

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT
LAKE COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2005



**Auditor of State
Betty Montgomery**

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT
LAKE COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Painesville City Local School District, Lake County, Ohio, (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Painesville City Local School District, Lake County, Ohio, as of June 30, 2005, and the respective changes in financial position and where applicable, cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 19, the District restated cash with a fiscal agent at July 1, 2004 in the Internal Service fund.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 28, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

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

Betty Montgomery
Auditor of State

April 28, 2006

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT
LAKE COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2005
(Unaudited)**

The discussion and analysis of Painesville City Local School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the District's performance.

Financial Highlights

Key financial highlights for fiscal year 2005 are as follows:

- Net assets of governmental activities increased \$1,256,089 which represents a 14.1% increase from 2004.
- General revenues accounted for \$27,289,884 in revenue or 76.6% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$8,350,158 or 23.4% of total revenues of \$35,640,042.
- Total assets of governmental activities increased by \$10,949,672 as taxes receivable increased by \$940,763 while cash and other receivables increased by \$6,931,850.
- The District had \$34,383,953 in expenses related to governmental activities; only \$8,350,158 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$27,289,884 were also used to provide for these programs.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

Government-wide Financial Statements

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2005?" The Government-wide Financial Statements answer this question. These statements include *all assets* and *liabilities* using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the Government-wide Financial Statements, the overall financial position of the District is presented in the following manner:

- Governmental Activities – Most of the District's programs and services are reported here including instruction, support services, operation of non-instructional services, extracurricular activities, pupil transportation, food service, childcare, and fiscal and interest charges.

Fund Financial Statements

The analysis of the District's major funds are presented in the Fund Financial Statements. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds.

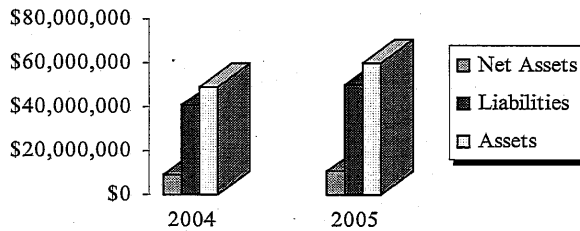
Governmental Funds Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual*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

The District as a Whole

Recall that the Statement of Net Assets provides the perspective of the District as a whole.

Table 1 provides a summary of the District’s net assets for 2004 compared to 2005:

	Table 1 Net Assets	
	Governmental Activities	
	2004 Restated	2005
Assets		
Current Assets	\$45,648,808	\$53,523,961
Capital Assets	3,724,541	6,799,060
Total Assets	49,373,349	60,323,021
Liabilities		
Long-Term Liabilities	26,231,514	34,319,821
Other Liabilities	14,210,980	15,816,256
Total Liabilities	40,442,494	50,136,077
Net Assets		
Invested in Capital		
Assets Net of Debt	2,096,900	2,233,047
Restricted	1,446,261	5,337,045
Unrestricted	5,387,694	2,616,852
Total Net Assets	\$8,930,855	\$10,186,944



Over time, net assets can serve as a useful indicator of a government’s financial position. At June 30, 2005, the District’s assets exceeded liabilities by \$10,186,994. Current assets increased due to more equity in pooled cash and investments resulting from the issuance of debt.

At year-end, capital assets represented 11.3% of total assets. Capital assets include land, construction in progress, buildings and improvements, and equipment. Capital assets, net of related debt to acquire the assets at June 30, 2005, was \$2,233,047. These capital assets are used to provide services to the students and are not available for future spending. Although the District’s investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

Table 2 shows the change in net assets for fiscal years 2004 and 2005.

Table 2
Changes in Net Assets

	Governmental Activities	
	2004 Restated	2005
Revenues		
Program Revenues:		
Charges for Services	\$654,301	\$1,568,421
Operating Grants	5,353,963	5,629,452
Capital Grants	10,940	1,152,285
General Revenue:		
Property Taxes	11,735,386	11,564,322
Grants and Entitlements	14,033,386	14,691,560
Other	393,712	1,034,002
Total Revenues	<u>32,181,688</u>	<u>35,640,042</u>
Program Expenses:		
Instruction	17,329,221	18,269,663
Support Services:		
Pupil and Instructional Staff	4,044,468	4,577,149
General and School Administrative, Fiscal and Business	3,775,784	4,122,592
Operations and Maintenance	2,267,585	2,637,724
Pupil Transportation	1,293,033	1,296,280
Central	295,422	278,294
Operation of Non-Instructional Services	1,424,753	1,757,938
Extracurricular Activities	549,212	582,259
Interest and Fiscal Charges	58,988	862,054
Total Expenses	<u>31,038,466</u>	<u>34,383,953</u>
Change in Net Assets	1,143,222	1,256,089
Beginning Net Assets	<u>7,787,633</u>	<u>8,930,855</u>
Ending Net Assets	<u>\$8,930,855</u>	<u>\$10,186,944</u>

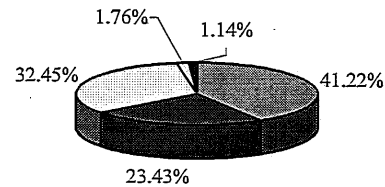
Governmental Activities

The District revenues are mainly from two sources. Property taxes levied for general purposes, debt service and capital projects and grants and entitlements comprised 73.7% of the District's revenues for governmental activities.

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

Thus Ohio districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to the voters to maintain a constant level of service. Property taxes made up 32.5% of revenue for governmental activities for the District in fiscal year 2005.

Revenue Sources	2005	Percent of Total
General Grants	\$14,691,560	41.22%
Program Revenues	8,350,158	23.43%
General Tax Revenues	11,564,322	32.45%
Investment Earnings	626,093	1.76%
Other Revenues	407,909	1.14%
	<u>\$35,640,042</u>	<u>100.00%</u>



Instruction comprises 53.1% of governmental program expenses. Support services expenses were 37.6% of governmental program expenses. All other expenses and interest expense was 9.3%. Interest expense was attributable to the outstanding bond and borrowing for capital projects.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government activities, the total cost of services and the net cost of services. These services are mainly supported by tax revenue and unrestricted State entitlements.

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2004 Restated	2005	2004 Restated	2005
Instruction	\$17,329,221	\$18,269,663	(\$15,048,080)	(\$13,642,603)
Support Services:				
Pupil and Instructional Staff	4,044,468	4,577,149	(2,490,540)	(2,720,493)
General and School Administrative, Fiscal and Business	3,775,784	4,122,592	(3,541,356)	(3,966,007)
Operations and Maintenance	2,267,585	2,637,724	(2,249,639)	(2,582,097)
Pupil Transportation	1,293,033	1,296,280	(1,259,587)	(1,275,168)
Central	295,422	278,294	(295,422)	(278,294)
Operation of Non-Instructional Services	1,424,753	1,757,938	284,461	(335,555)
Extracurricular Activities	549,212	582,259	(360,111)	(371,524)
Interest and Fiscal Charges	58,988	862,054	(58,988)	(862,054)
Total Expenses	<u>\$31,038,466</u>	<u>\$34,383,953</u>	<u>(\$25,019,262)</u>	<u>(\$26,033,795)</u>

The District's Funds

The District has four major governmental funds: the General Fund, Debt Service Fund and two Capital Projects Funds. Assets of these funds comprised \$50,584,892 (96%) of the total \$52,577,406 governmental funds assets.

General Fund: Fund balance at June 30, 2005 was \$5,855,609, including \$2,797,741 of unreserved balance, which represents 11% of expenditures for fiscal year 2005. The primary reasons for the decrease in fund balance were inflationary increases in expenditures.

Debt Service Fund: Fund balance at June 30, 2005 was \$599,782. The current year change in fund balance was \$406,492.

