



**Auditor of State
Betty Montgomery**

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT
LAKE COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying general-purpose financial statements of the Painesville City Local School District, Lake County, Ohio (the District) as of and for the year ended June 30, 2002, as listed in the table of contents. These general-purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Painesville City Local School District, Lake County, as of June 30, 2002, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 9, during the year ended June 30, 2002, the District adjusted its beginning fixed assets based on an inventory taken and a new capitalization threshold.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 2003 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying schedule of federal awards expenditures is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general-purpose financial statements. We subjected this information to the auditing procedures applied in the audit of the general-purpose financial statements. In our opinion, it is fairly stated in all material respects, in relation to the general-purpose financial statements taken as a whole.

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

Betty Montgomery
Auditor of State

March 14, 2003

PAINESVILLE CITY LOCAL SCHOOL DISTRICT
LAKE COUNTY
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2002

	Governmental Fund Types				Proprietary Fund Types			Fiduciary Fund Types			Account Group		Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service	Expendable Trust and Agency	General		Fixed Assets			
								Long-term Debt					
ASSETS AND OTHER DEBITS:													
Assets:													
Equity in pooled cash and investments	\$ 5,744,295	\$ 535,115	\$ 151,910	\$ 143,551	\$ 323,609	\$ 1,391	\$ 73,092	\$ -	\$ -	\$ -	\$ -	\$ 6,972,963	
Restricted cash	538,690	-	-	-	-	-	-	-	-	-	-	538,690	
Cash with fiscal agent	486,833	-	-	-	-	-	-	-	-	-	-	486,833	
Receivables:													
Taxes	9,640,484	-	135,180	177,452	-	-	-	-	-	-	-	9,953,116	
Accounts	517	-	-	-	-	-	-	-	-	-	-	517	
Accrued interest	2,310	-	-	-	-	-	-	-	-	-	-	2,310	
Interfund	18,208	-	-	-	-	-	-	-	-	-	-	18,208	
Intergovernmental	192,593	118	1,225	1,750	-	-	-	-	-	-	-	195,686	
Materials and supplies inventory	21,622	-	-	-	20,853	-	-	-	-	-	-	42,475	
Fixed assets - net of accumulated depreciation	-	-	-	-	61,165	-	-	-	-	12,549,367	-	12,610,532	
Other Debits:													
Amount to be provided for retirement of general long-term debt	-	-	-	-	-	-	-	-	3,523,016	-	-	3,523,016	
Amount available in Debt Service Fund	-	-	-	-	-	-	-	-	151,910	-	-	151,910	
Total assets and other debits	\$ 16,645,552	\$ 535,233	\$ 288,315	\$ 322,753	\$ 405,627	\$ 1,391	\$ 73,092	\$ 3,674,926	\$ 12,549,367	\$ 34,496,256			

The accompanying notes are an integral part of the financial statements.

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT
LAKE COUNTY
COMBINED BALANCE SHEET (CONTINUED)
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2002**

	Governmental Fund Types				Proprietary Fund Types			Fiduciary Fund Types			Account Group		Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service	Expendable Trust and Agency	General Long-term Debt	Fixed Assets				
LIABILITIES, FUND EQUITY AND OTHER CREDITS:													
Liabilities :													
Accounts payable	\$ 134,733	\$ 46,250	\$ -	\$ -	\$ 10,604	\$ 539	\$ 2,496	\$ -	\$ -	\$ -	\$ -	\$ 194,622	
Accrued wages and benefits	2,490,440	486,883	-	-	28,079	-	-	237,726	-	-	-	3,243,128	
Interfund payable	-	13,776	-	-	4,432	-	-	-	-	-	-	18,208	
Due to students	-	-	-	-	-	-	56,502	-	-	-	-	56,502	
Compensated absences payable	360,126	14,411	-	-	21,984	-	-	1,158,286	-	-	-	1,554,807	
Claims payable	232,070	-	-	-	-	-	-	-	-	-	-	232,070	
Deferred revenue	9,259,700	-	126,820	166,937	6,241	-	-	-	-	-	-	9,559,698	
General obligation bonds payable	-	-	-	-	-	-	-	1,075,000	-	-	-	1,075,000	
Notes payable	-	-	-	-	-	-	-	446,256	-	-	-	446,256	
Capital lease obligations	-	-	-	-	-	-	-	757,658	-	-	-	757,658	
Total liabilities	12,477,069	561,320	126,820	166,937	71,340	539	58,998	3,674,926	-	-	-	17,137,949	
Fund Equity and Other Credits:													
Retained earnings:													
Investment in general fixed assets	-	-	-	-	-	-	-	-	12,549,367	-	-	12,549,367	
Unreserved	-	-	-	-	334,287	852	-	-	-	-	-	335,139	
Fund Balances:													
Reserved for encumbrances	1,298,879	96,507	-	10,419	-	-	-	-	-	-	-	1,405,805	
Reserved for revenue bond retirement	-	-	151,910	-	-	-	-	-	-	-	-	151,910	
Reserved for inventory	21,622	-	-	-	-	-	-	-	-	-	-	21,622	
Budget stabilization reserve	105,468	-	-	-	-	-	-	-	-	-	-	105,468	
Property tax reserve	512,727	-	9,585	12,265	-	-	-	-	-	-	-	534,577	
Unreserved:													
Board designation for budget stabilization	433,222	-	-	-	-	-	-	-	-	-	-	433,222	
Designated for Claims	254,763	-	-	-	-	-	-	-	-	-	-	254,763	
Undesignated	1,541,802	(122,594)	-	133,132	-	-	14,094	-	-	-	-	1,566,434	
Total fund equity and other credits	4,168,483	(26,087)	161,495	155,816	334,287	852	14,094	-	12,549,367	-	-	17,358,307	
Total liabilities, fund equity and other credits	\$ 16,645,552	\$ 535,233	\$ 288,315	\$ 322,753	\$ 405,627	\$ 1,391	\$ 73,092	\$ 3,674,926	\$ 12,549,367	\$ -	\$ -	\$ 34,496,256	

The accompanying notes are an integral part of the financial statements.

