b>	<b><u>\$ 8,432,685</u></b>	<b><u>\$ 1,192,868</u></b>

All bonds outstanding are general obligations of the District for which the full faith and credit of the District is pledged for repayment. Payments of principal and interest relating to these liabilities are recorded as expenditures in the debt service fund. The source of payment is derived from a .90 mill bonded debt tax levy. Compensated absences will be paid from the fund from which the employees' salaries are paid.

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

Fiscal Year Ending June 30	General Obligation Bonds		School Improvement Bonds		Long-Term Promissory Note	Totals	
	Principal	Interest	Principal	Interest	Principal	Principal	Interest
2007	\$ 35,122	\$ 27,058	\$ 650,000	\$ 167,000	\$ 500,000	\$ 1,185,122	\$ 194,058
2008	36,994	25,186	401,829	413,671	0	438,823	438,857
2009	38,965	23,214	363,165	457,335	0	402,130	480,549
2010	41,042	21,137	660,000	152,745	0	701,042	173,882
2011	43,230	18,950	675,000	136,046	0	718,230	154,996
2012-2016	<u>312,304</u>	<u>51,498</u>	<u>3,685,006</u>	<u>348,105</u>	<u>0</u>	<u>3,997,310</u>	<u>399,603</u>
Totals	<u>\$ 507,657</u>	<u>\$ 167,043</u>	<u>\$ 6,435,000</u>	<u>\$ 1,674,902</u>	<u>\$ 500,000</u>	<u>\$ 7,442,657</u>	<u>\$ 1,841,945</u>

**Defeased Debt**

In prior years, the District issued \$7,730,000 in voted general obligation school improvement refunding bonds for the purpose of renovating, remodeling, rehabilitating, improving, furnishing, and equipping school facilities by providing a portion of the funds necessary to refund outstanding 1993 general obligation bonds of the District issued for that purpose and authorizing an escrow agreement for that refunding. For financial reporting purposes, the debt has been considered defeased and, therefore, removed as a liability from the District's government-wide financial statements. As of June 30, 2006, the amount of defeased debt outstanding but removed from the financial statements amounted to \$6,435,000.



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

**NOTE 10: TAX ANTICIPATION NOTES**

During 2001, the voters passed a five year 1.89 mill permanent improvement levy. Tax anticipation notes were issued in February 2002 for \$3,250,000 maturing \$650,000 per year through December 2006, with an average interest rate of 3.588 percent. Balance outstanding at June 30, 2006 was \$650,000.

**NOTE 11: COMPENSATED ABSENCES**

The criteria for determining vacation, personal, and sick leave benefits are derived from negotiated agreements and State laws. In summary the components of vesting are as follows:

<u>Vacation</u>	<u>Certificated</u>	<u>Administrators</u>	<u>Non-Certificated</u>
How earned	Not eligible	Per contract	1-9 days for each month worked for less than 1 year of service; 10-25 days depending on length of service after 1 year of service.
Maximum Accumulation	Not applicable	60 days	10 days
Vested	Not applicable	As earned	As earned
Termination Entitlement	Not applicable	Paid upon termination	Paid upon termination
<u>Sick Leave</u>			
How earned	1-1/4 days per month employment (15 days per year)	1-1/4 days per month employment (15 days per year)	1-1/4 days per month of employment (15 days per year)
Maximum Accumulation	255 days	255 days	215 days
Vested	As earned	As earned	As earned
Termination Entitlement	1/4 of accumulated sick leave up to 50 days	1/4 of accumulated sick leave up to 50 days	1/4 of accumulated sick leave up to 53.75 days

**NOTE 12: DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

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

**PAINESVILLE TOWNSHIP LOCAL SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2006**  
**(CONTINUED) (Not Modified)**

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NOTE 12: **DEFINED BENEFIT PENSION PLANS** (Continued)

A. **School Employees Retirement System** (Continued)

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations, with the remainder being used to fund health care benefits; 10.57 percent of annual covered salary was the portion used to fund pension obligations in fiscal year 2006. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004, were \$589,709, \$655,835, and \$722,835, respectively; 71 percent has been contributed for fiscal year 2006 and 100 percent for the fiscal years 2005 and 2004.

B. **State Teachers Retirement System**

The District contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that may be obtained by writing to the 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 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC plan and the DB plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the

**PAINESVILLE TOWNSHIP LOCAL SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**(CONTINUED)(Not Modified)**

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NOTE 12: **DEFINED BENEFIT PENSION PLANS** (Continued)

B. **State Teachers Retirement System** (Continued)

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

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

The District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2006, 2005, and 2004, were \$2,146,425, \$2,190,939, and \$2,326,428. 95 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. Contributions to the DB and Combined plans for fiscal year 2006 were \$534,926 made by the District and \$1,598,888 made by the plan members. \$12,611 represents the unpaid contribution for fiscal year 2006.