Building Fund: The net change in fund balance for fiscal year 2005 was (\$11,891,099) and relates to expenditures for construction of the new schools. The primary reason for the decrease in fund balance was due to transfers out to classroom facilities fund.

Classroom Facilities Fund: The net change in fund balance for fiscal year 2005 was \$18,163,232. The net assets of this fund will be used for the construction of the new schools. The increase in net assets was due to transfers in from the building fund.

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 2005, the District amended its general fund budget numerous times, however none were significant. The District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management. During the course of the year, the District revised the Budget in an attempt to deal with unexpected changes in revenues and expenditures.

For the General Fund, budget basis revenue was \$26,696,031, compare to original budget estimates of \$27,142,567. Of this \$446,536 difference, most was due to estimates for taxes and intergovernmental revenue.

The District's ending unobligated cash balance was \$337,872 above the final budgeted amount.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2005, the District had \$6,799,060 invested in land, construction in progress, buildings and improvements and equipment. Table 4 shows fiscal 2005 balances compared to fiscal 2004:

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

	Governmental Activities	
	2004 Restated	2005
Land	\$114,355	\$2,437,458
Construction in Progress	0	944,628
Buildings and Improvements	2,094,316	1,980,743
Equipment	1,515,870	1,436,231
Total Net Capital Assets	<u>\$3,724,541</u>	<u>\$6,799,060</u>

The increase in capital assets is due mostly to the additions from land and construction in progress associated with the new schools. This District continues its ongoing commitment to maintaining and improving its capital assets.

See the notes to the basic financial statements for further details on the District's capital assets.

Debt

At June 30, 2005, the District had \$32,288,282 in debt outstanding, \$11,523,704 due within one year. Table 5 summarizes total debt outstanding.

Table 5
Outstanding Debt, at Year End

	Governmental Activities	
	2004	2005
General Obligation Bonds:		
School Improvement Bond	\$0	\$19,990,000
Bond Anticipation Note	23,000,000	0
Bond Anticipation Note	0	3,000,000
Bond Anticipation Note	0	8,000,000
Stadium Project - Refinancing	905,000	800,000
Notes Payable:		
Project - National City	327,830	303,017
Capital Lease Payable:		
Phone Lease	245,129	195,265
Total Outstanding Debt at Year End	<u>\$24,477,959</u>	<u>\$32,288,282</u>

See the notes to the basic financial statements for further details on the District's debt.

Economic Outlook

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

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

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

Contacting the District’s Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District’s finances and to show the District’s accountability for the money it receives. If you have questions about this report or need additional financial information, contact Rick Taylor, Treasurer at Painesville City Local School District, 58 Jefferson Street, Painesville, Ohio 44077. Or E-mail at pc_taylor@lgca.org.

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Painesville City Local School District
Statement of Net Assets
June 30, 2005

	<u>Governmental Activities</u>
Assets:	
Equity in Pooled Cash and Investments	\$38,759,222
Restricted Cash and Investments	538,690
Cash and Cash Equivalents with Fiscal Agent	1,042,395
Receivables:	
Taxes	12,161,634
Accounts	244,318
Intergovernmental	763,529
Inventory	14,173
Nondepreciable Capital Assets	3,382,086
Depreciable Capital Assets, Net	<u>3,416,974</u>
 Total Assets	 <u>60,323,021</u>
Liabilities:	
Accounts Payable	329,387
Accrued Wages and Benefits	4,297,104
Accrued Interest Payable	124,824
Deferred Revenue	10,542,508
Other Liabilities	14,317
Claims Payable	508,116
Long-Term Liabilities:	
Due Within One Year	11,928,617
Due In More Than One Year	<u>22,391,204</u>
 Total Liabilities	 <u>50,136,077</u>
Net Assets:	
Invested in Capital Assets, Net of Related Debt	2,233,047
Restricted for:	
Special Revenue	609,757
Capital Projects	4,621,820
Set-Aside	105,468
Unrestricted	<u>2,616,852</u>
 Total Net Assets	 <u>\$10,186,944</u>

See accompanying notes to the basic financial statements.

Painesville City Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2005

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Instruction:					
Regular	\$11,317,307	\$1,131,260	\$789,430	\$1,141,500	(\$8,255,117)
Special	3,486,737	0	1,520,430	0	(1,966,307)
Vocational	514,524	0	9,749	0	(504,775)
Other	2,951,095	290	34,401	0	(2,916,404)
Support Services:					
Pupil	2,218,926	24,700	858,238	0	(1,335,988)
Instructional Staff	2,358,223	5,242	968,476	0	(1,384,505)
General Administration	129,177	0	0	0	(129,177)
School Administration	3,351,509	0	156,585	0	(3,194,924)
Fiscal	561,708	0	0	0	(561,708)
Business	80,198	0	0	0	(80,198)
Operations and Maintenance	2,637,724	5,725	49,902	0	(2,582,097)
Pupil Transportation	1,296,280	2,129	8,198	10,785	(1,275,168)
Central	278,294	0	0	0	(278,294)
Operation of Non-Instructional Services	1,757,938	278,340	1,144,043	0	(335,555)
Extracurricular Activities	582,259	120,735	90,000	0	(371,524)
Interest and Fiscal Charges	862,054	0	0	0	(862,054)
Total Governmental Activities	\$34,383,953	\$1,568,421	\$5,629,452	\$1,152,285	(\$26,033,795)

General Revenues:	
Property Taxes Levied for:	
General Purposes	10,255,253
Debt Service Purposes	1,140,871
Capital Projects Purposes	168,198
Grants and Entitlements not Restricted to Specific Programs	14,691,560
Investment Earnings	626,093
Other Revenues	407,909
Total General Revenues	27,289,884
Change in Net Assets	1,256,089
Net Assets Beginning of Year (Restated)	8,930,855
Net Assets End of Year	\$10,186,944

See accompanying notes to the basic financial statements.

Painesville City Local School District
Balance Sheet
Governmental Funds
June 30, 2005

	General	Debt Service	Building	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Assets:						
Equity in Pooled Cash and Investments	\$8,014,630	\$439,460	\$11,127,068	\$18,163,232	\$1,014,832	\$38,759,222
Restricted Cash and Investments	538,690	0	0	0	0	538,690
Receivables:						
Taxes	9,901,492	2,062,621	0	0	197,521	12,161,634
Accounts	241,859	0	0	0	2,459	244,318
Intergovernmental	0	0	0	0	763,529	763,529
Interfund	95,840	0	0	0	0	95,840
Inventory	0	0	0	0	14,173	14,173
Total Assets	18,792,511	2,502,081	11,127,068	18,163,232	1,992,514	52,577,406
Liabilities and Fund Balances:						
Liabilities:						
Accounts Payable	184,134	0	7,000	0	138,253	329,387
Accrued Wages and Benefits	3,483,433	0	0	0	813,671	4,297,104
Compensated Absences	299,102	0	0	0	10,394	309,496
Accrued Interest Payable	0	30,488	18,667	0	0	49,155
Interfund Payable	0	0	0	0	95,840	95,840
Deferred Revenue	8,955,916	1,871,811	0	0	812,077	11,639,804
Other Liabilities	14,317	0	0	0	0	14,317
Total Liabilities	12,936,902	1,902,299	25,667	0	1,870,235	16,735,103
Fund Balances:						
Reserved for Encumbrances	1,573,602	0	2,548,073	0	477,715	4,599,390
Reserved for Inventory	0	0	0	0	14,173	14,173
Reserved for Property Tax Advances	945,576	190,810	0	0	18,383	1,154,769
Reserved for Budget Stabilization	105,468	0	0	0	0	105,468
Unreserved, Designated for Budget Stabilization	433,222	0	0	0	0	433,222
Unreserved, Undesignated, Reported in:						
General Fund	2,797,741	0	0	0	0	2,797,741
Special Revenue Funds	0	0	0	0	(441,780)	(441,780)
Debt Service Funds	0	408,972	0	0	0	408,972
Capital Projects Funds	0	0	8,553,328	18,163,232	53,788	26,770,348
Total Fund Balances	5,855,609	599,782	11,101,401	18,163,232	122,279	35,842,303
Total Liabilities and Fund Balances	\$18,792,511	\$2,502,081	\$11,127,068	\$18,163,232	\$1,992,514	\$52,577,406

See accompanying notes to the basic financial statements.