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT
LAKE COUNTY
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2002**

	Governmental Fund Types				Fiduciary	Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	
REVENUES:						
Revenue from local sources:						
Taxes	\$ 10,038,889	\$ -	\$ 135,910	\$ 169,840	\$ -	\$ 10,344,639
Tuition	635,309	-	-	-	-	635,309
Transportation fees	35,012	-	-	-	-	35,012
Earnings on investments	195,537	2,109	-	2,960	204	200,810
Extracurricular activities	-	103,270	-	-	-	103,270
Classroom materials and fees	18,203	848	-	-	-	19,051
Miscellaneous receipts - local sources	85,925	44,870	-	-	1,662	132,457
Revenue from intermediate sources:						
Unrestricted grants-in-aid	42,706	-	-	-	-	42,706
Restricted grants-in-aid	-	57,127	-	-	-	57,127
Revenue from state sources:						
Unrestricted grants-in-aid	11,317,412	-	16,335	20,582	-	11,354,329
Restricted grants-in-aid	343,924	1,697,874	-	69,920	-	2,111,718
Revenue from federal sources:						
Unrestricted grants-in-aid	-	1,337,256	-	-	-	1,337,256
Restricted grants-in-aid	-	16,514	-	-	-	16,514
Total revenue	<u>22,712,917</u>	<u>3,259,868</u>	<u>152,245</u>	<u>263,302</u>	<u>1,866</u>	<u>26,390,198</u>
EXPENDITURES:						
Instruction:						
Regular	8,188,385	764,422	-	114,267	-	9,067,074
Special	1,867,737	828,484	-	-	-	2,696,221
Vocational	458,667	-	-	-	-	458,667
Other	1,837,649	97,663	-	-	-	1,935,312
Supporting services:						
Pupils	1,197,276	503,439	-	-	2,900	1,703,615
Instructional staff	751,525	594,374	-	-	225	1,346,124
Board of Education	118,257	-	-	-	-	118,257
Administration	2,453,671	193,740	-	-	7	2,647,418
Fiscal services	555,124	-	1,593	2,019	-	558,736
Business	54,437	-	-	-	-	54,437
Operation and maintenance - plant	2,930,026	6,066	-	112,264	-	3,048,356
Pupil transportation	1,311,631	14,451	-	-	-	1,326,082
Central	271,794	-	-	26,500	-	298,294
Operation of non-instructional services:						
Food service	1,858	9,158	-	-	-	11,016
Community services	-	423,875	-	-	-	423,875
Extracurricular activities:						
Academic and subject oriented activities	26,198	2,720	-	-	-	28,918
Sports oriented activities	244,193	91,750	-	-	-	335,943
Co-curricular activities	63,029	27,242	-	-	-	90,271
Facility acquisition and construction:						
Other facility acquisition and construction	262,594	-	-	-	-	262,594
Debt service:						
Principal	-	-	152,312	-	-	152,312
Interest	-	-	103,150	-	-	103,150
Total expenditures	<u>22,594,051</u>	<u>3,557,384</u>	<u>257,055</u>	<u>255,050</u>	<u>3,132</u>	<u>26,666,672</u>
Excess (deficiency) of revenues over (under) expenditures	<u>118,866</u>	<u>(297,516)</u>	<u>(104,810)</u>	<u>8,252</u>	<u>(1,266)</u>	<u>(276,474)</u>
OTHER FINANCING SOURCES (USES):						
Sale and gain on assets	635	-	-	-	-	635
Transfers-in	-	35,000	84,749	-	-	119,749
Refund of prior year's expenditures (revenues)	16,038	(17,115)	-	(3,700)	-	(4,777)
Transfers-out	(119,749)	-	-	-	-	(119,749)
Inception of capital lease	359,532	-	-	-	-	359,532
Total other financing sources (uses)	<u>256,456</u>	<u>17,885</u>	<u>84,749</u>	<u>(3,700)</u>	<u>-</u>	<u>355,390</u>
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	<u>375,322</u>	<u>(279,631)</u>	<u>(20,061)</u>	<u>4,552</u>	<u>(1,266)</u>	<u>78,916</u>
BEGINNING FUND BALANCE	<u>3,799,071</u>	<u>253,544</u>	<u>181,556</u>	<u>151,264</u>	<u>15,360</u>	<u>4,400,795</u>
INCREASE IN RESERVE FOR INVENTORY	<u>(5,910)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(5,910)</u>
ENDING FUND BALANCE	<u>\$ 4,168,483</u>	<u>\$ (26,087)</u>	<u>\$ 161,495</u>	<u>\$ 155,816</u>	<u>\$ 14,094</u>	<u>\$ 4,473,801</u>

The accompanying notes are an integral part of the financial statements.

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT
LAKE COUNTY
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BASIS) AND ACTUAL
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2002**

	General Fund		Variance Favorable (Unfavorable)
	Budget	Actual	
REVENUES			
Taxes	\$ 10,009,029	\$ 10,009,029	\$ -
Classroom materials and fees	18,203	18,203	-
Tuition	629,535	629,535	-
Extracurricular activities	-	-	-
Transportation fees	36,650	36,650	-
Earnings on investments	216,748	216,748	-
Miscellaneous	86,990	86,990	-
Revenue from intermediate sources	42,707	42,707	-
Revenue from state sources	11,661,335	11,661,335	-
Revenue from federal sources	-	-	-
Total revenues	<u>22,701,197</u>	<u>22,701,197</u>	<u>-</u>
EXPENDITURES			
Current			
Instruction:			
Regular	9,150,991	8,230,720	920,271
Special	1,963,663	1,865,676	97,987
Vocational	463,589	444,529	19,060
Adult-continuing	725	274	451
Other	3,315,208	2,479,322	835,886
Support services:			
Pupil	1,302,358	1,222,030	80,328
Instructional staff	830,695	753,755	76,940
Board of Education	123,167	118,454	4,713
Administration	2,739,401	2,548,796	190,605
Fiscal	625,810	534,862	90,948
Business	85,119	55,003	30,116
Operation and maintenance of plant	3,389,898	2,692,867	697,031
Pupil transportation	1,514,165	1,430,144	84,021
Central	336,331	299,635	36,696
Extracurricular activities:			
Academic and subject-oriented activities	45,718	26,297	19,421
Sports oriented	324,542	245,178	79,364
Co-curricular activities	66,061	63,029	3,032
Non-instructional services:			
Food services	1,858	1,858	-
Community services	-	-	-
Facilities acquisition and construction services:			
Architecture and engineering	240,277	101,332	138,945
Other facilities acquisition and construction	307,202	275,677	31,525
Repayment of debt	-	-	-
Total expenditures	<u>26,826,778</u>	<u>23,389,438</u>	<u>3,437,340</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(4,125,581)</u>	<u>(688,241)</u>	<u>3,437,340</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	420,340	-	(420,340)
Transfers out	(1,670,000)	(119,749)	1,550,251
Advances in	-	302,372	302,372
Advances out	(269,000)	(259,508)	9,492
Refund of prior year expenditures	-	16,128	16,128
Refund of prior year receipts	(900)	(90)	810
Proceeds from sale of assets	-	635	635
Total other financing sources (uses)	<u>(1,519,560)</u>	<u>(60,212)</u>	<u>1,459,348</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>(5,645,141)</u>	<u>(748,453)</u>	<u>4,896,688</u>
FUND BALANCES - BEGINNING OF YEAR	3,398,354	3,398,354	-
PRIOR YEAR ENCUMBRANCES - APPROPRIATED	2,199,641	2,199,641	-
FUND BALANCES - END OF YEAR	<u>\$ (47,146)</u>	<u>\$ 4,849,542</u>	<u>\$ 4,896,688</u>

The accompanying notes are an integral part of the financial statements.