NOTE 13: **POSTEMPLOYMENT BENEFITS**

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

**PAINESVILLE TOWNSHIP LOCAL SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**(CONTINUED)(Not Modified)**

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NOTE 13: **POSTEMPLOYMENT BENEFITS** (Continued)

STRS retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$159,888 for fiscal year 2006.

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

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums may be reduced by 50 percent for those who apply.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.43 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 2006, the minimum pay has been established at \$27,400. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2006 fiscal year, the District paid \$792,096 to fund health care benefits, including the surcharge.

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. Health care benefits are financed on a pay-as-you-go basis. Net health care costs for the year ending June 30, 2005 were \$178,221,113. The target level for the health care fund is 150 percent of projected claims less premium contributions for the next fiscal year. As of June 30, 2005, the value of the health care fund was \$267.5 million, which is about 168 percent of next year's projected net health care costs of \$158,776,151. On the basis of

**PAINESVILLE TOWNSHIP LOCAL SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2006**  
**(CONTINUED)(Not Modified)**

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NOTE 13: **POSTEMPLOYMENT BENEFITS** (Continued)

actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. The number of participants eligible to receive benefits is 58,123. The portion of the District's employer contributions that were used to fund postemployment benefits are determined by multiplying actual employer contributions times .245, then adding the surcharge due as of June 30, 2005, as certified for the District by SERS.

NOTE 14: **CLAIMS SERVICE POOL**

*Lake County Council of Governments Health Care Benefits Program (HDBP) Self Insurance Program*

The District participates in Lake County Council of Governments Health Care Benefits Program (HDBP) Self Insurance Program, a claim servicing pool. The Plan's business and affairs are conducted by a five member Board of Directors elected from the HDBP assembly. All participating members retain their risk and the Plan acts as the claims servicing agent.

NOTE 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 2006, the District contracted with Indiana Insurance for property and general liability insurance. There is a \$5,000 deductible with a 90 percent co-insurance limit of \$77,448,651.

Commercial umbrella liability is protected by Indiana Insurance Company with a \$2,000,000 single and \$3,000,000 aggregate occurrence limit with a \$10,000 deductible. Vehicles are also covered by Indiana Insurance Company and have a \$250 deductible for comprehensive collision. Automobile liability has a \$2,000,000 combined single limit of liability. Settled claims have not exceeded this commercial coverage any of the past three years.

The June 30, 2006 claims liability and cash with fiscal agent are determined based on the percentage of the District's participants to total pool participants. For the year ended June 30, 2006, the pool's cash reserves and claims liability were \$5,268,140 and \$2,233,930, respectively. The District's allocated pool percentage for the year ended June 30, 2006 was 18.4 percent, which represents \$969,338 and \$411,144 of pool cash reserves and claims liabilities, respectively.

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

NOTE 15: **RISK MANAGEMENT** (Continued)

	<u>Beginning</u> <u>of Year</u>	<u>Current</u> <u>Year Claims</u>	<u>Claim</u> <u>Payments</u>	<u>Balance at</u> <u>End of Year</u>
June 30, 2004	\$ 319,088	\$ 2,224,779	\$ 2,123,678	\$ 420,189
June 30, 2005	\$ 420,189	\$ 3,492,078	\$ 3,372,124	\$ 540,143
June 30, 2006	\$ 540,143	\$ 3,544,969	\$ 3,673,968	\$ 411,144

NOTE 16: **JOINTLY GOVERNED ORGANIZATION**

The Lake Geauga Computer Association (LGCA) is a jointly governed organization among two county consortium of Ohio school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. Each of the governments of these schools supports LGCA based upon a per pupil charge. The District contributed \$158,031 to LGCA during fiscal year 2006. LGCA is governed by an Assembly consisting of two representatives from each participating school district. The degree of control exercised by any participating school district is limited to its representation to the Assembly. Financial information can be obtained by contacting the Treasurer at the Geauga County Educational Service Center, who serves as the fiscal agent, at 470 Center Street, Chardon, Ohio 44024.

The Ohio Schools' Council Association (Council) is a jointly governed organization among eighty-three school districts. This jointly governed organization was formed to bring quality products and services at the lowest possible cost to the member districts. The Council also sponsors a workers' compensation group rating plan which is an insurance purchasing pool. Each district supports the Council by paying an annual participation fee. The Council's Board consists of seven superintendents of the participating school districts whose terms rotate every year. The degree of control exercised by any school district is limited to its representation on the Board. In fiscal year 2006, the District paid \$2,512 to the Council. Financial information can be obtained by contacting David Cottrell, Executive Secretary, at the Ohio Schools' Council at 6133 Rockside Road, Suite 10, Independence, Ohio 44131.

