

Painesville City Local School District

**Basic Financial Statements
June 30, 2007**



Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditors' Report* of the Painesville City Local School District, Lake County, prepared by Ciuni & Panichi, Inc., for the audit period July 1, 2006 through June 30, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

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Auditor of State

January 10, 2008

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Painesville City Local School District

For The Year Ended June 30, 2007

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Painesville City Local School District

For The Year Ended June 30, 2007

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Independent Auditors' Report

Board of Education
Painesville City Local School District
Painesville, Ohio

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 (the "District"), as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide 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, as of June 30, 2007, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2007 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Board of Education
Painesville City Local School District

The management's discussion and analysis and the respective budgetary comparison for the General Fund are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Cioni & Paricki, Inc.

Cleveland, Ohio
December 20, 2007

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT
LAKE COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2007
(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, 2007. 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 2007 are as follows:

- Net assets of governmental activities increased \$12,449,559 which represents a 64.5% increase from 2006.
- General revenues accounted for \$29,228,909 in revenue or 57.9% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$21,293,665 or 42.1% of total revenues of \$50,522,574.
- The District had \$38,073,015 in expenses related to governmental activities; only \$21,293,665 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$29,228,909 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 2007?" 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.

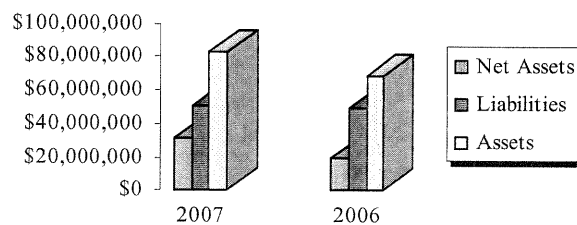
Fiduciary Funds Fiduciary Funds are used to account for resources held for the benefits of parties outside the government. Fiduciary Funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs.

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 2007 compared to 2006:

	Governmental Activities	
	2007	2006
Assets		
Current Assets	\$49,549,375	\$54,826,431
Capital Assets	34,071,962	13,753,077
Total Assets	83,621,337	68,579,508
Liabilities		
Long-Term Liabilities	33,595,465	34,168,159
Other Liabilities	18,272,779	15,107,815
Total Liabilities	51,868,244	49,275,974
Net Assets		
Invested in Capital		
Assets Net of Debt	3,981,469	3,382,615
Restricted	25,202,733	11,454,893
Unrestricted	2,568,891	4,466,026
Total Net Assets	\$31,753,093	\$19,303,534



Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2007, the District's assets exceeded liabilities by \$31,753,093.

At year-end, capital assets represented 40.7% 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, 2007, was \$3,981,469. 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.

Capital Assets increased due to the continued progress of the ongoing school improvement projects. Other liabilities increased due to an increase in contracts payable relating to the school improvement projects.

Table 2 shows the change in net assets for fiscal years 2007 and 2006.

Table 2
Changes in Net Assets

	<u>Governmental Activities</u>	
	<u>2007</u>	<u>2006</u>
Revenues		
Program Revenues:		
Charges for Services	\$1,540,132	\$2,354,376
Operating Grants	8,437,002	7,754,792
Capital Grants	11,316,531	7,587,197
General Revenue:		
Property Taxes	12,470,518	12,755,602
Grants and Entitlements	14,384,787	14,410,287
Other	2,373,604	1,723,419
Total Revenues	<u>50,522,574</u>	<u>46,585,673</u>
Program Expenses:		
Instruction	20,631,078	19,705,392
Support Services:		
Pupil and Instructional Staff	4,469,975	4,020,599
General and School Administrative, Fiscal and Business	4,195,478	4,679,957
Operations and Maintenance	2,644,340	2,807,319
Pupil Transportation	1,483,297	1,557,022
Central	479,250	303,902
Operation of Non-Instructional Services	2,037,573	1,818,336
Extracurricular Activities	651,994	574,834
Interest and Fiscal Charges	1,480,030	1,467,443
Total Expenses	<u>38,073,015</u>	<u>36,934,804</u>
Change in Net Assets	12,449,559	9,650,869
Beginning Net Assets	<u>19,303,534</u>	<u>9,652,665</u>
Ending Net Assets	<u>\$31,753,093</u>	<u>\$19,303,534</u>

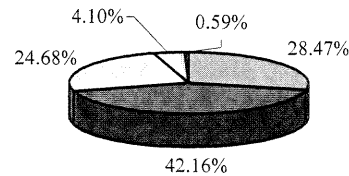
Governmental Activities

The District revenues are mainly from two sources. Property taxes levied for general purposes, debt service and capital projects and grants and entitlements comprised 53.2% 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 24.7% of revenue for governmental activities for the District in fiscal year 2007.

Revenue Sources	2007	Percent of Total
General Grants	\$14,384,787	28.47%
Program Revenues	21,293,665	42.16%
General Tax Revenues	12,470,518	24.68%
Investment Earnings	2,073,601	4.10%
Other Revenues	300,003	0.59%
	<u>\$50,522,574</u>	<u>100.00%</u>



Capital Grants Program revenue increased in 2007 as compared to 2006. This increase resulted from capital grants received from the State of Ohio to build and improve buildings throughout the District. Total expenses increased slightly mainly due to general inflationary costs.

Instruction comprises 54.2% of governmental program expenses. Support services expenses were 34.8% of governmental program expenses. All other expenses and interest expense was 11.0%. 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	
	2007	2006	2007	2006
Instruction	\$20,631,078	\$19,705,392	(\$3,635,077)	(\$6,549,131)
Support Services:				
Pupil and Instructional Staff	4,469,975	4,020,599	(2,499,978)	(1,960,192)
General and School Administrative, Fiscal and Business	4,195,478	4,679,957	(3,984,550)	(4,427,616)
Operations and Maintenance	2,644,340	2,807,319	(2,613,003)	(2,795,475)
Pupil Transportation	1,483,297	1,557,022	(1,307,282)	(1,477,036)
Central	479,250	303,902	(478,974)	(303,543)
Operation of Non-Instructional Services	2,037,573	1,818,336	(356,745)	150,284
Extracurricular Activities	651,994	574,834	(423,711)	(408,287)
Interest and Fiscal Charges	1,480,030	1,467,443	(1,480,030)	(1,467,443)
 Total Expenses	 <u>\$38,073,015</u>	 <u>\$36,934,804</u>	 <u>(\$16,779,350)</u>	 <u>(\$19,238,439)</u>

The District's Funds

The District has three major governmental funds: the General Fund and two Capital Projects Funds. Assets of these funds comprised \$44,422,406 (90%) of the total \$49,480,208 governmental funds assets.

General Fund: Fund balance at June 30, 2007 was \$5,526,231, including \$3,534,435 of unreserved balance. The fund balance remained relatively consistent in 2007 as compared to 2006.

Building Fund: The net change in fund balance for fiscal year 2007 was (\$1,957,052) and relates to expenditures for construction of the new schools.