Special Revenue Fund			Debt Service Fund		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
\$ -		\$ -	\$ 168,258	\$ 135,914	\$ (32,344)
1,000	848	(152)	-	-	-
-	-	-	-	-	-
130,000	103,270	(26,730)	-	-	-
-	-	-	-	-	-
10,000	4,154	(5,846)	-	-	-
60,000	44,870	(15,130)	-	-	-
60,000	57,127	(2,873)	-	-	-
2,000,000	1,697,874	(302,126)	16,335	16,335	-
1,830,000	1,353,770	(476,230)	-	-	-
4,091,000	3,261,913	(829,087)	184,593	152,249	(32,344)
746,737	721,087	25,650	-	-	-
1,089,616	835,847	253,769	-	-	-
-	-	-	-	-	-
113,948	100,890	13,058	-	-	-
-	-	-	-	-	-
651,811	489,727	162,084	-	-	-
618,284	557,860	60,424	-	-	-
-	-	-	-	-	-
265,636	193,287	72,349	-	-	-
-	-	-	2,001	1,593	408
-	-	-	-	-	-
11,007	6,066	4,941	-	-	-
25,707	14,451	11,256	-	-	-
-	-	-	-	-	-
7,640	2,744	4,896	-	-	-
104,058	95,568	8,490	-	-	-
31,305	27,635	3,670	-	-	-
12,727	9,927	2,800	-	-	-
574,222	509,192	65,030	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	255,462	255,462	-
4,252,698	3,564,281	688,417	257,463	257,055	408
(161,698)	(302,368)	(140,670)	(72,870)	(104,806)	(31,936)
41,253	35,000	(6,253)	84,749	84,749	-
(200)	-	200	-	-	-
400,430	258,008	(142,422)	-	-	-
(365,634)	(300,259)	65,375	-	-	-
50	50	-	-	-	-
(20,163)	(20,063)	100	-	-	-
-	-	-	-	-	-
55,736	(27,264)	(83,000)	84,749	84,749	-
(105,962)	(329,632)	(223,670)	11,879	(20,057)	(31,936)
504,557	504,557	-	171,968	171,968	-
217,430	217,430	-	-	-	-
\$ 616,025	\$ 392,355	\$ (223,670)	\$ 183,847	\$ 151,911	\$ (31,936)

(Continued)

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT
LAKE COUNTY
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BASIS) AND ACTUAL
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2002**

	Capital Projects Fund		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Taxes	\$ 413,207	\$ 168,730	\$ (244,477)
Classroom materials and fees	-	-	-
Tuition	-	-	-
Extracurricular activities	-	-	-
Transportation fees	-	-	-
Earnings on investments	7,249	2,960	(4,289)
Miscellaneous	-	-	-
Revenue from intermediate sources	-	-	-
Revenue from state sources	221,632	90,502	(131,130)
Revenue from federal sources	-	-	-
Total revenues	<u>642,088</u>	<u>262,192</u>	<u>(379,896)</u>
EXPENDITURES			
Current			
Instruction:			
Regular	232,871	122,061	110,810
Special	-	-	-
Vocational	-	-	-
Adult-continuing	-	-	-
Other	-	-	-
Support services:			
Pupil	-	-	-
Instructional staff	8,000	-	8,000
Board of Education	-	-	-
Administration	-	-	-
Fiscal	3,602	2,019	1,583
Business	-	-	-
Operation and maintenance of plant	181,864	114,889	66,975
Pupil transportation	-	-	-
Central	47,278	26,500	20,778
Extracurricular activities:			
Academic and subject-oriented activities	-	-	-
Sports oriented	-	-	-
Co-curricular activities	-	-	-
Non-instructional services:			
Food services	-	-	-
Community services	-	-	-
Facilities acquisition and construction services:			
Architecture and engineering	-	-	-
Other facilities acquisition and construction	-	-	-
Repayment of debt	-	-	-
Total expenditures	<u>473,615</u>	<u>265,469</u>	<u>208,146</u>
Excess (deficiency) of revenue over (under) expenditures	<u>168,473</u>	<u>(3,277)</u>	<u>(171,750)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	-
Transfers out	-	-	-
Advances in	-	-	-
Advances out	-	-	-
Refund of prior year expenditures	-	-	-
Refund of prior year receipts	(6,600)	(3,700)	2,900
Proceeds from sale of assets	-	-	-
Total other financing sources (uses)	<u>(6,600)</u>	<u>(3,700)</u>	<u>2,900</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>161,873</u>	<u>(6,977)</u>	<u>(168,850)</u>
FUND BALANCES - BEGINNING OF YEAR	33,897	33,897	-
PRIOR YEAR ENCUMBRANCES - APPROPRIATED	106,214	106,214	-
FUND BALANCES - END OF YEAR	<u>\$ 301,984</u>	<u>\$ 133,134</u>	<u>\$ (168,850)</u>

The accompanying notes are an integral part of the financial statements.