Painesville City Local School District
 Reconciliation of Total Governmental Fund Balance to
 Net Assets of Governmental Activities
 June 30, 2005

Total Governmental Fund Balance		\$35,842,303
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		6,799,060
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Delinquent Property Taxes	464,357	
Intergovernmental	<u>632,939</u>	
		1,097,296
An internal service fund is used by management to charge back costs to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		534,279
In the statement of net assets interest payable is accrued when incurred, whereas in the governmental funds interest is reported as a liability only when it will require the use of current financial resources.		(75,669)
Some liabilities reported in the statement of net assets do not require the use of current financial resources and therefore are not reported as liabilities in governmental funds.		
Compensated Absences	<u>(1,722,043)</u>	
		(1,722,043)
Long-term liabilities, are not due and payable in the current period and therefore are not reported in the funds.		<u>(32,288,282)</u>
Net Assets of Governmental Activities		<u><u>\$10,186,944</u></u>

See accompanying notes to the basic financial statements.

Painesville City Local School District
Statement of Revenues, Expenditures
and Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended June 30, 2005

	General	Debt Service	Building	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Revenues:						
Taxes	\$10,356,458	\$1,072,104	\$0	\$0	\$169,743	\$11,598,305
Tuition and Fees	1,110,183	0	0	0	27,363	1,137,546
Investment Earnings	164,096	31,345	225,837	191,194	13,621	626,093
Intergovernmental	14,595,901	110,179	0	1,141,500	5,077,529	20,925,109
Extracurricular Activities	4,488	0	0	0	122,322	126,810
Charges for Services	0	0	0	0	278,340	278,340
Other Revenues	439,948	0	0	0	64,329	504,277
Total Revenues	26,671,074	1,213,628	225,837	1,332,694	5,753,247	35,196,480
Expenditures:						
Current:						
Instruction:						
Regular	10,463,333	0	0	0	845,428	11,308,761
Special	2,286,998	0	0	0	1,152,684	3,439,682
Vocational	492,223	0	0	0	6,366	498,589
Other	2,896,708	0	0	0	54,387	2,951,095
Support Services:						
Pupil	1,274,380	0	0	0	925,321	2,199,701
Instructional Staff	1,215,067	0	0	0	1,098,217	2,313,284
General Administration	128,207	0	0	0	0	128,207
School Administration	3,032,245	0	0	0	277,512	3,309,757
Fiscal	535,396	15,523	0	0	2,432	553,351
Business	80,198	0	0	0	0	80,198
Operations and Maintenance	2,345,611	0	0	0	145,377	2,490,988
Pupil Transportation	1,161,344	0	0	0	20,177	1,181,521
Central	276,194	0	0	0	224	276,418
Operation of Non-Instructional Services	20,437	0	0	0	1,686,862	1,707,299
Extracurricular Activities	395,985	0	0	0	157,870	553,855
Capital Outlay	420,779	0	2,431,269	836,462	0	3,688,510
Debt Service:						
Principal Retirement	49,864	23,129,813	0	0	0	23,179,677
Interest and Fiscal Charges	11,014	760,356	18,667	0	0	790,037
Total Expenditures	27,085,983	23,905,692	2,449,936	836,462	6,372,857	60,650,930
Excess of Revenues Over (Under) Expenditures	(414,909)	(22,692,064)	(2,224,099)	496,232	(619,610)	(25,454,450)
Other Financing Sources (Uses):						
Proceeds from Sale of Capital Assets	950	0	0	0	0	950
Proceeds of Long-Term Capital-Related Debt	0	22,990,000	8,000,000	0	0	30,990,000
Transfers In	0	108,556	0	17,667,000	200,319	17,975,875
Transfers (Out)	(184,946)	0	(17,667,000)	0	(123,929)	(17,975,875)
Total Other Financing Sources (Uses)	(183,996)	23,098,556	(9,667,000)	17,667,000	76,390	30,990,950
Net Change in Fund Balance	(598,905)	406,492	(11,891,099)	18,163,232	(543,220)	5,536,500
Fund Balance Beginning of Year (Restated)	6,454,514	193,290	22,992,500	0	665,499	30,305,803
Fund Balance End of Year	\$5,855,609	\$599,782	\$11,101,401	\$18,163,232	\$122,279	\$35,842,303

See accompanying notes to the basic financial statements.

Painesville City Local School District
 Reconciliation of the Statement of Revenues, Expenditures, and Changes
 in Fund Balance of Governmental Funds to the Statement of Activities
 For the Fiscal Year Ended June 30, 2005

Net Change in Fund Balance - Total Governmental Funds \$5,536,500

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

Governmental funds report capital asset additions as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of the difference between capital asset additions and depreciation in the current period.

Capital assets used in governmental activities	3,603,730	
Depreciation Expense	<u>(524,304)</u>	3,079,426

Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. The amount of the proceeds must be removed and the gain or loss on the disposal of capital assets must be recognized. This is the amount of the difference between the proceeds and the gain or loss.

(4,907)

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

Delinquent Property Taxes	(34,975)	
Intergovernmental	<u>482,494</u>	447,519

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

23,179,677

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

(72,017)

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

Compensated Absences	<u>(146,536)</u>	(146,536)
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The internal service fund used by management to charge back costs to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.

226,427

Proceeds from debt issues are an other financing source in the funds, but a debt issue increases long-term liabilities in the statement of net assets.

(30,990,000)

Change in Net Assets of Governmental Activities \$1,256,089

See accompanying notes to the basic financial statements.

Painesville City Local School District
Statement of Net Assets
Proprietary Funds
June 30, 2005

	<u>Governmental Activities- Internal Service Fund</u>
Assets:	
Cash and Cash Equivalents with Fiscal Agent	<u>\$1,042,395</u>
Total Current Assets	<u>1,042,395</u>
Total Assets	<u>1,042,395</u>
Liabilities:	
Current Liabilities:	
Claims Payable	<u>508,116</u>
Total Liabilities	<u>508,116</u>
Net Assets:	
Unrestricted	<u>534,279</u>
Total Net Assets	<u><u>\$534,279</u></u>

See accompanying notes to the basic financial statements.

Painesville City Local School District
Statement of Revenues, Expenses
and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2005

	<u>Governmental Activities- Internal Service Fund</u>
Operating Revenues:	
Charges for Services	<u>\$2,731,195</u>
Total Operating Revenues	<u>2,731,195</u>
Operating Expenses:	
Contactual Services	<u>2,504,768</u>
Total Operating Expenses	<u>2,504,768</u>
Operating Income (Loss)	<u>226,427</u>
Change in Net Assets	226,427
Net Assets Beginning of Year (Restated)	<u>307,852</u>
Net Assets End of Year	<u><u>\$534,279</u></u>

See accompanying notes to the basic financial statements.

Painesville City Local School District
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2005

	Governmental Activities- Internal Service Fund
Cash Flows from Operating Activities:	
Cash Received from Customers	\$2,731,195
Cash Payments to Suppliers	<u>(2,392,937)</u>
Net Cash Provided (Used) by Operating Activities	<u>338,258</u>
Net Increase (Decrease) in Cash and Cash Equivalents	338,258
Cash and Cash Equivalents Beginning of Year	<u>704,137</u>
Cash and Cash Equivalents End of Year	<u><u>1,042,395</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Operating Income (Loss)	226,427
Changes in Assets & Liabilities:	
Increase (Decrease) in Payables	<u>111,831</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$338,258</u></u>

See accompanying notes to the basic financial statements.