Classroom Facilities Fund: The net change in fund balance for fiscal year 2007 was (\$6,126,294) and related to expenditures for construction of new schools.

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 2007, 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 \$28,702,865, compare to original budget estimates of \$29,434,981. Of this \$732,116 difference, most was due to estimates for taxes and intergovernmental revenue.

The District's ending unobligated cash balance was \$2,768,959 above the final budgeted amount.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2007, the District had \$34,071,962 invested in land, construction in progress, buildings and improvements and equipment. Table 4 shows fiscal 2007 balances compared to fiscal 2006:

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

	Governmental Activities	
	2007	2006
Land	\$7,097,736	\$6,777,072
Constuction in Progress	23,962,239	3,664,359
Buildings and Improvements	2,000,428	2,127,595
Equipment	1,011,559	1,184,051
Total Net Capital Assets	<u>\$34,071,962</u>	<u>\$13,753,077</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 note 6 to the basic financial statements for further details on the District's capital assets.

Debt

At June 30, 2007, the District had \$31,748,771 in debt outstanding, \$672,424 due within one year. Table 5 summarizes total debt outstanding.

Table 5
Outstanding Debt, at Year End

	Governmental Activities	
	2007	2006
General Obligation Bonds:		
2004 School Improvement Bond	\$19,230,000	\$19,650,000
Current Interest Bonds - 2005 School Improvement	10,545,007	10,545,007
Premium on 2005 School Improvement Bonds	514,255	534,422
Capital Appreciation Bonds - 2005 School Improvement	454,993	454,993
Accreted Interest	77,888	0
Stadium Project - Refinancing	590,000	695,000
Notes Payable:		
Project - National City	248,795	276,702
Capital Lease Payable:		
Phone Lease	87,833	142,876
Total Outstanding Debt at Year End	<u>\$31,748,771</u>	<u>\$32,299,000</u>

See note 7 to the basic financial statements for further details on the District's debt.

For the Future

In June of 2005, the State legislature passed House Bill 66. House Bill 66 phases out the tax on tangible personal property of general business, telephone, and telecommunications companies, and railroads. The tax on general business and railroad property began being phased out in 2006 and will be eliminated by 2009. The tax on telephone and telecommunication property will begin being phased out in 2009 and will be eliminated by 2011. The tax is being phased out by reducing the assessment rate on the property each year. In the first five years, school districts are being reimbursed fully for the lost revenue; in the following seven years, the reimbursements are phased out.

All of the District's financial abilities will be needed to meet the challenges of the future. With careful planning and monitoring of the District's finances, the District's management is confident that the District can continue to provide a quality education for our students and provide a secure financial future.

Contacting the District's Financial Management

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

Painesville City Local School District
Statement of Net Assets
June 30, 2007

	Governmental Activities
Assets:	
Equity in Pooled Cash and Investments	\$37,856,930
Restricted Cash and Investments	538,690
Receivables:	
Taxes	10,369,969
Accounts	45,918
Intergovernmental	580,779
Deferred Bond Issuance Costs	139,951
Inventory	17,138
Nondepreciable Capital Assets	31,059,975
Depreciable Capital Assets, Net	<u>3,011,987</u>
 Total Assets	 <u>83,621,337</u>
Liabilities:	
Accounts Payable	860,757
Accrued Wages and Benefits	3,970,343
Retainage Payable	503,841
Accrued Interest Payable	116,983
Contracts Payable	3,468,845
Deferred Revenue	9,337,693
Other Liabilities	14,317
Long-Term Liabilities:	
Due Within One Year	1,026,742
Due In More Than One Year	<u>32,568,723</u>
 Total Liabilities	 <u>51,868,244</u>
Net Assets:	
Invested in Capital Assets, Net of Related Debt	3,981,469
Restricted for:	
Special Revenue	634,158
Debt Service	1,303,878
Capital Projects	23,159,229
Set-Aside	105,468
Unrestricted	<u>2,568,891</u>
 Total Net Assets	 <u>\$31,753,093</u>

See accompanying notes to the basic financial statements.

Painesville City Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2007

	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	\$13,137,587	\$1,098,991	\$2,044,513	\$11,303,589	\$1,309,506
Special	3,924,695	6,123	2,361,052	0	(1,557,520)
Vocational	560,563	0	94,649	0	(465,914)
Other	3,008,233	0	87,084	0	(2,921,149)
Support Services:					
Pupil	2,538,955	17,880	1,137,158	0	(1,383,917)
Instructional Staff	1,931,020	5,973	808,986	0	(1,116,061)
General Administration	127,425	0	0	0	(127,425)
School Administration	3,349,164	0	210,928	0	(3,138,236)
Fiscal	635,987	0	0	0	(635,987)
Business	82,902	0	0	0	(82,902)
Operations and Maintenance	2,644,340	14,338	16,999	0	(2,613,003)
Pupil Transportation	1,483,297	29,949	133,124	12,942	(1,307,282)
Central	479,250	0	276	0	(478,974)
Operation of Non-Instructional Services	2,037,573	228,994	1,451,834	0	(356,745)
Extracurricular Activities	651,994	137,884	90,399	0	(423,711)
Interest and Fiscal Charges	1,480,030	0	0	0	(1,480,030)
Total Governmental Activities	\$38,073,015	\$1,540,132	\$8,437,002	\$11,316,531	(\$16,779,350)

General Revenues:

Property Taxes Levied for:

General Purposes	10,620,352
Debt Service Purposes	1,680,658
Capital Projects Purposes	169,508
Grants and Entitlements not Restricted to Specific Programs	14,384,787
Unrestricted Contributions	21,800
Investment Earnings	2,073,601
Refunds and Reimbursements	82,310
Other Revenues	195,893

Total General Revenues 29,228,909

Change in Net Assets 12,449,559

Net Assets Beginning of Year 19,303,534

Net Assets End of Year \$31,753,093

See accompanying notes to the basic financial statements.

Painesville City Local School District
Balance Sheet
Governmental Funds
June 30, 2007