Expendable Trust Fund			Totals (Memorandum Only)		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
\$ -	\$ -	\$ -	\$ 10,590,494	\$ 10,313,673	\$ (276,821)
-	-	-	19,203	19,051	(152)
-	-	-	629,535	629,535	-
-	-	-	130,000	103,270	(26,730)
-	-	-	36,650	36,650	-
3,280	204	(3,076)	237,277	224,066	(13,211)
26,720	1,662	(25,058)	173,710	133,522	(40,188)
-	-	-	102,707	99,834	(2,873)
-	-	-	13,899,302	13,466,046	(433,256)
-	-	-	1,830,000	1,353,770	(476,230)
30,000	1,866	(28,134)	27,648,878	26,379,417	(1,269,461)
478	150	328	10,131,077	9,074,018	1,057,059
-	-	-	3,053,279	2,701,523	351,756
-	-	-	463,589	444,529	19,060
-	-	-	114,673	101,164	13,509
-	-	-	3,315,208	2,479,322	835,886
18,807	5,900	12,907	1,972,976	1,717,657	255,319
717	225	492	1,457,696	1,311,840	145,856
-	-	-	123,167	118,454	4,713
23	7	16	3,005,060	2,742,090	262,970
-	-	-	631,413	538,474	92,939
-	-	-	85,119	55,003	30,116
-	-	-	3,582,769	2,813,822	768,947
-	-	-	1,539,872	1,444,595	95,277
-	-	-	383,609	326,135	57,474
-	-	-	53,358	29,041	24,317
-	-	-	428,600	340,746	87,854
-	-	-	97,366	90,664	6,702
-	-	-	14,585	11,785	2,800
-	-	-	574,222	509,192	65,030
-	-	-	240,277	101,332	138,945
-	-	-	307,202	275,677	31,525
-	-	-	255,462	255,462	-
20,025	6,282	13,743	31,830,579	27,482,525	4,348,054
9,975	(4,416)	(14,391)	(4,181,701)	(1,103,108)	3,078,593
-	-	-	546,342	119,749	(426,593)
-	-	-	(1,670,200)	(119,749)	1,550,451
-	-	-	400,430	560,380	159,950
-	-	-	(634,634)	(559,767)	74,867
-	-	-	50	16,178	16,128
-	-	-	(27,663)	(23,853)	3,810
-	-	-	-	635	635
-	-	-	(1,385,675)	(6,427)	1,379,248
9,975	(4,416)	(14,391)	(5,567,376)	(1,109,535)	4,457,841
15,209	15,209	-	4,123,985	4,123,985	-
150	150	-	2,523,435	2,523,435	-
\$ 25,334	\$ 10,943	\$ (14,391)	\$ 1,080,044	\$ 5,537,885	\$ 4,457,841

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT
LAKE COUNTY
COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2002**

	Enterprise Funds	Internal Service Funds	Totals (Memorandum Only)
OPERATING REVENUES:			
Food services and other charges	\$ 257,377	\$ -	\$ 257,377
Extracurricular activities	1,791	10,523	12,314
Total operating revenues	<u>259,168</u>	<u>10,523</u>	<u>269,691</u>
OPERATING EXPENSES:			
Personal services - salaries	349,147	-	349,147
Fringe benefits	149,568	-	149,568
Purchased services	12,744	13,036	25,780
Supplies and materials	345,361	-	345,361
Depreciation	9,010	-	9,010
Other objects	2,386	-	2,386
Total operating expenses	<u>868,216</u>	<u>13,036</u>	<u>881,252</u>
Operating loss	<u>(609,048)</u>	<u>(2,513)</u>	<u>(611,561)</u>
NON-OPERATING REVENUES:			
Earnings on investments	7,473	-	7,473
State sources:			
Unrestricted grants-in-aid	33,260	-	33,260
Federal sources:			
Unrestricted grants-in-aid	642,713	-	642,713
Total non-operating revenues and expenses	<u>683,446</u>	<u>-</u>	<u>683,446</u>
Net income (loss)	74,398	(2,513)	71,885
BEGINNING RETAINED EARNINGS	<u>259,889</u>	<u>3,365</u>	<u>263,254</u>
ENDING RETAINED EARNINGS	<u>\$ 334,287</u>	<u>\$ 852</u>	<u>\$ 335,139</u>

The accompanying notes are an integral part of the financial statements.

PAINESVILLE CITY LOCAL SCHOOL DISTRICT
LAKE COUNTY
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND EQUITY
BUDGET (NON-GAAP BASIS) AND ACTUAL
ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2002

	Enterprise Fund			Internal Service Fund			Totals (Memorandum Only)		
	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance
			(Unfavorable)			(Unfavorable)			(Unfavorable)
OPERATING REVENUES	\$ 258,600	\$ 228,638	\$ (29,962)	\$ -	\$ -	\$ -	\$ 258,600	\$ 228,638	\$ (29,962)
Food service	-	-	-	35,000	10,523	(24,477)	35,000	10,523	(24,477)
Extracurricular activities	1,900	1,791	(109)	-	-	-	1,900	1,791	(109)
Classroom materials and fees	-	-	-	-	-	-	-	-	-
Total operating revenues	260,500	230,429	(30,071)	35,000	10,523	(24,477)	295,500	240,952	(54,548)
OPERATING EXPENSES									
Salaries and wages	375,000	357,851	17,149	-	-	-	375,000	357,851	17,149
Fringe benefits	140,000	132,714	7,286	-	-	-	140,000	132,714	7,286
Contractual services	20,000	13,642	6,358	26,641	13,356	13,285	46,641	26,998	19,643
Supplies and materials	330,000	316,856	13,144	-	-	-	330,000	316,856	13,144
Capital outlay	288,190	43,557	244,633	-	-	-	288,190	43,557	244,633
Other operating expenses	5,000	2,386	2,614	-	-	-	5,000	2,386	2,614
Total operating expenses	1,158,190	867,006	291,184	26,641	13,356	13,285	1,184,831	880,362	304,469
Operating loss	(897,690)	(636,577)	261,113	8,359	(2,833)	(11,192)	(889,331)	(639,410)	249,921
NON-OPERATING REVENUE									
Miscellaneous	30,000	28,739	(1,261)	-	-	-	30,000	28,739	(1,261)
Earnings on investments	9,000	7,473	(1,527)	-	-	-	9,000	7,473	(1,527)
State sources - restricted grants-in-aid	44,000	43,863	(137)	-	-	-	44,000	43,863	(137)
Federal sources - unrestricted grants-in-aid	605,000	596,282	(8,718)	-	-	-	605,000	596,282	(8,718)
Refund of prior year receipts	(50)	-	50	-	-	-	(50)	-	50
Operating transfers-out	(1,300)	(1,300)	-	-	-	-	(1,300)	(1,300)	-
Advances in	1,500	1,500	-	-	-	-	1,500	1,500	-
Advances out	(1,992)	(1,992)	-	-	-	-	(1,992)	(1,992)	-
Total non-operating revenues	686,158	674,565	(11,593)	-	-	-	686,158	674,565	(11,593)
Excess (deficiency) of revenues over (under) expenses, advances and operating transfers	(211,532)	37,988	249,520	8,359	(2,833)	(11,192)	(203,173)	35,155	238,328
FUND EQUITY - BEGINNING OF YEAR	215,934	215,934	-	3,343	3,343	-	219,277	219,277	-
PRIOR YEAR ENCUMBRANCE-APPROPRIATED	2,837	2,837	-	340	340	-	3,177	3,177	-
FUND EQUITY - END OF YEAR	\$ 7,239	\$ 256,759	\$ 249,520	\$ 12,042	\$ 850	\$ (11,192)	\$ 19,281	\$ 257,609	\$ 238,328

The accompanying notes are an integral part of the financial statements.