Painesville City Local School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2005

	Private Purpose Trust	Agency
Assets:		
Equity in Pooled Cash and Investments	\$13,504	\$44,106
Receivables:		
Accounts	0	460
Total Assets	<u>13,504</u>	<u>\$44,566</u>
Liabilities:		
Accounts Payable	0	262
Other Liabilities	0	44,304
Total Liabilities	<u>0</u>	<u>\$44,566</u>
Net Assets:		
Held in Trust	<u>13,504</u>	
Total Net Assets	<u>\$13,504</u>	

See accompanying notes to the basic financial statements.

Painesville City Local School District
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2005

	Private Purpose Trust
Additions:	
Investment Earnings	\$207
Donations	1,530
Total Additions	<u>1,737</u>
Deductions:	
Scholarships	<u>1,598</u>
Total Deductions	<u>1,598</u>
Change in Net Assets	139
Net Assets Beginning of Year	<u>13,365</u>
Net Assets End of Year	<u>\$13,504</u>

See accompanying notes to the basic financial statements.

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT
LAKE COUNTY, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2005**

1. DESCRIPTION OF THE DISTRICT

The Painesville City Local School District (the "District") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a local district as defined by Section 3311.03 of the Ohio Revised Code. The District operates under a five member elected Board of Education and is responsible for the provision of public education to residents of the District.

The District is located in Lake County.

Average daily membership (ADM) as of June 1, 2005 was 2,754. The District employed 220 certificated employees and 201 noncertificated employees. It currently operates seven instructional facilities.

REPORTING ENTITY

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

FUND ACCOUNTING

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

Governmental Funds

Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major governmental funds:

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

Debt Service Fund – The debt service fund is used to account for the accumulation of resources for the payment of general obligation bond principal and interest and certain other long-term obligations from governmental resources when the District is obligated in some manner for the payment.

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

Classroom Facilities Fund – The classroom facilities fund is used to account for construction projects related to new classroom facilities.

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

Proprietary Fund

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

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

Fiduciary Funds

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

MEASUREMENT FOCUS

Government-wide Financial Statements

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

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements

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

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

Fiduciary Funds are reported using the economic resources measurement focus.

BASIS OF ACCOUNTING

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

Revenues – Exchange and Non-exchange Transactions

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

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

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

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures

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

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

EQUITY IN POOLED CASH AND INVESTMENTS

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

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

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2005. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company but does operate in a manner consistent with Rule 2A7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2005.

Following Ohio statutes, the Board has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during the fiscal year amounted to \$164,096, which includes \$62,356 assigned from other School District funds.

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

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

INTERFUND ASSETS/LIABILITIES

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund loan receivables/payables". These amounts are eliminated in the governmental activities column on the Statement of Net Assets.

INVENTORY

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

CAPITAL ASSETS

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars (\$1,000). The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized.

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

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

COMPENSATED ABSENCES

The District reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means. The District records a liability for accumulated unused vacation time, when earned, for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. Compensated absences are reported in governmental funds only if they have matured.

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

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

ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

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

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

NET ASSETS

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

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

ESTIMATES

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

OPERATING REVENUES AND EXPENSES

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are charges for services for the primary activity of the fund. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund.

INTERFUND ACTIVITY

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

BUDGETARY PROCESS

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

Tax Budget

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

Estimated Resources

Prior to April 1, the Board accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the Commission's certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the amended certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2005.

Appropriations

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

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

Encumbrances

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

Lapsing of Appropriations

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

FUND EQUITY

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

3. EQUITY IN POOLED CASH AND INVESTMENTS

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the statement of net assets and balance sheet as "Equity in Pooled Cash and Investments."

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

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

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

Interim Monies – Those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Ohio law permits interim monies to be invested or deposited in the following securities:

- (1) Bonds, notes, or other obligations of or guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest.
- (2) Bonds, notes, debentures, or other obligations or securities issued by any federal governmental agency.
- (3) No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions.
- (4) Interim deposits in the eligible institutions applying for interim monies to be evidenced by time certificates of deposit maturing not more than one year from date of deposit, or by savings or deposit accounts, including, but limited to, passbook accounts.
- (5) Bonds, and other obligations of the State of Ohio.
- (6) The Ohio State Treasurer's investment pool (STAR Ohio).
- (7) Commercial paper and banker's acceptances which meet the requirements established by Ohio Revised Code, Sec. 135.142.

- (8) Under limited circumstances, corporate debt interests in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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".

At year end, the District's internal service fund had a cash balance of \$1,042,395 with Lake County Council of Governments Health Care Benefits Program, a shared risk pool. The money is held by the claims servicer in a pooled account which is representative of numerous entities and, therefore, cannot be classified by risk under GASB No. 3. The classification of cash and cash equivalents and investments for the Lake County Council of Governments Health Care Benefits Program Self Insurance Plan as a whole may be obtained from the Plan's fiscal agent, the Lake County Educational Service Center, 30 South Park Place, Suite 30, Painesville, Ohio 44077.

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's policy for deposits is any balance not covered by depository insurance will be collateralized by the financial institutions with pledged securities. As of June 30, 2005, \$181,542 of the District's bank balance of \$281,542 was exposed to custodial risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

Ohio Revised Code Chapter 135, Uniform Depository Act, authorizes pledging of pooled securities in lieu of specific securities. Specifically, a designated public depository may pledge a single pool of eligible securities to secure repayment of all public monies deposited in the financial institution, provided that all times the total value of the securities so pledged is at least equal to 105% of the total amount of all public deposits secured by the pool, including the portion of such deposits covered by any federal deposit insurance.

Investments

Investments are reported at fair value. As of June 30, 2005, the District had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighed Average Maturity (Years)</u>
Federal Agency Notes	\$25,591,836	0.76
Money Market Accounts	11,665,844	0.00
STAR Ohio	<u>2,258,899</u>	0.00
Total Fair Value	<u>\$39,516,579</u>	
Portfolio Weighted Average Maturity		0.49

Interest rate risk - In accordance with the investment policy, the District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to three years.

Credit Risk – It is the District’s policy to limit its investments that are not obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government to investments which have a credit quality rating of the top 2 ratings issued by nationally recognized statistical rating organizations. The District’s investments in Federal Agencies and in the Money Market Funds were rated AAA by Standard & Poor’s and Fitch Ratings and Aaa by Moody’s Investors Service. Investments in STAR Ohio were rated AAA by Standard& Poor’s.

Concentration of credit risk – The District’s investment policy allows investments in Federal Agencies or Instrumentalities. All investments were issued or guaranteed by the federal government. At year end, the District’s allocation of investments were as follows: Federal Agency Notes (65%), Money Market Accounts (30%) and STAROhio (5%).

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. All of the District’s securities are either insured and registered in the name of the District or at least registered in the name of the District.

4. PROPERTY TAXES

Real property taxes collected in 2005 were levied in April on the assessed values as of January 1, 2004, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. A re-evaluation of real property is required to be completed no less than every six years, with a statistical update every third year. The most recent re-evaluation was completed in January, 2003.

Tangible personal property tax is assessed on equipment and inventory held by businesses. Tangible property is assessed at 25 percent of true value for capital assets and 23 percent of true value for inventory. In 2005, each business was eligible to receive a \$10,000 exemption in assessed value which was reimbursed by the State.

Real property taxes are payable annually or semi-annually. In 2005, if paid annually, payment was due by January 20th. If paid semi-annually, the first payment (at least 1/2 amount billed) was due January 20th with the remainder due on June 20th.