	General	Building	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Assets:					
Equity in Pooled Cash and Investments	\$7,699,648	\$5,625,408	\$21,949,057	\$2,582,817	\$37,856,930
Restricted Cash and Investments	538,690	0	0	0	538,690
Receivables:					
Taxes	8,492,901	0	0	1,877,068	10,369,969
Accounts	45,918	0	0	0	45,918
Intergovernmental	0	0	0	580,779	580,779
Interfund	70,784	0	0	0	70,784
Inventory	0	0	0	17,138	17,138
Total Assets	16,847,941	5,625,408	21,949,057	5,057,802	49,480,208
Liabilities and Fund Balances:					
Liabilities:					
Accounts Payable	289,451	212,091	304,237	54,978	860,757
Accrued Wages and Benefits	3,048,977	0	0	921,366	3,970,343
Compensated Absences	221,596	0	0	3,064	224,660
Retainage Payable	0	0	503,841	0	503,841
Contracts Payable	0	176,483	3,292,362	0	3,468,845
Interfund Payable	0	0	0	70,784	70,784
Deferred Revenue	7,747,369	0	0	2,163,547	9,910,916
Other Liabilities	14,317	0	0	0	14,317
Total Liabilities	11,321,710	388,574	4,100,440	3,213,739	19,024,463
Fund Balances:					
Reserved for Encumbrances	707,574	0	0	234,980	942,554
Reserved for Inventory	0	0	0	17,138	17,138
Reserved for Property Tax Advances	745,532	0	0	144,262	889,794
Reserved for Budget Stabilization	105,468	0	0	0	105,468
Reserved for Capital Projects	0	0	15,924,355	0	15,924,355
Unreserved, Designated for Budget Stabilization	433,222	0	0	0	433,222
Unreserved, Undesignated, Reported in:					
General Fund	3,534,435	0	0	0	3,534,435
Special Revenue Funds	0	0	0	67,938	67,938
Debt Service Funds	0	0	0	1,272,853	1,272,853
Capital Projects Funds	0	5,236,834	1,924,262	106,892	7,267,988
Total Fund Balances	5,526,231	5,236,834	17,848,617	1,844,063	30,455,745
Total Liabilities and Fund Balances	\$16,847,941	\$5,625,408	\$21,949,057	\$5,057,802	\$49,480,208

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, 2007

Total Governmental Fund Balance		\$30,455,745
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.		34,071,962
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Delinquent Property Taxes	\$142,482	
Intergovernmental	<u>430,741</u>	
		573,223
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.		(116,983)
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		(1,622,034)
Deferred bond issuance cost associated with long-term liabilities are not reported in the funds.		139,951
Long-term liabilities, are not due and payable in the current period and therefore are not reported in the funds.		<u>(31,748,771)</u>
Net Assets of Governmental Activities		<u>\$31,753,093</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, 2007

	General	Building	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	\$10,687,349	\$0	\$0	\$1,946,664	\$12,634,013
Tuition and Fees	1,471,084	0	0	11,950	1,483,034
Investment Earnings	522,803	356,043	1,089,876	104,879	2,073,601
Intergovernmental	15,549,455	0	11,247,128	7,025,636	33,822,219
Extracurricular Activities	9,022	0	0	141,452	150,474
Charges for Services	0	0	0	228,994	228,994
Other Revenues	311,849	0	1,813	91,344	405,006
Total Revenues	28,551,562	356,043	12,338,817	9,550,919	50,797,341
Expenditures:					
Current:					
Instruction:					
Regular	10,982,627	0	0	2,103,344	13,085,971
Special	2,568,410	0	0	1,319,729	3,888,139
Vocational	530,131	0	0	0	530,131
Other	2,953,091	0	0	55,142	3,008,233
Support Services:					
Pupil	1,452,958	0	0	1,049,181	2,502,139
Instructional Staff	1,138,954	0	0	774,500	1,913,454
General Administration	126,756	0	0	0	126,756
School Administration	3,059,887	0	0	261,330	3,321,217
Fiscal	598,487	0	0	34,485	632,972
Business	82,902	0	0	0	82,902
Operations and Maintenance	2,523,200	0	0	17,532	2,540,732
Pupil Transportation	1,330,675	0	0	66,832	1,397,507
Central	249,453	98,994	131,173	374	479,994
Operation of Non-Instructional Services	165,031	0	0	1,902,452	2,067,483
Extracurricular Activities	455,331	0	0	176,421	631,752
Capital Outlay	70,505	2,214,101	18,333,938	0	20,618,544
Debt Service:					
Principal Retirement	55,043	0	0	552,907	607,950
Interest and Fiscal Charges	5,835	0	0	1,412,207	1,418,042
Total Expenditures	28,349,276	2,313,095	18,465,111	9,726,436	58,853,918
Excess of Revenues Over (Under) Expenditures	202,286	(1,957,052)	(6,126,294)	(175,517)	(8,056,577)
Other Financing Sources (Uses):					
Transfers In	0	0	0	248,576	248,576
Transfers (Out)	(124,647)	0	0	(123,929)	(248,576)
Total Other Financing Sources (Uses)	(124,647)	0	0	124,647	0
Net Change in Fund Balance	77,639	(1,957,052)	(6,126,294)	(50,870)	(8,056,577)
Fund Balance Beginning of Year	5,448,592	7,193,886	23,974,911	1,894,933	38,512,322
Fund Balance End of Year	\$5,526,231	\$5,236,834	\$17,848,617	\$1,844,063	\$30,455,745

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, 2007

Net Change in Fund Balance - Total Governmental Funds (\$8,056,577)

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	\$20,846,249	
Depreciation Expense	<u>(526,800)</u>	20,319,449

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. (564)

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

Delinquent Property Taxes	(520,670)	
Intergovernmental	<u>246,467</u>	(274,203)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 607,950

In the statement of activities interest expense is accrued when incurred, whereas in governmental funds an interest expenditure is reported when due. 1,221

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	(84,508)	
Amortization of Bond Issuance Cost	(5,488)	
Amortization of Bond Premium	20,167	
Bond Accretion	<u>(77,888)</u>	(147,717)

Change in Net Assets of Governmental Activities \$12,449,559

See accompanying notes to the basic financial statements.

Painesville City Local School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2007

	Private Purpose Trust	Agency
Assets:		
Equity in Pooled Cash and Investments	\$12,039	\$33,269
Total Assets	<u>12,039</u>	<u>\$33,269</u>
Liabilities:		
Accounts Payable	0	394
Other Liabilities	<u>0</u>	<u>32,875</u>
Total Liabilities	<u>0</u>	<u>\$33,269</u>
Net Assets:		
Held in Trust	<u>12,039</u>	
Total Net Assets	<u>\$12,039</u>	

See accompanying notes to the basic financial statements.

Painesville City Local School District
Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Fiscal Year Ended June 30, 2007

	Private Purpose Trust
Additions:	
Donations	\$1,000
Investment Earnings	536
Total Additions	<u>1,536</u>
Deductions:	
Scholarships	<u>2,443</u>
Total Deductions	<u>2,443</u>
Change in Net Assets	(907)
Net Assets Beginning of Year	<u>12,946</u>
Net Assets End of Year	<u><u>\$12,039</u></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, 2007**

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, 2007 was 3,004. The District employed 275 certificated employees and 204 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 three 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 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 provided they do not conflict with or contradict GASB pronouncements. The most significant of the District's accounting policies are described below.

FUND ACCOUNTING

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

Governmental Funds

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

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

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

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.

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. Fiduciary funds also use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues – Exchange and Non-exchange Transactions

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

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, 2007, but which were levied to finance fiscal year 2008 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.

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 2007. 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, 2007.

Following Ohio statutes, the Board has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue during the fiscal year amounted to \$522,803 credited to the general fund, \$356,043 credited to the building fund, \$1,089,876 credited to the classroom facilities fund, and \$104,879 credited to other governmental 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.