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT
LAKE COUNTY
COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2002**

	Enterprise Funds	Internal Service Funds	Totals (Memorandum Only)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Operating loss	\$ (609,048)	\$ (2,513)	\$ (611,561)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:			
Depreciation	9,010	-	9,010
Net decrease in assets:			
Inventory	5,870	-	5,870
Net increase (decrease) in liabilities:			
Accounts payable	10,501	219	10,720
Interfund payable	(492)	-	(492)
Accrued wages and benefits	(2,957)	-	(2,957)
Compensated absences	11,108	-	11,108
Deferred revenue	(2,600)	-	(2,600)
Total adjustments	<u>30,440</u>	<u>219</u>	<u>30,659</u>
Net cash used in operating activities	<u>(578,608)</u>	<u>(2,294)</u>	<u>(580,902)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Operating grants received	<u>675,973</u>		<u>675,973</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	<u>7,473</u>		<u>7,473</u>
Net increase (decrease) in cash and cash equivalents	104,838	(2,294)	102,544
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>218,771</u>	<u>3,685</u>	<u>222,456</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 323,609</u></u>	<u><u>\$ 1,391</u></u>	<u><u>\$ 325,000</u></u>

The accompanying notes are an integral part of the financial statements.

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS**

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, 2002 was 2,776. The District employed 208 certificated employees and 169 noncertificated employees. It currently operates seven instructional facilities.

2. DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. FINANCIAL REPORTING ENTITY

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 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. Furthermore, 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 and account groups of those organizational entities for which its elected governing body is financially accountable. The District's major operations include education, pupil transportation, food service and maintenance of District facilities.

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

B. BASIS OF PRESENTATION

The accounting policies of the District conform to generally accepted accounting principles (GAAP) as applicable to governments.

The financial transactions of the District are recorded in individual funds and account groups. The various funds and account groups are reported by type in the general purpose financial statements. Amounts in the "totals - memorandum only" columns in the general purpose financial statements represent a summation of the combined financial statement line items of the fund types and account groups and are presented only for analytical purposes. The summation includes fund types and account groups that use different bases of accounting, interfund transactions that have not been eliminated, and the caption "amounts to be provided", which does not represent an asset. Consequently, amounts shown in the "totals - memorandum only" columns are not comparable to a consolidation and do not represent the total resources available or total revenues and expenditures/expenses of the District.

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

2. DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The District uses the following fund categories, fund types and account groups:

Governmental Fund Types

Governmental Fund Types are accounted for on a flow of current financial resources measurement focus. Only current assets and current liabilities are generally included on their balance sheets. Their operating statements present sources (revenues and other financing sources) and uses (expenditures and other financing uses) of "available spendable resources" during a period.

General Fund - The general operating fund of the District is used to account for all revenues and expenditures except those required to be accounted for in another fund.

Special Revenue Funds - Special revenue funds are used to account for revenue from specific sources (other than expendable trust or major capital projects) which require separate accounting because of legal restrictions requiring that expenditures be for specified purposes.

Debt Service Fund - The debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on general obligation notes payable, as required by Ohio Law.

Capital Projects Funds - The capital projects funds are used to account for revenues and expenditures related to the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

Proprietary Fund Types

Proprietary Fund Types are accounted for on a flow of economic resources measurement focus. All assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. Proprietary fund measurement focus is based upon determination of net income, financial position and cash flows.

Enterprise Funds - Enterprise funds are used to account for operations where the intention is to finance such operations primarily through user charges or to where the District has decided that the periodic determination of revenues, expenses and net income is appropriate. Food service, uniform school supplies and child care represent the major operations included in the Enterprise Fund.

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

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

2. DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fiduciary Fund Types

Agency Fund - Agency fund accounts are for the resources that belong to the student bodies of the various schools, accounting for sales and other revenue generating activities. Agency funds are custodial in nature and do not involve measurement of results of operations.

Expendable Trust Fund - Expendable trust fund is used to account for assets held by the District in a trustee capacity for another government, organization or individuals subject to the terms of the trust agreement.

Account Groups

Account groups are used to establish accounting control and accountability for the District's general long-term debt.

General Long-Term Debt - General long-term debt is used to account for all long-term obligations of the District, except for those accounted for in Proprietary Funds. These obligations are secured by the credit of the District as a whole and are payable from general government resources or assessments against property owners.

General Fixed Asset - General fixed assets are used to account for capital assets used in general government operations with a useful life of greater than one year (other than those accounted for in Proprietary Funds).

C. BASIS OF ACCOUNTING

Governmental and Fiduciary Fund Types are accounted for on the modified accrual basis of accounting. Governmental revenues are recognized when they become measurable and available to finance expenditures of the current period. A 60-day availability period is used. Revenue items, which are susceptible to accrual and therefore are recorded as receivables, include property taxes and reimbursable-type grants. Expenditures are recognized when the related fund liability is incurred, with the exception of accumulated unpaid employee compensation, which is not payable from current expendable financial resources.

Proprietary Fund Types are accounted for on the accrual basis of accounting. Their revenues are recognized in the period earned and expenses are recognized in the period incurred. There was no unbilled service charges receivable at year end.

Pursuant to GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting", the District follows GASB guidance as applicable to proprietary funds and FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

2. DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. BUDGETARY BASIS OF ACCOUNTING

The District is required by State statute to adopt an annual appropriated budget for all fund types except agency funds. The specific timetable is as follows:

1. Prior to January 15 of the preceding fiscal year, the Treasurer submits 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.
2. By no later than January 20, the board-adopted budget is filed with the Lake County Budget Commission (the "Commission") for tax rate determination.
3. Prior to March 15, the Board of Education accepts, by formal resolution, the tax rates as determined by the 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 a basis for the appropriation measure. On or about July 1, the certificate of estimated resources is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund, function and object level of expenditures, which are the legal levels of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Resolution appropriations by fund must be within the estimated resources as certified by the Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund appropriation or alter total function appropriations within a fund, or alter object appropriations within functions must be approved by the Board of Education.
6. Formal budgetary integration is to be employed as a management control device during the year for all funds consistent with statutory provision.
7. Appropriation amounts are amended by the Board of Education through the year by supplemental appropriations, which either reallocates or modifies the original appropriated amounts.
8. Unencumbered appropriations lapse at year end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund, function and/or object level.