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

Accrued property taxes receivable represents delinquent taxes outstanding and real property, personal property and public utility taxes which became measurable at June 30, 2005. Delinquent property taxes collected within 60 days are included as a receivable and tax revenue as of June 30, 2005. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is available to finance current year operations. The receivable is, therefore, offset by a credit to deferred revenue for that portion not intended to finance current year operations.

The amount available as an advance at June 30, 2005, was \$945,576 for General Fund, \$190,810 for Debt Service Fund and \$18,383 for Other Nonmajor Governmental Funds, and is recognized as revenue, with a corresponding reserve to fund balance since the Board did not appropriate these receivables for fiscal year 2005 operations. The amount available for advance at June 30, 2004 was \$1,333,876 for General Fund and \$44,715 for Nonmajor, with a corresponding reserve to fund balance since the Board did not appropriate those receivables for fiscal year 2004 operations. The decrease in advances available is a result of how the County collected its funds.

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

The assessed values upon which the fiscal year 2005 taxes were collected are:

	<u>First Half Amount</u>	<u>Second Half Amount</u>
Agricultural/Residential and Other Real Estate	\$209,702,730	\$213,326,930
Public Utility Personal	5,575,470	4,553,320
Tangible Personal Property	<u>29,718,924</u>	<u>25,567,322</u>
Total	<u>\$244,997,124</u>	<u>\$243,447,572</u>

5. RECEIVABLES

Receivables at June 30, 2005, consisted of taxes, accounts (rent and student fees), intergovernmental grants and interfund. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

6. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	<u>Beginning Balance Restated</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Governmental Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	\$114,355	\$2,323,103	\$0	\$2,437,458
Construction in Progress	<u>0</u>	<u>944,628</u>	<u>0</u>	<u>944,628</u>
Total Capital Assets, not being depreciated	<u>114,355</u>	<u>3,267,731</u>	<u>0</u>	<u>3,382,086</u>
<i>Capital Assets, being depreciated:</i>				
Buildings and Improvements	7,907,897	0	0	7,907,897
Equipment	<u>5,311,894</u>	<u>335,999</u>	<u>(210,694)</u>	<u>5,437,199</u>
Total Capital Assets, being depreciated:	<u>13,219,791</u>	<u>335,999</u>	<u>(210,694)</u>	<u>13,345,096</u>
Totals at Historical Cost	<u>\$13,334,146</u>	<u>\$3,603,730</u>	<u>(\$210,694)</u>	<u>\$16,727,182</u>
Less Accumulated Depreciation:				
Buildings and Improvements	5,813,581	113,573	0	5,927,154
Equipment	<u>3,796,024</u>	<u>410,731</u>	<u>(205,787)</u>	<u>4,000,968</u>
Total Accumulated Depreciation	<u>9,609,605</u>	<u>524,304</u>	<u>(205,787)</u>	<u>9,928,122</u>
Governmental Activities Capital Assets, Net	<u>\$3,724,541</u>	<u>\$3,079,426</u>	<u>(\$4,907)</u>	<u>\$6,799,060</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:		
Regular		\$167,251
Special		10,660
Vocational		5,827
Support Services:		
Pupils		6,669
Instructional Staff		22,459
General Administration		970
School Administration		15,049
Fiscal		2,071
Operations and Maintenance		113,792
Pupil Transportation		105,143
Central		576
Operation of Non-Instructional Services		45,433
Extracurricular Activities		28,404
Total Depreciation Expense		<u>\$524,304</u>

7. LONG-TERM LIABILITIES

	<u>Maturity Dates</u>	<u>Beginning Principal Outstanding</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Principal Outstanding</u>	<u>Due In One Year</u>
Governmental Activities:						
General Obligation Bonds:						
Bond Anticipation Notes-OSFC 1.76%	2/17/04	\$23,000,000	\$0	\$23,000,000	\$0	\$0
Bond Anticipation Notes- 2.71%	02/16/06	0	3,000,000	0	3,000,000	3,000,000
Bond Anticipation Notes- 2.80%	02/16/06	0	8,000,000	0	8,000,000	8,000,000
School Improvement Bonds						
2004 4.62%	12/1/32	0	19,990,000	0	19,990,000	340,000
Stadium Project-Refinancing 2002 1.60-3.55%	6/01/14	905,000	0	105,000	800,000	105,000
Notes Payable	6/01/14	327,830	0	24,813	303,017	26,315
Capital Leases	6/01/09	<u>245,129</u>	<u>0</u>	<u>49,864</u>	<u>195,265</u>	<u>52,389</u>
Total Long-Term Debt		24,477,959	30,990,000	23,179,677	32,288,282	11,523,704
Compensated Absences		<u>1,753,555</u>	<u>595,390</u>	<u>317,406</u>	<u>2,031,539</u>	<u>404,913</u>
Total Governmental Activities Long-Term Liabilities		<u>\$26,231,514</u>	<u>\$31,585,390</u>	<u>\$23,497,083</u>	<u>\$34,319,821</u>	<u>\$11,928,617</u>

The bond anticipation notes were refinanced subsequent to year end.

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

<u>General Obligation Bonds and Notes</u>			
Fiscal Year Ending June 30	Principal	Interest	Total
2006	\$11,471,315	\$1,184,274	\$12,655,589
2007	552,907	901,542	1,454,449
2008	564,595	886,630	1,451,225
2009	586,386	870,330	1,456,716
2010	603,284	852,026	1,455,310
2011-2015	2,929,530	4,045,054	6,974,584
2016-2020	3,085,000	3,297,702	6,382,702
2021-2025	3,880,000	2,491,090	6,371,090
2026-2030	4,880,000	1,460,195	6,340,195
2031-2033	3,540,000	257,443	3,797,443
Total	<u>\$32,093,017</u>	<u>\$16,246,286</u>	<u>\$48,339,303</u>

In May 2005, the District issued \$8,000,000 in bond anticipation notes with an interest rate of 2.8%. Proceeds will be used to fund construction of new schools.

In February 2005, the District issued a \$3,000,000 school improvement bond anticipation note with an interest rate of 2.71%. Proceeds will be used to fund construction of new schools.

In December 2004, the District issued \$19,990,000 in general obligation bonds, with interest at 4.62%. Proceeds are being used to fund construction of a new schools.

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

8. LEASES

CAPITAL LEASES

The District has a capital lease for June 30, 2005 for a phone system.

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

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

Fiscal Year <u>Ending June 30,</u>	Long-Term <u>Debt</u>
2006	\$60,878
2007	60,878
2008	60,878
2009	<u>30,439</u>
Total Minimum Lease Payments	213,073
Less: Amount Representing Interest	<u>(17,808)</u>
Present Value of Minimum Lease Payments	<u>\$195,265</u>

9. PENSION PLANS

SCHOOL EMPLOYEES RETIREMENT SYSTEM

The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476 or by calling 216-222-5853.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$520,642, \$541,368, and \$537,732 respectively; 48.0% has been contributed for fiscal year 2005 and 100% for fiscal year 2004 and 2003.

STATE TEACHERS RETIREMENT SYSTEM

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

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

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

For the fiscal year ended June 30, 2005, plan members were required to contribute 10% of their annual covered salaries. The District was required to contribute 14%; 13% was the portion used to fund pension obligations. For fiscal year 2003 the portion used to fund pension obligations was 9.3%. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for members and employer contributions.

The District's required contributions for pension obligations for the fiscal years ended June 30, 2005, 2004, and 2003 were \$1,841,710, \$1,721,736, and \$1,648,044 respectively; 81.0% has been contributed for fiscal year 2005 and 100% for fiscal year 2004 and 2003.

10. POST EMPLOYMENT BENEFITS

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

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, 2005, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$141,670 for fiscal year 2005.

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

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004. 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 2005, the minimum pay was established at \$27,400. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2005 fiscal year, District paid \$218,172 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. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004 (the latest information available), were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

11. CONTINGENT LIABILITIES

GRANTS

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

However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District as of June 30, 2005.