INVENTORY

Inventories are presented at cost on a first-in, first-out basis and are expensed/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>	Governmental Activities <u>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, a liability is recorded only for the portion of unpaid compensated absences that have matured, for example, as a result of resignations and retirements.

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.

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. Of the \$25,202,733 in restricted net assets, none was restricted by enabling legislation.

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.

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.

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

As a general rule the effect of interfund (internal) activity has been eliminated from the government-wide statement of activities. The interfund services provided and used are not eliminated in the process of consolidation.

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 2007.

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.

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, 2007 the carrying amount of the District's deposits was \$132,084 and \$411,366 of the District's bank balance of \$511,366 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, 2007, the District had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Years)
Money Market Funds	\$10,160,237	0.00
STAR Ohio	7,189,306	0.25
Federal Home Loan Bank	6,472,810	0.78
Federal Home Loan Mortgage	4,116,871	0.67
Federal Home Loan Mortgage - Discount Note	975,990	0.45
Federal National Mortgage Association	7,432,760	0.74
Federal National Mortgage Association - Discount Note	1,960,870	0.26
Total Fair Value	<u>\$38,308,844</u>	
Portfolio Weighted Average Maturity		0.42

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 Home Loan Bank, Federal Home Loan Mortgage, Federal Home Loan Mortgage - Discount Note, Federal National Mortgage Association, Federal National Mortgage Association - Discount Note 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 AAAM 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 allocations of investments were as follows: Federal Home Loan Bank (17%), Federal Home Loan Mortgage (11%), Federal Home Loan Mortgage – Discount Note (3%), Federal National Mortgage Association (19%), Federal National Mortgage Association – Discount Note (5%), Money Market Accounts (27%) and STAROhio (18%).

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 2007 were levied in April on the assessed values as of January 1, 2006, 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. Each business was eligible to receive a \$10,000 exemption in assessed value which was reimbursed by the State.

The tangible personal property tax will phase out over a four-year period starting with tax year 2006 and ending with no tax due in 2009. This phase-out applies to most businesses and includes furniture and fixtures, machinery and equipment and inventory. New manufacturing machinery and equipment first reportable on the 2006 and subsequent year returns is not subject to the personal property tax.

Real property taxes are payable annually or semi-annually. In 2007, 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, 2007. Delinquent property taxes collected within 60 days are included as a receivable and tax revenue as of June 30, 2007. 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, 2007, was \$745,532 for General Fund and \$144,262 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 2007 operations.

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 2007 taxes were collected are:

	Second Half <u>Amount</u>	First Half <u>Amount</u>
Agricultural/Residential and Other Real Estate	\$235,440,520	\$213,326,930
Public Utility Personal	3,938,970	4,553,320
Tangible Personal Property	<u>20,086,628</u>	<u>25,567,322</u>
Total	<u>\$259,466,118</u>	<u>\$243,447,572</u>

5. RECEIVABLES

Receivables at June 30, 2007, 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, 2007, was as follows:

	Beginning <u>Balance</u>	Additions	Deletions	Ending <u>Balance</u>
Governmental Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	\$6,777,072	\$320,664	\$0	\$7,097,736
Construction in Progress	<u>3,664,359</u>	<u>20,297,880</u>	<u>0</u>	<u>23,962,239</u>
Total Capital Assets, not being depreciated	<u>10,441,431</u>	<u>20,618,544</u>	<u>0</u>	<u>31,059,975</u>
<i>Capital Assets, being depreciated:</i>				
Buildings and Improvements	8,169,908	0	0	8,169,908
Equipment	<u>5,334,470</u>	<u>227,705</u>	<u>161,137</u>	<u>5,401,038</u>
<i>Total Capital Assets, being depreciated:</i>	<u>13,504,378</u>	<u>227,705</u>	<u>161,137</u>	<u>13,570,946</u>
Totals at Historical Cost	<u>\$23,945,809</u>	<u>\$20,846,249</u>	<u>\$161,137</u>	<u>\$44,630,921</u>
Less Accumulated Depreciation:				
Buildings and Improvements	6,042,313	127,167	0	6,169,480
Equipment	<u>4,150,419</u>	<u>399,633</u>	<u>160,573</u>	<u>4,389,479</u>
Total Accumulated Depreciation	<u>10,192,732</u>	<u>526,800</u>	<u>160,573</u>	<u>10,558,959</u>
Governmental Activities Capital Assets, Net	<u>\$13,753,077</u>	<u>\$20,319,449</u>	<u>\$564</u>	<u>\$34,071,962</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$121,494
Special	6,530
Vocational	5,769
Support Services:	
Pupils	5,760
Instructional Staff	12,372
General Administration	669
School Administration	13,895
Fiscal	1,550
Operations and Maintenance	111,599
Pupil Transportation	136,057
Central	13,452
Operation of Non-Instructional Services	67,556
Extracurricular Activities	30,097
Total Depreciation Expense	<u><u>\$526,800</u></u>

7. LONG-TERM LIABILITIES

	<u>Maturity Dates</u>	<u>Beginning Balance</u>	<u>Issued</u>	<u>Retired</u>	<u>Ending Balance</u>	<u>Due In One Year</u>
Governmental Activities:						
General Obligation Bonds:						
School Improvement Bonds						
2004 4.62%	12/1/32	\$19,650,000	\$0	\$420,000	\$19,230,000	\$430,000
Stadium Project - Refinancing						
2002 1.60-3.55%	6/1/14	695,000	0	105,000	590,000	105,000
Current Interest Bonds -						
School Improvement 2005						
4.87%	12/1/33	10,545,007	0	0	10,545,007	50,000
Premium on 2005 School						
Improvement Bonds	12/1/33	534,422	0	20,167	514,255	0
Capital Appreciation Bonds -						
School Improvement 2005						
Accreted Interest	12/1/15	454,993	0	0	454,993	0
Notes Payable	6/1/14	276,702	0	27,907	248,795	29,595
Capital Lease	6/1/09	142,876	0	55,043	87,833	57,829
Total Long Term Debt		32,299,000	77,888	628,117	31,748,771	672,424
Compensated Absences		1,869,159	420,516	442,981	1,846,694	354,318
Total Governmental Activities		<u>\$34,168,159</u>	<u>\$498,404</u>	<u>\$1,071,098</u>	<u>\$33,595,465</u>	<u>\$1,026,742</u>

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

Fiscal Year Ending June 30	<u>Current Interest Bonds</u>			<u>Capital Appreciation Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$614,595	\$1,396,181	\$2,010,776	\$0	\$0	\$0
2009	601,386	1,378,744	1,980,130	0	0	0
2010	618,284	1,359,914	1,978,198	0	0	0
2011	845,298	1,335,221	2,180,519	0	0	0
2012	892,434	1,303,696	2,196,130	0	0	0
2013-2017	3,446,798	6,206,612	9,653,410	454,993	700,007	1,155,000
2018-2022	5,620,000	5,015,283	10,635,283	0	0	0
2023-2027	7,085,000	3,514,061	10,599,061	0	0	0
2028-2032	8,995,000	1,567,516	10,562,516	0	0	0
2033	1,895,007	45,006	1,940,013	0	0	0
Total	<u>\$30,613,802</u>	<u>\$23,122,234</u>	<u>\$53,736,036</u>	<u>\$454,993</u>	<u>\$700,007</u>	<u>\$1,155,000</u>

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.