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

2. DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The District's budget (budget basis) accounts for certain transactions on a basis, which differs from generally accepted accounting principles (GAAP basis). The major differences between the budget basis and the GAAP basis are that:

1. Revenues are recorded when received in cash for budget purposes as opposed to when susceptible to accrual for GAAP purposes.
2. Expenditures are recorded when paid in cash or encumbered for budget purposes as opposed to when the liability is susceptible to accrual for GAAP purposes.

An analysis of the difference in fund balance for all governmental and proprietary fund types and the expendable trust fund at June 30, 2002 as determined under the GAAP basis and budget basis follows:

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Expendable Trust Fund
GAAP basis-fund balance	\$ 4,168,483	\$ (26,087)	\$ 161,495	\$ 155,816	\$ 334,287	\$ 852	\$ 14,094
Adjustments for GAAP basis:							
Accrued revenue/prepaid expenses at June 30, 2002	(10,362,566)	(118)	(136,404)	(179,200)	(82,018)	--	--
Accrued expenditures/deferred revenues at June 30, 2002	12,477,069	561,320	126,820	166,937	71,340	539	--
Encumbrances outstanding at June 30, 2002 (budget basis)	<u>(1,433,444)</u>	<u>(142,760)</u>	<u>--</u>	<u>(10,419)</u>	<u>(66,850)</u>	<u>(541)</u>	<u>(3,151)</u>
Budget basis - fund balance	<u>\$ 4,849,542</u>	<u>\$ 392,355</u>	<u>\$ 151,911</u>	<u>\$ 133,134</u>	<u>\$ 256,759</u>	<u>\$ 850</u>	<u>\$ 10,943</u>

E. ENCUMBRANCES

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary control. Encumbrances are reported as a reservation of fund balance in all Governmental and Fiduciary Fund Types.

F. CASH AND INVESTMENTS

To improve cash management, cash received by the District is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through District records. Each fund's interest in the pool is presented as "equity in pooled cash and investments" on the combined balance sheet.

During fiscal year 2002, all investments of the District had a maturity of two years or less. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

2. DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The District has invested funds in the State Treasury Assets Reserve (STAR Ohio) during fiscal year 2002. 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, 2002.

Following Ohio statutes, the Board of Education has, by resolution, identified the funds to receive an allocation of interest. Interest revenue credited to the general fund during fiscal year 2002 amounted to \$ 195,537.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, 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 original maturity of more than three months that are not made from the pool are considered to be investments.

G. INVENTORY

Inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventory in government funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental funds types when purchased. Reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds, which indicates that it does not constitute available expendable resources even though it is a component of net current assets. Inventories of proprietary funds consist of donated food, purchased food and school supplies held for resale and are expensed when used.

H. FIXED ASSETS AND DEPRECIATION

General Fixed Assets Account Group - General fixed assets are capitalized at cost (or estimate historical cost) and updated for the cost of additions and retirements during the year in the General Fixed Assets Account Group. Donated fixed assets are recorded at their fair market values as of the date donated. The District follows the policy of not capitalizing assets with a cost of less than \$ 1,000 and a useful life of less than one year. No depreciation is recognized for assets in the General Fixed Assets Account Group.

Proprietary Funds - Equipment reflected in the Proprietary Funds is stated at historical cost (or estimated historical cost) and updated for the cost of additions and retirements during the year. Contributed equipment is recorded at its fair market value as of the date donated. Depreciation has been provided on a straight-line basis for equipment over a 10-year useful life.

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

2. DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. INTERFUND TRANSACTIONS

During the course of normal operations, the District has numerous transactions between funds, including expenditures and transfers of resources to provide services and improve assets. Operating subsidies are recorded as operating transfers. The classification of amounts recorded as subsidies, advances or equity contributions is based on the intent of the District at the time of the transaction.

J. RESTRICTED CASH

Restricted cash in the general fund represents cash and cash equivalents set aside for statutory reserves. These reserves are required by State statute and can be used only for qualifying expenditures of textbooks, instructional materials, capital acquisitions and maintenance or after receiving approval from the State unless certain conditions are met. An equal fund balance reserve has also been established.

K. FUND BALANCE RESERVES

Reserved fund balances indicate that portion of fund equity, which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for materials and supplies inventory, debt, tax revenue unavailable for appropriation, statutory reserves and encumbrances. The unreserved portions of fund equity reflected for the Governmental Fund Types are available for use within the specific purposes of those funds. The reserve for tax revenue unavailable for appropriation represents taxes recognized as revenue for GAAP but not available for appropriation under state statute.

3. DEFICIT FUND BALANCE

Fund balances at June 30, 2002 included the following individual fund deficits:

<u>Special Revenue Fund</u>	<u>Deficit Fund Balance</u>
D.P.I.A. Grant	\$ 246,736
Adult Basic Education	\$ 2,864
CDBG Grant	\$ 1,607
Chapter 1	\$ 52,686
Community Service Block Grant	\$ 1,707
Drug Free Grant	\$ 445
Title VI	\$ 13,204

The deficits in the above-mentioned funds are due to timing differences in the recording of revenues and paying expenditures.

4. ACCOUNTABILITY

The Schoolnet Plus fund had expenditures plus encumbrances in excess of appropriations in the amount of \$7,793, which is contrary to Section 5705.41, Ohio Revised Code

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

5. EQUITY IN POOLED CASH AND INVESTMENTS

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

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

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

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

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution, as 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 monies deposited with the institution. Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bond and other obligations of the State of Ohio;
5. No-load money market and mutual funds consisting exclusively of obligations described in section (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this section are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio); and
7. Certain banker's acceptance and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25% of the interim monies available for investment at any one time.

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

5. EQUITY IN POOLED CASH AND INVESTMENTS (CONTINUED)

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

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

At June 30, 2002, the District's general fund had a balance of \$ 486,833 with Lake County Council of Governments Health Care Benefits Program, a shared risk pool. The money is held by the claims servicer in a pooled account which is representative of numerous entities and, therefore, cannot be classified by risk under GASB No. 3. The classification of cash and cash equivalents and investments for the Lake County Council of Governments Health Care Benefits Program Self Insurance Plan as a whole may be obtained from the Plan's fiscal agent, the Mentor Exempted Village School District. To obtain financial information, write to Mr. James Metz, Treasurer, Mentor Exempted Village School District, 6451 Center Street, Mentor, OH 44060.

GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements", requires disclosures to help assess actual and potential future deposit and investment market and credit risks. The following information regarding deposits and investments is presented using the categories of risk identified in GASB Statement No. 3.