LITIGATION

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

12. LAKE COUNTY SCHOOL FINANCING DISTRICT

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

The Board of Education of the Lake County School District acts as the taxing authority of the Financing District pursuant to Section 3311.50 of the Revised Code. The Financing District receives settlements of taxes levied and distributes within ten days to each of the Member Districts (including Painesville City Local School District) each such Member District's proportionate share of that tax settlement. Each Member District's proportionate share is a fraction, the numerator being Member District's total pupil population and the denominator being the aggregate pupil population of all Member Districts as of that date.

Taxes collected by the Financing District available to the District at June 30 are recorded as receivables and revenue for the current fiscal year. Uncollected taxes outstanding received by the Financing District within 60 days after the fiscal year are recorded as a receivable and deferred revenue for they are measurable but not available to the District. The receivable is included in the account "Receivables – Intergovernmental".

13. JOINTLY GOVERNED ORGANIZATIONS

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

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

East Shore Center - The East Shore Center is a jointly governed organization that was formed for the purpose of providing special education for the handicapped children in the sixteen (16) member school districts. The governing board consists of the superintendents of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the governing board. East Shore Center is not accumulating significant financial resources or experiencing fiscal distress, which would cause additional financial benefit or burden on the District. Financial information can be obtained by writing the fiscal agent, Lake County Educational Service Center, 30 South Park Place, Suite 320, Painesville, Ohio 44077.

East Shore Regional Transportation System - The East Shore Regional Transportation System (ESRTS) is a jointly governed organization that was formed for the purpose of providing a transportation system for the handicapped children in the sixteen (16) member school districts. The transportation committee (governing board) consists of the superintendents of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the governing board. ESRTA is not accumulating significant financial resources or experiencing fiscal distress, which would cause additional financial benefit or burden on the District. Financial information can be obtained by writing the fiscal agent, Kirtland Board of Education, 9152 Chillicothe Road, Kirtland, Ohio 44094.

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

The District also participates in the Council's prepaid natural gas program, which was implemented during fiscal year 1999. This program allows school districts to purchase natural gas at reduced rates, if the school districts will commit to participating for a twelve-year period. The participants make monthly payments based on estimated usage. Each month, these estimated payments are compared to their actual usage and any necessary adjustments are made.

The City of Hamilton, a municipal corporation, a political subdivision duly organized and existing under the laws of the State of Ohio, issued \$89,450,000 in debt to purchase twelve years of natural gas from CMS Energy Corporation for the participants. The participating school districts are not obligated in any manner for this debt. If a participating school district terminates its agreement, the district is entitled to recover that amount, if any, of its contributions to the operating fund, which are not encumbered for its share of program administrative costs.

14. CLAIMS SERVICING POOL

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

15. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of; damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2005, the District contracted with Ohio School Plan for property and general liability insurance. There is a \$3,000,000 limit of liability.

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

The District has elected to provide medical coverage through a self insured program. The District uses the internal service fund to account for and finance its uninsured risks of loss in this program. The claims are serviced through Lake County Schools Council of Governments Health Care Benefits Program. The claims liability of \$508,116 reported in the internal service fund at June 30, 2005 is based on the requirements of Governmental Accounting Standards Board Statement No. 10 which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses.

Changes in the District's share of the claims liability amount in 2005 and 2004 were:

	Balance at Beginning of Year	Current Year Claims	Claim Payments	Balance at End of Year
2005	\$396,285	\$2,504,768	\$2,392,937	\$508,116
2004	\$240,424	\$2,652,063	\$2,496,202	\$396,285

16. OSBA INSURANCE PURCHASING POOL

The District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect and the Immediate Past President of the Ohio School Boards Association. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

17. FUND BALANCE RESERVES FOR SET-ASIDES

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

For fiscal year ended June 30, 2005, the District was no longer required to set aside funds in the budget reserve set-aside, with the exception of refund monies received from the Bureau of Workers' Compensation, which must be spent for specified purposes.

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

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside Reserve Balance as of June 30, 2004	(\$233,068)	\$0	\$105,468
Current Year Set-aside Requirement	406,970	406,970	0
Qualified Disbursements	(300,451)	(285,200)	0
Current Year Offsets	<u>0</u>	<u>(121,770)</u>	<u>0</u>
Total	<u>(\$126,549)</u>	<u>\$0</u>	<u>\$105,468</u>
Set-aside Reserve Balance			
Carried Forward to Future Years	(\$126,549)	\$0	\$0
Set-aside Balance as of June 30, 2005	\$0	\$0	\$105,468
Designation Balance as of June 30, 2005	\$0	\$0	<u>\$433,222</u>
Restricted Cash as of June 30, 2005			<u>\$538,690</u>

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

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

18. INTERFUND TRANSACTIONS

Interfund transactions at June 30, 2005, consisted of the following interfund receivables and interfund payables, transfers in and transfers out:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$95,840	\$0	\$0	\$184,946
Debt Service Fund	0	0	108,556	0
Building Fund	0	0	0	17,667,000
Classroom Facilities Fund	0	0	17,667,000	0
Other Governmental Funds	<u>0</u>	<u>95,840</u>	<u>200,319</u>	<u>123,929</u>
Total all funds	<u>\$95,840</u>	<u>\$95,840</u>	<u>\$17,975,875</u>	<u>\$17,975,875</u>

Transfers out of the General Fund were made to provide resources to the Debt Service Fund. Transfers out of the building fund were made to provide resources to the fund used to account for new construction projects.

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

19. CHANGE IN ACCOUNTING PRINCIPLE/PRIOR PERIOD ADJUSTMENT

For fiscal year 2005, the District has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures". GASB 40 establishes and modifies disclosure requirements related to investment risk: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modifies disclosure requirements for custodial credit risk on deposits. This statement applies to all state and local governments.

For fiscal year 2005, the District has implemented GASB Technical Bulletin No. 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers." This Bulletin addresses the amount that should be recognized as an expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment (OPEB) plans.

The implementation of GASB Technical Bulletin No. 2004-2 had the following effect on the fund balances of the major and nonmajor funds of the District as they were previously reported as of June 30, 2004:

	<u>General</u>	<u>Nonmajor</u>
Fund Balances, June 30, 2004	\$6,775,712	\$907,346
GASB Technical Bulletin No. 2004-2	(321,198)	(48,556)
Major Funds Reclassed	<u>0</u>	<u>(193,291)</u>
Restated Fund Balance, June 30, 2004	<u>\$6,454,514</u>	<u>\$665,499</u>

A prior period adjustment is required to restate capital assets and cash with fiscal agents at June 30, 2004 due to understatements of capital assets and cash with fiscal agents in the prior year. This restatement had the following effect on net assets at June 30, 2004:

	Governmental <u>Activities</u>	Internal <u>Service</u>
Net assets as previously reported	\$8,261,614	(\$211,708)
Restatement for capital assets	149,681	0
Restatement for cash with fiscal agent	<u>519,560</u>	<u>519,560</u>
Net assets, restated at July 1, 2004	<u>\$8,930,855</u>	<u>\$307,852</u>

20. SUBSEQUENT EVENT

On November 10, 2005, the District issued \$11,000,000 in bonds with an interest rate of 4.874%. The proceeds will be used to pay off the \$8,000,000 and \$3,000,000 bond anticipation notes previously issued to fund new construction.