School Improvement Bonds

In November 2005, the District issued \$11,000,000 in school improvement bonds that are for the purpose of new construction, improvements, renovations, and additions to school facilities. The \$544,901 premium on the issuance of the bonds is included in this new debt and will be amortized over the remaining life of the debt which has a final maturity date of December 1, 2032. The new debt will be retired from the debt service fund.

The bonds are not subject to optional redemption prior to maturity. Of the \$11,000,000 issued, \$10,545,007 represents serial bonds and \$454,993 is capital appreciation bonds. The serial bonds mature at varying amounts through December 1, 2032.

The capital appreciation bonds will mature in fiscal years 2013 through 2015. The final maturity amount of the bonds is \$1,155,000. For fiscal year 2007, \$77,888 of accretion was recorded for the capital appreciation bonds.

8. LEASES

CAPITAL LEASES

The District has a capital lease for June 30, 2007 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.

<u>Fiscal Year</u> <u>Ending June 30,</u>	<u>Long-Term</u> <u>Debt</u>
2008	\$60,878
2009	<u>30,439</u>
Total Minimum Lease Payments	91,317
Less: Amount Representing Interest	<u>(3,484)</u>
Present Value of Minimum Lease Payments	<u>\$87,833</u>

9. PENSION PLANS

SCHOOL EMPLOYEES RETIREMENT SYSTEM

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-37466 or by calling toll free (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations, with the remainder being used to fund health care benefits; for fiscal year 2007, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal years 2006 and 2005, 10.57 percent and 9.09 percent, respectively, 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 statutory maximum amounts, by SERS' Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006, and 2005, were \$779,676,

\$763,800, and \$689,592, respectively; 52.5 percent has been contributed for fiscal year 2007 and 100 percent for the fiscal years 2006 and 2005.

STATE TEACHERS RETIREMENT SYSTEM

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits, based on eligible service credit to members and beneficiaries. STRS issues a stand-alone financial report. Copies of the report can be requested by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling toll-free 1-888-227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans: a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. The DC plan allows members to allocate all their member contributions and employer contributions equal to 10.5 percent of earned compensation among various investment choices. The Combined Plan offers features of the DC plan and the DB plan. In the Combined plan, member contributions are allocated to investment choices by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB plan. Contributions to the DC plan and the Combined plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined plan members will transfer to the DB plan during their fifth year of membership unless they permanently select the DC or Combined plan.

DB plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit," the retirement allowance is based on the years of credited service and final average salary, which is the average of the member's three highest salary years. The annual allowance is calculated by using a base percentage of 2.2 percent multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5 percent. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6 percent for 32 years, 2.7 percent for 33 years and so on) until 100 percent of final average salary is reached. For members with 35 or more years of Ohio contributing service the first 30 years will be calculated at 2.5 percent instead of 2.2 percent. Under the "money-purchase benefit" calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC plan benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC plan, all member contributions and employer contributions at a rate of 10.5 percent are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members' accounts are vested after the first anniversary of the first day of paid service. 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.

In the Combined plan, member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefits are determined by multiplying 1 percent of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

A DB or Combined Plan member with five or more years of credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the DB plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined plans. Various other benefits are available to members' beneficiaries.

For the fiscal years ended June 30, 2007, 2006 and 2005, plan members are required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2007, 2006 and 2005, were \$2,197,620, \$2,128,056, and \$1,983,384, respectively; 90.5 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005.

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 provides access to health care coverage to retirees who participated in the DB or Combined Plans and their dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Pursuant to the Revised Code, STRS has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium.

The Revised Code grants authority to STRS to provide health care coverage to eligible benefit recipients, spouse and dependents. By Ohio law, health care benefits are not guaranteed and the cost of the coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. STRS allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For the fiscal year ended June 30, 2007, the STRS Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$156,973 for fiscal year 2007.

The balance in the Health Care Stabilization Fund was \$3.5 billion on June 30, 2006 (the latest information available). For the fiscal year ended June 30, 2006, net health care costs paid by STRS were \$282,743,000 and STRS had 119,184 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, 2007, employer contributions to fund health care benefits were 3.42 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2007 fiscal year, District paid \$294,555 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 the projected claims less premium contributions for the next fiscal year. As of June 30, 2006 (the latest information available), the value of the health care fund was \$295.6 million, which is about 221% of next year's projected net health costs. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term to provide for a health care reserve equal to at least 150% of estimated annual net claims costs. SERS has approximately 59,492 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, 2007.

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 Educational Service Center has, by a resolution adopted February 6, 1990, pursuant to Section 3311.50 of the Revised Code, created a county school financing district known as the Lake County School Financing District (the "Financing District") for the purpose of levying taxes for the provision of the following specified educational programs and services by the school districts that are part of the 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 Educational Service Center acts as the taxing authority of the Financing District pursuant to Section 3311.50 of the Revised Code. The Financing District receives settlements of taxes levied and distributes within ten days to each of the Member Districts (including 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.

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 nine Lake County school districts plus Lake County Community College and Lake County Educational Service Center. 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 2007, the District contracted with Indiana Insurance 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 the Lake County Council of Governments Health Care Benefits Program.

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, 2007, 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, 2006	(\$163,535)	\$0	\$105,468
Current Year Set-aside Requirement	463,117	463,117	0
Qualified Disbursements	<u>(361,765)</u>	<u>(21,124,657)</u>	<u>0</u>
Total	<u>(\$62,183)</u>	<u>(\$20,661,540)</u>	<u>\$105,468</u>
Set-aside Reserve Balance			
Carried Forward to Future Years	(\$62,183)	\$0	\$0
Set-aside Balance as of June 30, 2007	\$0	\$0	\$105,468
Designation Balance as of June 30, 2007	\$0	\$0	<u>\$433,222</u>
Restricted Cash as of June 30, 2007			<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, 2007, 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	\$70,784	\$0	\$0	\$124,647
Other Governmental Funds	<u>0</u>	<u>70,784</u>	<u>248,576</u>	<u>123,929</u>
Total all funds	<u>\$70,784</u>	<u>\$70,784</u>	<u>\$248,576</u>	<u>\$248,576</u>

Transfers out of the General Fund were made to provide resources to other governmental funds.

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. ACCOUNTABILITY AND COMPLIANCE

Accountability

The following funds had a deficit in fund balance:

Special Revenue Funds:	
Poverty Based Assistance	\$426,155
Adult Basic Education	935
Migrant Education	18,660
Title VI-B	55,956
Title III	36,801
Community Development	7,998
Title I	106,623
Drug Free Schools	572
Preschool	4,542
Improving Teacher Grants	28,892
Child Care	3,270

The deficit in fund balance was due to accruals in GAAP. The general fund is liable for any deficit in these funds and will provide operating transfers when cash is required not when accruals occur.