- (a) Deposits - At year end, the carrying amount of the District's deposits was \$ 216,088 and the bank balance was \$ 296,714. The bank balance is categorized as follows:

Amount insured by the FDIC	\$ 257,365
Collateralized with securities held by the pledging financial institution's trust department but not in the name of the District	\$ 39,349

- (b) Investments - Investments made by the District as of June 30, 2002 are summarized below. The investments that are represented by specific identifiable investment securities are classified as to credit risk by the three categories described below:

- Category 1 Insured or registered, or investments held by the District or its agents in the District's name.
- Category 2 Uninsured and unregistered, with investments held by the counterparty's trust department or agent in the District's name.
- Category 3 Uninsured and unregistered, with investments held by the counterparty, or by its trust department or agent but not in the District's name.

	Carrying Value	Fair Value
Investment in STAR Ohio	\$ 4,295,565	\$ 4,295,565
Federal Home Loan Mortgage Corp. (Category 3)	\$ 3,000,000	\$ 3,002,310

STAR Ohio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

6. INTERFUND TRANSACTIONS

Interfund balances at June 30, 2002 consist of the following individual fund receivables and payables:

	<u>Receivables</u>	<u>Payables</u>
General fund	\$ 18,208	\$ --
Special revenue funds	--	13,776
Enterprise fund	--	4,432
	<u>\$ 18,208</u>	<u>\$ 18,208</u>

A summary of interfund transfers made during 2002 by fund is as follows:

	<u>Transferred To</u>	<u>Transferred From</u>
General fund	\$ --	\$ 119,749
Special revenue fund	35,000	--
Debt service fund	84,749	--
	<u>\$ 119,749</u>	<u>\$ 119,749</u>

7. PROPERTY TAXES

Property taxes include amounts levied against all real, public utility and tangible (used in business) property located in the District. Real property taxes and public utility taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Assessed values are established by state law at 35% of appraised market value. Public utility property taxes are assessed on tangible personal property, as well as land and improvements, at true value (normally 35% of cost). Tangible personal property taxes attach as a lien and are levied on January 1 of the current year. Tangible personal property assessments are 25% of true value. The assessed value upon which the 2002 taxes were collected was \$ 223,429,356. Agricultural/residential and other real estate represented 81% (\$ 180,299,170) of this total; public utility tangible property 3% (\$ 5,730,440) and general tangible property 16% (\$ 37,399,746). The general tax rate for operations for the fiscal year ended June 30, 2002 was \$ 77.08 per \$ 1,000 of assessed valuation.

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

The Lake County Treasurer 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 represent delinquent taxes outstanding and real property, personal property and public utility taxes, which became measurable as of June 30, 2002. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current year operations. The receivable is, therefore, offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30 is recognized as revenue. The amount available to the District as an advance at June 30, 2002 was \$ 512,727 in the General Fund, \$ 9,585 in the Debt Service Fund and \$ 12,265 in the Capital Projects Fund.

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

7. PROPERTY TAXES (CONTINUED)

Taxes available for advance and recognized as revenue, but not received by the District prior to June 30, 2002, are reflected as a reservation of fund balance for future appropriations. The District is prohibited, by law, from appropriating this revenue in accordance with ORC Section 5705.35, since an advance of revenue was not requested or received prior to the fiscal year-end.

8. LAKE COUNTY SCHOOL FINANCING DISTRICT

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

The Board of Education of the Lake County School District acts as the taxing authority of the Financing District pursuant to Section 3311.50 of the Revised Code. The Financing District receives settlements of taxes levied and distributes within ten days to each of the Member Districts (including Painesville City Local School District) each of 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."

9. RESTATEMENT OF FUND EQUITY

During the year ended June 30, 2002, the District's fixed assets were inventoried and tagged by a third party. In addition, the minimum amount to capitalize was increased from \$ 500 per item to \$ 1,000 per item. This was changed to reduce to cost of maintaining fixed asset information by significantly reducing the number of items that have to be tracked. The results were several reclassifications and a net reduction of assets in the amount of \$ 25,154. There was a reduction in the Enterprise Funds of \$ 65,415 and an increase in the General Fixed Assets Account Group of \$ 40,261. The reduction to the Enterprise Funds increased the current year operating income by \$3,398.

10. FIXED ASSETS

A summary of changes in the General Fixed Assets Account Group is as follows:

	Balance July 1, 2001	Reclassifications and Adjustments	Restated Balance July 1, 2001	Additions	Disposals	Balance June 30, 2002
Land and improvements	\$ 789,650	\$ 239,763	\$ 1,029,413	\$ --	\$ --	\$ 1,029,413
Building and improvements	6,090,611	541,989	6,632,600	9,290	--	6,641,890
Furniture and equipment	3,480,991	(960,726)	2,520,265	55,905	(7,747)	2,568,423
Vehicles	1,053,005	219,235	1,272,240	171,801	(52,880)	1,391,161
Equipment under capital lease	460,082	--	460,082	359,532	--	819,614
Construction in progress	--	--	--	98,866	--	98,866
Total	<u>\$ 11,874,339</u>	<u>\$ 40,261</u>	<u>\$ 11,914,600</u>	<u>\$ 695,394</u>	<u>\$ (60,627)</u>	<u>\$ 12,549,367</u>

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

10. FIXED ASSETS (CONTINUED)

A summary of Enterprise Fund fixed assets at June 30, 2002 follows:

	Balance July 1, 2001	Reclassifications and Adjustments	Restated Balance July 1, 2001	Additions	Disposals	Balance June 30, 2002
Equipment	\$ 366,535	\$ (65,415)	\$ 301,120	\$ --	\$ --	\$ 301,120
Less accumulated depreciation	296,360	(65,415)	230,945	9,010	--	239,955
	<u>\$ 70,175</u>	<u>\$ --</u>	<u>\$ 70,175</u>	<u>\$ (9,010)</u>	<u>\$ --</u>	<u>\$ 61,165</u>

Depreciation expense of \$ 9,010 was recorded in the Enterprise Fund.

11. COMPENSATED ABSENCES

The criteria for determining vesting vacation and sick leave components is derived from negotiating agreements and state laws. In summary, the components of vesting are as follows:

<u>Vacation</u>	<u>Certificated</u>	<u>Administrators</u>	<u>Non-Certificated</u>
How earned	Not eligible	Per contract	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

According to GASB Statement No. 16, accumulated vacation and sick leave of Government Fund type employees meeting the eligibility requirements have been recorded in the appropriate Governmental Funds as a current liability to the extent that the amounts are expected to be payable within the current period. The balance of the liability is recorded in the General Long-Term Debt Account Group. Vacation and sick leave for employees paid from the Proprietary Fund is recorded as an expense when earned or accrued. The District calculates sick leave using the vesting method based on accumulated benefits.