**REQUIRED
SUPPLEMENTARY
INFORMATION**

Painesville City Local School District
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2005

	General Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Revenues:				
Taxes	\$10,924,482	\$10,651,836	\$10,744,758	\$92,922
Tuition and Fees	1,105,559	1,077,967	1,087,371	9,404
Investment Earnings	199,369	194,393	196,089	1,696
Intergovernmental	14,840,042	14,469,673	14,595,901	126,228
Other Revenues	73,115	71,290	71,912	622
Total Revenues	27,142,567	26,465,159	26,696,031	230,872
Expenditures:				
Current:				
Instruction:				
Regular	10,061,263	10,362,082	10,323,788	38,294
Special	2,149,880	2,214,159	2,205,976	8,183
Vocational	481,178	495,564	493,733	1,831
Other	3,184,378	3,279,587	3,267,467	12,120
Support Services:				
Pupil	1,232,830	1,269,690	1,264,998	4,692
Instructional Staff	1,163,066	1,197,841	1,193,414	4,427
General Administration	127,646	131,463	130,977	486
School Administration	3,122,059	3,215,405	3,203,522	11,883
Fiscal	544,104	560,372	558,301	2,071
Business	79,738	82,122	81,819	303
Operations and Maintenance	2,519,411	2,594,738	2,585,149	9,589
Pupil Transportation	1,187,210	1,222,706	1,218,187	4,519
Central	285,637	294,177	293,090	1,087
Operation of Non-Instructional Services	5,934	6,112	6,089	23
Extracurricular Activities	390,773	402,456	400,969	1,487
Capital Outlay	808,420	832,591	829,514	3,077
Debt Service:				
Principal Retirement	49,864	49,864	49,864	0
Interest and Fiscal Charges	9,466	11,240	11,014	226
Total Expenditures	27,402,857	28,222,169	28,117,871	104,298
Excess of Revenues Over (Under) Expenditures	(260,290)	(1,757,010)	(1,421,840)	335,170
Other financing sources (uses):				
Proceeds from Sale of Capital Assets	966	942	950	8
Advances In	199,171	194,200	195,894	1,694
Advances (Out)	(82,784)	(85,259)	(84,944)	315
Transfers (Out)	(180,009)	(185,391)	(184,706)	685
Total Other Financing Sources (Uses)	(62,656)	(75,508)	(72,806)	2,702
Net Change in Fund Balance	(322,946)	(1,832,518)	(1,494,646)	337,872
Fund Balance Beginning of Year (includes prior year encumbrances appropriated)	8,480,356	8,480,356	8,480,356	0
Fund Balance End of Year	\$8,157,410	\$6,647,838	\$6,985,710	\$337,872

See accompanying notes to the required supplementary information.

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT
LAKE COUNTY, OHIO
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For The Year Ended June 30, 2005**

1. BUDGETARY PROCESS

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

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the final amended certificate of estimated resources issued during the fiscal year 2005.

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

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types and expendable trust funds (GAAP basis).
4. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions.

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

Net Change in Fund Balance

	<u>General</u>
GAAP Basis	(\$598,905)
Net Adjustment for Revenue Accruals	220,851
Net Adjustment for Expenditure Accruals	271,003
Encumbrances	<u>(1,387,595)</u>
Budget Basis	<u>(\$1,494,646)</u>

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**PAINESVILLE CITY LOCAL SCHOOL DISTRICT
LAKE COUNTY
SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR YEAR ENDED JUNE 30, 2005**

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM OR CLUSTER TITLE	Pass-Through Entity Number	Federal CFDA Number	Receipts	Non-cash Receipts	Disbursements	Non-cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education:</i>						
Child Nutrition Cluster						
Food Distribution Program	N/A	10.550	\$0	\$35,559	\$0	\$35,559
School Breakfast Program	044628-05PU-2005	10.553	140,661	0	140,661	
	044628-05PU-2004	10.553	48,800	0	48,800	0
			<u>189,461</u>	<u>0</u>	<u>189,461</u>	<u>0</u>
National School Lunch Program	044628-LLP4-2005	10.555	470,025	0	470,025	0
	044628-LLP1-2005	10.555	1,043	0	1,043	0
	044628-LLP4-2004	10.555	179,108	0	179,108	0
			<u>650,176</u>	<u>0</u>	<u>650,176</u>	<u>0</u>
Summer Food Service Program	044628-23PU-2004	10.559	26,876	0	26,876	0
	044628-24PU-2004	10.559	3,743	0	3,743	0
			<u>30,619</u>	<u>0</u>	<u>30,619</u>	<u>0</u>
Total U.S. Department of Agriculture Child Nutrition Cluster			<u>870,256</u>	<u>35,559</u>	<u>870,256</u>	<u>35,559</u>
U.S. DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Cluster						
Preschool Grant	044628-PGS1-2003	84.173	0	0	360	0
	044628-PGS1-2004	84.173	333	0	5	0
	044628-PGS1-2005	84.173	28,711	0	28,735	0
			<u>29,044</u>	<u>0</u>	<u>29,100</u>	<u>0</u>
Educational Handicap VI-B	044628-6BPB-2003	84.027	0	0	70	0
	044628-6BPB-2005	84.027	23,680	0	23,437	0
	044628-6BSD-2005	84.027	1,875	0	0	0
	044628-6BSF-2004	84.027	124,418	0	164,173	0
	044628-6BSF-2005	84.027	612,605	0	586,850	0
			<u>762,578</u>	<u>0</u>	<u>774,530</u>	<u>0</u>
Total Special Education Cluster			<u>791,622</u>	<u>0</u>	<u>803,630</u>	<u>0</u>
Title I	044628-C1S1-2003	84.010	0	0	1,362	0
	044628-C1S1-2004	84.010	172,940	0	187,212	0
	044628-C1S1-2005	84.010	905,749	0	867,679	0
	044628-C1SD-2004	84.010	2,722	0	3,937	0
	044628-C1SD-2005	84.010	21,452	0	21,694	0
			<u>1,102,863</u>	<u>0</u>	<u>1,081,884</u>	<u>0</u>
Innovative Education Program Strategies	044628-C2S1-2003	84.298	0	0	2,625	0
	044628-C2S1-2004	84.298	3,450	0	1,789	0
	044628-C2S1-2005	84.298	15,205	0	15,292	0
			<u>18,655</u>	<u>0</u>	<u>19,706</u>	<u>0</u>
Adult Education	044628-ABS1-2003-C	84.002	2,874	0	2,874	0
	044628-ABS1-2004	84.002	35,826	0	35,828	0
	044628-ABS2-2004	84.002	13,493	0	13,576	0
	044628-ABS2-2005	84.002	13,493	0	26,846	0
			<u>65,686</u>	<u>0</u>	<u>79,124</u>	<u>0</u>
Migrant Education	044628-MGS1-2003	84.011	0	0	435	0
	044628-MGS1-2004	84.011	200,527	0	240,426	0
	044628-MGS1-2005	84.011	134,433	0	88,173	0
			<u>334,960</u>	<u>0</u>	<u>329,034</u>	<u>0</u>
Drug-Free Schools	044628-DRS1-2004	84.186	3,061	0	3,296	0
	044628-DRS1-2005	84.186	27,302	0	26,229	0
			<u>30,363</u>	<u>0</u>	<u>29,525</u>	<u>0</u>
Class Size Reduction	044628-AVTF-2005	84.330	416	0	0	0
			<u>416</u>	<u>0</u>	<u>0</u>	<u>0</u>
Assitive Technology Infusion Grant	044628-RFCC-2005	84.332	63,600	0	42,974	0
			<u>63,600</u>	<u>0</u>	<u>42,974</u>	<u>0</u>

(Continued)

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT
LAKE COUNTY
SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR YEAR ENDED JUNE 30, 2005**