Compliance

The following funds had original appropriations plus carryover encumbrances in excess estimated resources contrary to Section 5705.39, Ohio Revised Code:

Special Revenue Funds:	
Other Grants	\$23,560
Management Information Services	11,815
Ohio Reads Grant	7,812
Poverty Based Assistance	427,067
Adult Basic Education	30
Migrant Education	22,024
Title VI-B	5,583
Title I	138,101
IDEA Preschool Grant for the Handicapped	1,003
Capital Project Funds:	
SchoolNet Equipment	76

20. CONSTRUCTION AND OTHER COMMITMENTS

At June 30, 2007, uncompleted construction contracts are as follows:

<u>Description</u>	<u>Remaining Commitments</u>
School Construction:	
Chestnut Elementary	
John G. Johnson Construction Company	\$134,361
Elm Elementary	
AJ Goulder Electric Company	982,489
Mr. Excavator	462,785
United Mechanical Contractors	483,655
Heritage	
AJ Goulder Electric Company	1,201,826
Blaze Building Corporation	5,109,008
John F. Gallagher Company	462,961
Reliance Mechanical LLC	1,573,006
Maple Elementary	
CT Taylor Company, Inc.	5,159,794
Great Lakes Crushing	924,181
VIP Electric	955,204
Construction Management	
RP Carbone	<u>2,271,288</u>
	<u>\$19,720,558</u>

**REQUIRED
SUPPLEMENTARY
INFORMATION**

Painesville City Local School District
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2007

	General Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Revenues:				
Taxes	\$11,228,723	\$11,080,036	\$11,000,266	(\$79,770)
Tuition and Fees	1,496,951	1,279,123	1,466,494	187,371
Investment Earnings	533,661	466,215	522,803	56,588
Intergovernmental	15,872,391	15,583,703	15,549,455	(34,248)
Extracurricular Activities	9,209	13,600	9,022	(4,578)
Other Revenues	294,046	280,188	288,063	7,875
Total Revenues	29,434,981	28,702,865	28,836,103	133,238
Expenditures:				
Current:				
Instruction:				
Regular	12,114,068	12,401,555	11,151,281	1,250,274
Special	2,886,537	2,873,190	2,657,124	216,066
Vocational	572,528	559,510	527,025	32,485
Other	3,243,262	3,233,536	2,985,498	248,038
Support Services:				
Pupil	1,557,810	1,485,959	1,434,000	51,959
Instructional Staff	1,226,253	1,376,468	1,128,794	247,674
General Administration	137,967	175,650	127,002	48,648
School Administration	3,635,555	3,550,885	3,346,613	204,272
Fiscal	698,094	639,153	642,612	(3,459)
Business	92,271	95,528	84,938	10,590
Operations and Maintenance	2,983,629	3,063,975	2,746,500	317,475
Pupil Transportation	1,490,528	1,476,383	1,372,066	104,317
Central	316,867	172,982	291,683	(118,701)
Operation of Non-Instructional Services	179,660	189,724	165,381	24,343
Extracurricular Activities	502,975	466,982	463,000	3,982
Capital Outlay	129,940	202,451	119,613	82,838
Total Expenditures	31,767,944	31,963,931	29,243,130	2,720,801
Excess of Revenues Over (Under) Expenditures	(2,332,963)	(3,261,066)	(407,027)	2,854,039
Other financing sources (uses):				
Advances In	40,251	50,000	39,432	(10,568)
Advances (Out)	(42,516)	0	(39,137)	(39,137)
Transfers (Out)	(135,409)	(89,272)	(124,647)	(35,375)
Total Other Financing Sources (Uses)	(137,674)	(39,272)	(124,352)	(85,080)
Net Change in Fund Balance	(2,470,637)	(3,300,338)	(531,379)	2,768,959
Fund Balance Beginning of Year (includes prior year encumbrances appropriated)	7,772,698	7,772,698	7,772,698	0
Fund Balance End of Year	\$5,302,061	\$4,472,360	\$7,241,319	\$2,768,959

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, 2007**

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 2007.

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	\$77,639
Net Adjustment for Revenue Accruals	323,973
Net Adjustment for Expenditure Accruals	64,028
Encumbrances	<u>(997,019)</u>
Budget Basis	<u>(\$531,379)</u>

**Report on Internal Control over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

Board of Education
Painesville City Local School District
Painesville, Ohio

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 (the “District”), as of and for the year ended June 30, 2007, which collectively comprise the District’s basic financial statements and have issued our report thereon dated December 20, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Painesville City Local School District’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Painesville City Local School District’s internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Painesville City Local School District’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District’s financial statements that is more than inconsequential will not be prevented or detected by the Painesville City Local School District’s internal control.

We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting: 2007-1 and 2007-2.

Board of Education
Painesville City Local School District

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe finding number 2007-2 is also a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Painesville City Local School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2007-1.

We noted certain matters that we reported to management of the Painesville City Local School District in a separate letter dated December 20, 2007.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Education, management, the Auditor of State's Office, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ciuni & Panichi, Inc.

Cleveland, Ohio
December 20, 2007

**Report on Compliance with Requirements Applicable to
Each Major Program and Internal Control Over
Compliance in Accordance with OMB Circular A-133**

Board of Education
Painesville City Local School District
Painesville, Ohio

Compliance

We have audited the compliance of the Painesville City Local School District, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The Painesville City Local School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Painesville City Local School District's management. Our responsibility is to express an opinion on the Painesville City Local School District's compliance based on our audit.

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

In our opinion, the Painesville City Local School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2007.

Internal Control over Compliance

The management of the Painesville City Local School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Painesville City Local School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of the Painesville City Local School District's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A control deficiency in the Painesville City Local School District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Painesville City Local School District's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

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 as of and for the year ended June 30, 2007, and have issued our report there on dated December 20, 2007.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Painesville City Local School District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education, management, the Auditor of State's Office, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Cini & Panichi, Inc.