The District participates in the Council's electric purchasing program, which was implemented during fiscal year 1998. This program allows school districts to purchase electricity at reduced rates, if the school districts will commit to participating for an eight year period. The participants make monthly payments based upon estimated usage. Each June these estimated payments are compared to their actual usage for the year and any necessary adjustments are made.

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

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NOTE 16: **JOINTLY GOVERNED ORGANIZATION** (Continued)

Energy Acquisition Corporation, a non-profit corporation with a self-appointing board, issued \$119,140,000 in debt to repurchase eight years of electricity from Cleveland Electric Illuminating (CEI) for the participants. The participating school districts are not obligated in any manner for this debt. If a participating school district terminates the agreement, the school district is required to repay the savings to CEI and CEI will refund the remaining prepayment related to that participant to Energy Acquisition Corporation.

NOTE 17: **CONTINGENCIES**

A. **Grants**

The District received financial assistance from federal, state, and local agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2006.

B. **Litigation**

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

C. **Property Tax Refunds**

On November 6, 1998, the Ohio Board of Tax Appeals issued its decision in the case of Duquesne Light Company, an electric utility and part owner of the Perry Nuclear Power Plant. The decision ordered personal property refunds based on reductions in taxable value of about \$145,000 million. The decision was immediately appealed to the Ohio Supreme Court.

The implications raised by Duquesne are far reaching and can result in refund claims for 1998-1993 and additional claims being filed by other electric companies and other utilities. As of the date of these financial statements, the District is unable to determine what effect, if any, this decision will have on tax revenue or possible payments of tax refunds.

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

**NOTE 18: 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.

**NOTE 19: INTERFUND TRANSACTIONS**

As of June 30, 2006, interfund transfers were as follows:

	<u>Transfer to</u>	<u>Transfer from</u>
General Fund	\$ 0	\$ 168,429
Nonmajor Governmental Funds	1,440,394	1,271,965
Totals	\$ 1,440,394	\$ 1,440,394

Transfers were made to provide additional resources for current operations. Transfers of \$1,440,394 were eliminated since they were within the governmental-type activity.

As of June 30, 2006, Internal balances were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Special Revenue-IDEA (B)	\$ 2,000
Food Service	General Fund	8,608
		\$ 10,608

The amounts payable to the general fund relate to working capital loans made to the IDEA (B) fund until the grant funds are received. The general fund payable of \$8,608 to the food service fund for interest income is to be paid in the subsequent year.



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

**NOTE 20: SET ASIDE REQUIREMENTS**

The District is required by State statute to annually set aside in the general fund an amount 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 the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years. In prior years, the District was also required to set aside money for budget stabilization. At June 30, 2006, only the unspent portion of certain workers' compensation refunds continue to be a set-aside.

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

	<u>Textbooks</u>	<u>Capital Improvements</u>	<u>Budget Stabilization</u>
Set-Aside Reserve Balance as of June 30, 2005	\$ (1,050,737)	\$ 0	\$ 585,565
Current Year Set-Aside Requirements	672,086	672,086	0
Qualifying Disbursements	<u>(1,019,854)</u>	<u>(2,456,327)</u>	<u>0</u>
Total	<u>\$ (1,398,505)</u>	<u>\$ (1,784,241)</u>	<u>\$ 585,565</u>
Set-Aside Balances Carried			
Forward to Future Years	<u>\$ (1,398,505)</u>	<u>\$ 0</u>	<u>\$ 585,565</u>
Set-Aside Reserve Balance as of June 30, 2006	<u>\$ (1,398,505)</u>	<u>\$ 0</u>	<u>\$ 585,565</u>

The District had qualifying expenditures during the fiscal year that reduced the textbooks set-aside amount below zero. This amount may be used to reduce the set-aside requirements of future years. Although the District had qualifying disbursements during the year that reduced the capital improvements set-aside amount below zero, these extra amounts may not be used to reduce the set-aside requirement in future years.

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

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**NOTE 21: OSBA GROUP RATING PROGRAM**

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 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.