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM OR CLUSTER TITLE	Pass-Through Entity Number	Federal CFDA Number	Receipts	Non-cash Receipts	Disbursements	Non-cash Disbursements
Title II-D	044628TJS1-2003	84.318	0	0	1,645	0
	044628TJS1-2004	84.318	791	0	3,805	0
	044628TJS1-2005	84.318	31,354	0	25,246	0
			<u>32,145</u>	<u>0</u>	<u>30,696</u>	<u>0</u>
Title III	044628-T3S1-2003	84.365	0	0	6,574	0
	044628-T3S1-2004	84.365	19,500	0	24,131	0
	044628-T3S1-2005	84.365	107,172	0	99,644	0
	044628-T3S2-2004	84.365	24,111	0	19,890	0
	044628-T3S2-2005	84.365	332	0	0	0
			<u>151,115</u>	<u>0</u>	<u>150,239</u>	<u>0</u>
Title II-A	044628-TRS1-2004	84.367	(1,863)	0	0	0
	044628-TRS1-2005	84.367	203,940	0	201,601	0
			<u>202,077</u>	<u>0</u>	<u>201,601</u>	<u>0</u>
Total U.S. Department of Education			<u>2,793,502</u>	<u>0</u>	<u>2,768,413</u>	<u>0</u>
<u>CORPORATION FOR NATIONAL AND COMMUNITY SERVICES</u>						
<i>Passed Through Ohio Department of Education:</i>						
Learn and Serve America	044628-SVS1-2004	94.004	6,815	0	4,924	0
	044628-SVS1-2005	94.004	3,997	0	3,695	0
Total Corporation for National and Community Services			<u>10,812</u>	<u>0</u>	<u>8,619</u>	<u>0</u>
<u>U.S. DEPARTMENT OF HUMAN SERVICES</u>						
<i>Passed Through the Ohio Department of Mental Retardation/Developmental Disabilities:</i>						
Medical Assistance Program		93.778	23,622	0	23,622	0
Total U.S. Department of Health and Human Services			<u>23,622</u>	<u>0</u>	<u>23,622</u>	<u>0</u>
Total Expenditures of Federal Awards			<u>\$3,698,192</u>	<u>\$35,559</u>	<u>\$3,670,910</u>	<u>\$35,559</u>

The accompanying notes to this schedule are an integral part of this schedule.

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT
LAKE COUNTY
FOR THE YEAR ENDED JUNE 30, 2005**

NOTES TO SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - FOOD DISTRIBUTION

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

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

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

NOTE D – CARRYOVER FUNDS

Negative receipts are shown in the Title IIA, CFDA #84.367. This negative receipt represents monies on the Final Expenditure Report that were unspent after the initial period of availability. These monies were in accordance with allowable carryover provisions and added to the following fiscal year award amounts.

CFDA - Catalog of Federal Domestic Assistance

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Auditor of State Betty Montgomery

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Painesville City Local School District, Lake County, Ohio, (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated April 28, 2006, where in we reported the District restated cash with a fiscal agent at July 1, 2004 in the Internal Service fund. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2005-001 through 2005-003.

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

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

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

Betty Montgomery
Auditor of State

April 28, 2006



Auditor of State Betty Montgomery

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

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

To the Board of Education:

Compliance

We have audited the compliance of the Painesville City Local School District, Lake County, Ohio, (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to its major federal program for the year ended June 30, 2005. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal program. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the Painesville City Local School District, Lake County, Ohio, complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2005.

Internal Control Over Compliance

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

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

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

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

Betty Montgomery
Auditor of State

April 28, 2006

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT
LAKE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2005**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Program (list):	CFDA # 84.010 – Title I
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: >\$300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT
LAKE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2005
(CONTINUED)**

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

FINDING NUMBER	2005-001
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Noncompliance Citation

The Ohio Revised Code Section 5705.41(B) requires that no subdivision or taxing unit shall make any expenditure of money unless it has been properly appropriated. The following accounts had expenditures that exceeded appropriations for the period ending January 31, 2005:

<u>Fund</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess Expenditures</u>
002 – Debt Service	\$175,597	\$23,413,444	(\$23,237,847)
004 – Building	7,947,885	22,825,650	(14,877,765)
557 – Community Development	0	8,000	(8,000)
573 – Title VI	20,831	21,596	(765)

The following accounts had expenditures that exceeded appropriations for the year ending June 30, 2005:

<u>Fund</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess Expenditures</u>
501 – Adult Basic Education	\$91,859	\$141,179	(\$49,320)
573 – Title VI	20,831	25,636	(4,805)
599 – Misc. Federal Grants	60,038	65,258	(5,220)

This weakness could allow expenditures in the above funds or accounts to exceed the total of the available fund balance, the appropriation account and/or the current year revenues. This also increases the risk of negative fund balances.

The District's management indicated it was aware of these requirements, but its control procedures failed to prevent or detect the non-compliance in these instances.

We recommend the District compare appropriations to expenditures plus encumbrances at the legal level of control in all funds to ensure compliance with this requirement. This comparison should be performed on a monthly basis, at a minimum.

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT
LAKE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2005
(CONTINUED)**

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

FINDING NUMBER	2005-002
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Noncompliance Citation

Ohio Rev. Code Section 5705.41(D)(1) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. "Then and Now" certificate – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the District can authorize the drawing of a warrant for the payment of the amount due. The District has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the District.

2. Blanket Certificate – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

3. Super Blanket Certificate – The District may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT
LAKE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2005
(CONTINUED)**

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

FINDING NUMBER	2005-002 (Continued)
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Noncompliance Citation (Continued)

Twenty-two percent of non-payroll expenditures tested in fiscal year 2005 were not certified by the fiscal officer at the time the commitment was incurred and there was no evidence that the District followed the aforementioned exceptions.

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the District's funds exceeding budgetary spending limitations, we recommend that the Treasurer certify that the funds are or will be available prior to obligation by the District. When prior certification is not possible, "then and now" certification should be used.

We recommend the District certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The fiscal officer should sign the certification at the time the District incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The fiscal officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

Finding Number	2005-003
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Noncompliance Citation

Appropriations Exceeding Estimated Revenues

Ohio Revised Code § 5705.39 provides, in part, that the total appropriations from each fund should not exceed the total estimated revenue. Ohio Revised Code § 5705.36(A)(3) provides that an increased amended certificate must be obtained from the budget commission if the legislative authority intends to appropriate and expend the excess revenue. Ohio Revised Code § 5705.36(A)(4) provides that a reduced amended certificate must be obtained if the amount of the deficiency will reduce available resources below the current level of appropriation. Ohio Revised Code § 5705.39 provides, in part, that the total appropriations made during a fiscal year from any fund must not exceed the amount contained in the certificate of estimated resources or the amended certificate of estimated resources which was certified prior to making the appropriation or supplemental appropriation.

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT
LAKE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2005
(CONTINUED)**

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

FINDING NUMBER	2005-003 (Continued)
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The following funds had appropriations in excess of total estimated resources as of January 31, 2005:

	<u>Total Estimated Resources</u>	<u>Appropriations</u>	<u>Variance</u>
019 – Other Grants	\$5,909	\$31,962	(\$26,053)
432 – EMIS	0	53,032	(53,032)
451 – Data Collection	19,008	40,008	(21,000)
459 – Ohio Reads	48,113	56,113	(8,000)
499 – Misc. State Grants	19,164	19,880	(716)
501 – Adult Basic Education	0	85,346	(85,346)
516 – Title VI-B	793,924	818,874	(24,950)
551 – Title III	139,954	149,713	(9,579)
590 – Improving Teacher Grants	210,312	212,175	(1,863)
599 – Misc. Federal Grants	47,940	50,251	(2,311)

The following funds had appropriations in excess of total estimated resources as of June 30, 2005:

	<u>Total Estimated Resources</u>	<u>Appropriations</u>	<u>Variance</u>
416 – Teacher Development	\$43,707	\$76,775	(\$33,068)
590 – Improving Teacher Grants	207,780	207,834	(54)

We recommend the District monitor appropriations and amend the certificate of estimated resources to ensure that appropriations do not exceed total estimated resources.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None



**Auditor of State
Betty Montgomery**

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**PAINESVILLE CITY LOCAL SCHOOL DISTRICT
LAKE COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 15, 2006**