Painesville City Local School District

Schedule of Expenditures of Federal Awards

For the year ended June 30, 2007

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Number	Receipts	Non-cash Receipts	Disbursements	Non-Cash Disbursements
U.S. Department of Agriculture: Passed-Through Ohio Department of Education:						
Food Distribution	10.550	N/A	\$ -	\$ 42,579	\$ -	\$ 42,579
Nutrition Cluster:						
School Breakfast Program	10.553	044628-05PU-2006	65,971	-	65,971	-
School Breakfast Program	10.553	044628-05PU-2007	145,378	-	145,378	-
Subtotal National School Breakfast Program			211,349	-	211,349	-
School Lunch Program	10.555	044628-LLP1-2007	3,564	-	3,564	-
School Lunch Program	10.555	044628-LLP4-2006	220,311	-	220,311	-
School Lunch Program	10.555	044628-LLP4-2007	500,811	-	500,811	-
Subtotal National School Lunch Program			724,686	-	724,686	-
Summer Food Service Program	10.559	044628-24PU-2006	37,860	-	37,860	-
Total Nutrition Cluster			973,895	-	973,895	-
Total U.S. Department of Agriculture			973,895	42,579	973,895	42,579
U.S. Department of Defense:						
Emergency Operations Flood Response and Post Flood Response	12.103	N/A	35,977	-	12,427	-
Total U.S. Department of Defense			35,977	-	12,427	-
U.S. Department of Education: Passed-Through Ohio Department of Education:						
Special Education Cluster:						
Preschool Grant	84.173	044628-PGS1-2006	(798)	-	781	-
Preschool Grant	84.173	044628-PGS1-2007	32,041	-	33,523	-
Subtotal Preschool Grant			31,243	-	34,304	-
Title VI-B	84.027	044628-6BSF-2006	62,056	-	113,510	-
Title VI-B	84.027	044628-6BSF-2007	838,763	-	782,896	-
Subtotal Title VI-B			900,819	-	896,406	-
Total Special Education Cluster			932,062	-	930,710	-
Title I	84.010	044628-C1S1-2006	135,343	-	146,534	-
Title I	84.010	044628-C1S1-2007	841,491	-	794,626	-
Title I	84.010	044628-C1SD-2006	4,304	-	4,304	-
Title I	84.010	044628-C1SD-2007	15,220	-	15,220	-
Title I	84.010	044628-C1SN-2006	(185)	-	-	-
Title I	84.010	044628-C1SN-2007	185	-	-	-
Total Title I			996,358	-	960,684	-
Innovative Education Program Strategy	84.298	044628-C2S1-2006	(21)	-	1,205	-
Innovative Education Program Strategy	84.298	044628-C2S1-2007	5,523	-	5,126	-
Total Innovative Education Program Strategy			5,502	-	6,331	-
Adult Education	84.002	044628-ABS1-2006	-	-	573	-
Adult Education	84.002	044628-ABS1-2007	59,647	-	60,674	-
Adult Education	84.002	044628-ABS2-2006	(330)	-	-	-
Adult Education	84.002	044628-ABS2-2007	27,316	-	27,011	-
Total Adult Education			86,633	-	88,258	-

The accompanying notes are an integral part of this schedule.

Painesville City Local School District

Schedule of Expenditures of Federal Awards – continued

For the year ended June 30, 2007

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Number	Receipts	Non-cash Receipts	Disbursements	Non-Cash Disbursements
Migrant Education	84.011	044628-MGS1-2006	170,906	-	196,698	-
Migrant Education	84.011	044628-MGS1-2007	<u>192,324</u>	-	<u>179,227</u>	-
Total Migrant Education			<u>363,230</u>	-	<u>375,925</u>	-
Drug Free Schools	84.186	044628-DRS1-2006	(1,691)	-	93	-
Drug Free Schools	84.186	044628-DRS1-2007	<u>16,270</u>	-	<u>16,842</u>	-
Total Drug Free Schools			<u>14,579</u>	-	<u>16,935</u>	-
Assistive Technology Grant	84.332	044628-RFCC-2006	(37,326)	-	4,239	-
Assistive Technology Grant	84.332	044628-RFCC-2007	<u>137,326</u>	-	<u>106,313</u>	-
Total Assistive Technology Grant			<u>100,000</u>	-	<u>110,552</u>	-
Title II-D	84.318	044628-TJS1-2006	2,042	-	6,191	-
Title II-D	84.318	044628-TJS1-2007	<u>10,075</u>	-	<u>9,845</u>	-
Total Title II-D			<u>12,117</u>	-	<u>16,036</u>	-
Title III	84.365	044628-T3S1-2004	-	-	291	-
Title III	84.365	044628-T3S1-2006	25,994	-	26,832	-
Title III	84.365	044628-T3S1-2007	<u>161,603</u>	-	<u>156,979</u>	-
Total Title III			<u>187,597</u>	-	<u>184,102</u>	-
Title II-A	84.367	044628-TRS1-2006	34,041	-	37,158	-
Title II-A	84.367	044628-TRS1-2007	<u>167,160</u>	-	<u>159,827</u>	-
Total Title II-A			<u>201,201</u>	-	<u>196,985</u>	-
Total U.S. Department of Education			<u>2,899,279</u>	-	<u>2,886,518</u>	-
U.S. Department of Health & Human Services:						
Passed-Through Ohio Department of Human Services; passed through Ohio Department of Mental Retardation and Developmental Disabilities:						
Medicaid Cluster:						
Medicaid Assistance Program – Title XIX	93.778	N/A	81,357	-	81,357	-
Student Children’s Health Insurance Program	93.767	N/A	<u>2,772</u>	-	<u>2,772</u>	-
Total Department of Health & Human Services			<u>84,129</u>	-	<u>84,129</u>	-
Total Expenditures of Federal Awards			\$ <u>3,993,280</u>	\$ <u>42,579</u>	\$ <u>3,956,969</u>	\$ <u>42,579</u>

The accompanying notes are an integral part of this schedule.

Painesville City Local School District

Notes to the Schedule of Expenditures of Federal Awards

June 30, 2007

Note 1: Significant Accounting Policies

Basis of Presentation

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

Non-Cash Support

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

CFDA – Catalog of Federal Domestic Assistance

Painesville City Local School District

Schedule of Findings
OMB Circular A-133 Section .505

June 30, 2007

1. Summary of Auditors' Results

(d)(I)(i)	Type of Financial Statement Opinion	Unqualified
(d)(I)(ii)	Was there any significant deficiencies reported at the financial statement level (GAGAS)?	Yes
(d)(I)(ii)	Were there any other material weaknesses reported at the financial statement level (GAGAS)?	Yes
(d)(I)(iii)	Was there any material noncompliance reported at the financial statement level (GAGAS)?	Yes
(d)(I)(iv)	Was there any material weaknesses reported for major federal programs?	No
(d)(I)(iv)	Were there any significant control deficiencies reported for major federal programs?	No
(d)(I)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(I)(vi)	Are there any reportable findings under Section .501?	No
(d)(I)(vii)	Major Programs	Nutrition Cluster CFDA 10.553, 10.555, 10559 Food Distribution CFDA 10.550
	Dollar Threshold: Type A/B Programs	Type A: >\$300,000 Type B: All Others
(d)(I)(ix)	Low Risk Auditee?	Yes