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

<b>Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grantor Number</b>	<b>Cash Receipts</b>	<b>Cash Disbursements</b>
<b><u>U.S. Department of Agriculture</u></b>				
<b>Passed through State Department of Education</b>				
<i>Child Nutrition Cluster</i>				
Food Distribution Program	10.550	Not Available	\$ 46,258	\$ 46,258
School Breakfast Program	10.553	047894-05-PU-2006	77,171	77,171
School Lunch Program	10.555	047894-LLP4-2006	<u>239,876</u>	<u>239,876</u>
<i>Total Child Nutrition Cluster</i>			<u>363,305</u>	<u>363,305</u>
<b>Total U.S. Department of Agriculture</b>			<u>363,305</u>	<u>363,305</u>
<b><u>U.S. Department of Health and Human Services</u></b>				
<b>Passed through Ohio Department of MR/DD</b>				
Community Alternative Funding System	93.778	Not Available	<u>7,860</u>	<u>7,860</u>
<b>Total U.S. Department of Health and Human Services</b>			<u>7,860</u>	<u>7,860</u>
<b><u>U.S. Department of Education</u></b>				
<b>Passed through State Department of Education</b>				
Title I School Subsidy	84.010	047894-C1-S1-2006	<u>220,153</u>	<u>220,153</u>
<i>Special Education Cluster</i>				
SE-IDEA Part B FY 05	84.027	047894-6BSF-2005-P	6,296	60,552
SE-IDEA Part B FY 06	84.027	047894-6BSF-2006-P	<u>840,148</u>	<u>681,008</u>
			<u>846,444</u>	<u>741,560</u>
Early Childhood SE IDEA FY 04	84.173	047894-PGS1-2006-P	<u>29,990</u>	<u>29,990</u>
<i>Total Special Education Cluster</i>			<u>876,434</u>	<u>771,550</u>
Title IV-A Safe/Drug Free	84.186	047894-DR-S1-2005	<u>14,374</u>	<u>14,374</u>
Title V FY05	84.298	047894-C2S1-2005	(1,885)	887
Title V FY06	84.298	047894-C2S1-2006	<u>17,548</u>	<u>15,769</u>
			<u>15,663</u>	<u>16,656</u>
Title II-D Technology FY05	84.318	047894-TJS1-2005	0	3,226
Title II-D Technology FY06	84.318	047894-TJS1-2006	<u>4,006</u>	<u>3,847</u>
			<u>4,006</u>	<u>7,073</u>
Title II-A FY05	84.367	047894-TRS1-2005	4,202	13,792
Title II-A FY06	84.367	047894-TRS1-2006	<u>130,676</u>	<u>124,939</u>
			<u>134,878</u>	<u>138,731</u>
Smaller Learning Communities	84.215	Not Available	<u>15,274</u>	<u>16,882</u>
Hurricane Education Recovery	84.938	047894-HR01-2006	<u>15,000</u>	<u>15,000</u>
<b>Total U.S. Department of Education</b>			<u>1,295,782</u>	<u>1,200,419</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u>\$1,666,947</u>	<u>\$ 1,571,584</u>

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

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

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**NOTE 1: BASIS OF PRESENTATION**

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

**NOTE 2: NONCASH SUPPORT**

The District receives noncash support in the form of food subsidies from the National School Lunch Program (NSLP), CFDA 10.550. The value of the food subsidies is determined by using the fair market value of the food items as quoted by local food suppliers.

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

*Certified Public Accountants*

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

*Garfield Hts., Ohio 44125*

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

Board of Education  
Painesville Township Local School District  
Painesville Township, Ohio

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Painesville Township Local School District, Ohio, as of and for the year ended June 30, 2006, which collectively comprise the Painesville Township Local School District, Ohio's basic financial statements and have issued our report thereon dated November 13, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Painesville Township Local School District, Ohio's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, the Board of Education, and Federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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

November 13, 2006

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

*Certified Public Accountants*

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

*Garfield Hts., Ohio 44125*

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

Board of Education  
Painesville Township Local School District  
Painesville Township, Ohio

**Compliance**

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

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

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

### **Internal Control Over Compliance**

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

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

This report is intended solely for the information and use of the audit committee, management, the Board of Education, and Federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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

November 13, 2006



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

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

2006(i)	Type of Financial Statement Opinion	Unqualified
2006(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
2006(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
2006(iii)	Was there any reported noncompliance at the financial statement level (GAGAS)?	No
2006(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
2006(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
2006(v)	Type of Major Program's Compliance Opinion	Unqualified
2006(vi)	Are there any reportable findings under .510?	No
2006(vii)	Major Programs (list): Special Education-IDEA, Part B Child Nutrition Cluster	CFDA #84.027 and 84.173 CFDA #10.553, #10.550, and #10.555
2006(viii)	Dollar Threshold: Type A\B Program	Type A: \$300,000 or more Type B: All others less than \$300,000
2006(ix)	Low Risk Auditee?	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.

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

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The prior audit report, as of December 31, 2005, included no reportable conditions or citations. The management letter recommendation has been corrected, or procedures instituted to prevent occurrences in this audit period.



**Mary Taylor, CPA**  
Auditor of State

**PAINESVILLE TOWNSHIP 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  
JANUARY 30, 2007**