Painesville City Local School District

Schedule Of Findings (Continued)
OMB Circular A-133 Section .505

June 30, 2007

2. Findings Related to the Financial Statements Required to be Reported in Accordance With GAGAS

Findings	Findings Summary																																																				
2007-1	<p data-bbox="305 548 1419 583"><i>Budgetary Control – Material Noncompliance / Significant Deficiency</i></p> <p data-bbox="305 611 1419 705">Per ORC Section 5705.39, total appropriations from each fund shall not exceed the total estimated revenue. The following funds had original appropriations plus carryover encumbrances in excess estimated resources:</p> <table data-bbox="305 737 1419 1272"> <thead> <tr> <th></th> <th style="text-align: center;">Certificate Of Estimated <u>Original</u></th> <th style="text-align: center;">Original <u>Appropriations</u></th> <th style="text-align: center;"><u>Excess</u></th> </tr> </thead> <tbody> <tr> <td colspan="4">Special Revenue Funds:</td> </tr> <tr> <td>Other Grants</td> <td style="text-align: right;">\$ 45,000</td> <td style="text-align: right;">\$ 68,560</td> <td style="text-align: right;">\$ 23,560</td> </tr> <tr> <td>Management Information Services</td> <td style="text-align: right;">51,500</td> <td style="text-align: right;">63,315</td> <td style="text-align: right;">11,815</td> </tr> <tr> <td>Ohio Reads Grant</td> <td style="text-align: right;">106,492</td> <td style="text-align: right;">114,304</td> <td style="text-align: right;">7,812</td> </tr> <tr> <td>Poverty Based Assistance</td> <td style="text-align: right;">2,000,000</td> <td style="text-align: right;">2,427,067</td> <td style="text-align: right;">427,067</td> </tr> <tr> <td>Adult Basic Education</td> <td style="text-align: right;">82,195</td> <td style="text-align: right;">82,225</td> <td style="text-align: right;">30</td> </tr> <tr> <td>Migrant Education</td> <td style="text-align: right;">492,085</td> <td style="text-align: right;">514,109</td> <td style="text-align: right;">22,024</td> </tr> <tr> <td>Title VI-B</td> <td style="text-align: right;">923,636</td> <td style="text-align: right;">929,219</td> <td style="text-align: right;">5,583</td> </tr> <tr> <td>Title I</td> <td style="text-align: right;">1,222,554</td> <td style="text-align: right;">1,360,655</td> <td style="text-align: right;">138,101</td> </tr> <tr> <td>IDEA Preschool Grant for the Handicapped</td> <td style="text-align: right;">35,528</td> <td style="text-align: right;">36,531</td> <td style="text-align: right;">1,003</td> </tr> <tr> <td colspan="4">Capital Project Funds:</td> </tr> <tr> <td>SchoolNet Equipment</td> <td style="text-align: right;">1,000</td> <td style="text-align: right;">1,076</td> <td style="text-align: right;">76</td> </tr> </tbody> </table> <p data-bbox="305 1297 1419 1381">Official's Response: The District reviews the Original Certificate of Estimated Resources periodically through the year and forwards all changes in appropriations to the County Fiscal Officers for review at the county level.</p>		Certificate Of Estimated <u>Original</u>	Original <u>Appropriations</u>	<u>Excess</u>	Special Revenue Funds:				Other Grants	\$ 45,000	\$ 68,560	\$ 23,560	Management Information Services	51,500	63,315	11,815	Ohio Reads Grant	106,492	114,304	7,812	Poverty Based Assistance	2,000,000	2,427,067	427,067	Adult Basic Education	82,195	82,225	30	Migrant Education	492,085	514,109	22,024	Title VI-B	923,636	929,219	5,583	Title I	1,222,554	1,360,655	138,101	IDEA Preschool Grant for the Handicapped	35,528	36,531	1,003	Capital Project Funds:				SchoolNet Equipment	1,000	1,076	76
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Painesville City Local School District

Schedule Of Findings (Continued)
OMB Circular A-133 Section .505

June 30, 2007

2. Findings Related to the Financial Statements Required to be Reported in Accordance With GAGAS (continued)

Findings	Findings Summary
2007-2	<p data-bbox="305 548 1105 583"><i>Financial Reporting – Significant Deficiency / Material Weakness</i></p> <p data-bbox="305 611 1419 705">Sound financial reporting is the responsibility of the Treasurer and the Board of Education and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.</p> <p data-bbox="305 737 1419 800">The following audit adjustments were made to the financial statements, and where applicable, to the District’s accounting records:</p> <ol data-bbox="354 831 1419 1262" style="list-style-type: none"> Adjusted contracts payable by \$589,463 for amounts that were not originally recorded. Adjusted accounts payable by \$304,237 for amounts that were not originally recorded for construction in progress and also by \$208,667 for amounts related to land. Adjusted retainage payable by \$503,841 for amounts that were not originally recorded. Adjusted construction in progress by \$1,397,541 for the amounts of payables listed above that had not been originally recorded. Adjusted land by \$208,667 for the amount of payable listed above that had not been originally recorded. Adjusted intergovernmental receivable by \$143,141 for Food Service reimbursements that were not originally recorded as receivable or revenue. Adjusted taxes receivable by \$761,593 for homestead and rollback amounts that were originally recorded as part of the receivable that should have reduced the receivable and the deferred revenue. <p data-bbox="305 1293 1419 1388">The lack of controls over the posting of year-end financial transactions and financial reporting can result in errors and irregularities that may go undetected and decreases the reliability of financial data at year-end.</p> <p data-bbox="305 1419 1419 1703">We recommend the District adopts policies and procedures for controls over recording of year-end financial transactions and over financial report to help ensure the information accurately reflects the activity of the District and thereby increasing the reliability of the financial data at year-end. Although the District has contracted a third party to perform their GAAP Conversion, the District’s management needs to review the statements to be sure that all items are being properly recorded. As a significant portion of the adjustments related to the construction projects with the Ohio Schools Facilities Commission, it is also recommended that a person is designated to monitor these expenses regularly and be sure that all contractors’ payments are up to date.</p> <p data-bbox="305 1734 1419 1793">Officials Response: Management will develop a process to oversee the GAAP conversion process more closely and have better communication with them.</p>

Painesville City Local School District

Schedule Of Findings (Continued)
OMB Circular A-133 Section .505

June 30, 2007

3. Findings for Federal Awards

There were no findings for federal awards to report in 2007.

Painesville City Local School District

Schedule of Prior Year Findings
OMB Circular A-133 Section .315(b)

June 30, 2007

Finding Number	Finding Summary	Corrected	Responsible Contact Person; Not Corrected, Partially Corrected
2006-1	Ohio Rev. Code Section 5705.39, total appropriations from each fund should not exceed the total estimated revenue	No	Rick Taylor, Treasurer; Not corrected, reissued as 2007-1.

Painesville City Local School District

**58 Jefferson Street
Painesville, Ohio 44077
(440) 392-5060**

**Response To Findings Associated With Audit Conducted
In Accordance With *Government Auditing Standards***

June 30, 2007

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2007-1	Ohio Rev. Code Section 5705.39, total appropriations from each fund should not exceed the total estimated revenue	Fiscal Year 2008	Rick Taylor, Treasurer;



Mary Taylor, CPA
Auditor of State

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
JANUARY 22, 2008**