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

12. CHANGES IN GENERAL LONG-TERM DEBT ACCOUNT GROUP

During the year ended June 30, 2002, the following changes occurred in liabilities reported in the General Long-Term Debt Account Group. Compensated absences will be paid from the fund from which the employee is paid.

	Balance at June 30, <u>2001</u>	Increase (Decrease)	Balance at June 30, <u>2002</u>
General obligation bonds	\$ 1,140,000	\$ (65,000)	\$ 1,075,000
Notes payable	533,568	(87,312)	446,256
Compensated absences	1,040,973	117,313	1,158,286
Capital lease obligations	552,487	205,171	757,658
Accrued benefits	<u>315,372</u>	<u>(77,646)</u>	<u>237,726</u>
Total	<u>\$ 3,582,400</u>	<u>\$ 92,526</u>	<u>\$ 3,674,926</u>

13. LONG-TERM DEBT

A. Bonds Payable - All bonds outstanding are general obligations of the District for which the full faith and credit of the District is pledged for repayment. Accordingly, such unmatured obligations of the District are accounted for in the general long-term debt account group. Payments of principal and interest relating to these liabilities are recorded as expenditures in the debt service fund. The source of payment is derived from a current .77 mill bonded-debt tax levy.

The following is a schedule of bonds outstanding at June 30, 2002 for the District:

	<u>Stadium Project</u>
Interest rate	6.7%
Issue date	02/01/92
Maturity date	12/01/12
Amount outstanding beginning of year	\$ 1,140,000
Principal redemptions during year	\$ 65,000
Amount outstanding end of year	\$ 1,075,000

B. Notes Payable - Payments of principal and interest relating to these liabilities were done as transfers from the General Fund to the Debt Service Fund. The following is a schedule of notes outstanding as of June 30, 2002 for the District:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Balance June 30, 2001</u>	<u>New Issues During 2002</u>	<u>Retired During 2002</u>	<u>Balance June 30, 2002</u>
Energy Conservation	5.950%	03/16/93	12/01/02	\$ 139,473	\$ --	\$ 66,508	\$ 72,965
Energy Conservation	6.050%	08/20/99	06/01/14	<u>394,095</u>	<u>--</u>	<u>20,804</u>	<u>373,291</u>
				<u>\$ 533,568</u>	<u>\$ --</u>	<u>\$ 87,312</u>	<u>\$ 446,256</u>

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

13. LONG-TERM DEBT (CONTINUED)

C. Future Debt Requirements - The District's future debt service requirements is as follows:

Year	Principal	Interest	Total
2003	\$ 165,028	\$ 93,657	\$ 258,685
2004	98,398	85,691	184,089
2005	104,813	79,431	184,244
2006	111,315	72,690	184,005
2007	117,907	65,340	183,247
2008	124,595	57,408	182,003
2009	131,386	49,037	180,423
2010	143,284	24,357	167,641
2011	150,298	13,737	164,035
2012	162,434	7,214	169,648
2013	169,698	4,949	174,647
2014	42,100	2,547	44,647
	<u>\$ 1,521,256</u>	<u>\$ 556,058</u>	<u>\$ 2,077,314</u>

14. CAPITAL LEASE OBLIGATIONS

The District has entered into capital leases for the acquisition of equipment. The terms of the agreements provide ownership of the equipment. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term.

The following is a schedule of future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2002:

<u>Year Ending June 30,</u>	
2003	\$ 193,475
2004	193,475
2005	193,475
2006	82,976
2007	60,878
2008	60,878
2009	<u>30,439</u>
Total payments	815,596
Less: Amount representing interest	<u>57,938</u>
Present value of minimum lease payments	<u>\$ 757,658</u>

	Balance June 30, 2001	Additions	Deletions	Balance June 30, 2002
Leasing obligations	\$ 552,487	\$ 359,532	\$ 154,361	\$ 757,658

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

15. SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The District maintains enterprise funds to account for food service operations, childcare and uniform supplies. The more significant financial information for those funds is as follows:

<u>Function</u>	<u>Food Service</u>	<u>Childcare</u>	<u>Uniform Supply and Various</u>	<u>Total</u>
Operating revenues	\$ 228,638	\$ 28,739	\$ 1,791	\$ 259,168
Operating expenses before depreciation	\$ (827,599)	\$ (30,308)	\$ (1,299)	\$ (859,206)
Depreciation	\$ (8,085)	\$ (925)	\$ --	\$ (9,010)
Operating income (loss)	\$ (607,046)	\$ (2,494)	\$ 492	\$ (609,048)
Earnings on investments	\$ 7,473	\$ --	\$ --	\$ 7,473
Unrestricted grants	\$ 675,973	\$ --	\$ --	\$ 675,973
Net income (loss)	\$ 76,400	\$ (2,494)	\$ 492	\$ 74,398
Net working capital	\$ 279,781	\$ 4,015	\$ (4,433)	\$ 279,363
Total assets	\$ 399,016	\$ 6,611	\$ --	\$ 405,627
Total liabilities	\$ 64,311	\$ 2,596	\$ 4,433	\$ 71,340
Total retained earnings	\$ 334,705	\$ 4,015	\$ (4,433)	\$ 334,287

16. DEFINED BENEFIT 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 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, 45 North Fourth Street, Columbus, Ohio 43215-3634, or by calling (614) 222-5853.

Plan members are required to contribute 9 percent of their annual covered salary and the District is required to contribute at 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 2002, 4.2 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2002, 2001 and 2000 were \$ 614,282, \$ 586,436 and \$ 544,513, respectively; 100 percent has been contributed for fiscal years 2002, 2001 and 2000.

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. STRS provides retirement and disability benefits, annual cost-of-living adjustments and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371, or by calling (614) 227-4090.

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

16. DEFINED BENEFIT PENSION PLANS (CONTINUED)

For fiscal year ended June 30, 2002, plan members were required to contribute 9.3 percent of their annual covered salaries. The District was required to contribute 14 percent; 9.5 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. The District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2001, 2000 and 1999 were \$ 1,684,472, \$ 1,665,445 and \$ 1,381,095, respectively; 100 percent has been contributed for fiscal years 2002, 2001 and 2000.

17. POST EMPLOYMENT BENEFITS

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2002, the STRS Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$ 534,291 for fiscal year 2002.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2001, (the latest information available) the balance in the Fund was \$ 3.256 billion. For the year ended June 30, 2001, net health care costs paid by STRS were \$ 369.354 million and STRS had 102,132 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2001, employer contributions to fund health care benefits were 9.8 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 2002, the minimum pay was established at \$ 12,400. For the District, the amount contributed to fund health care benefits, including the surcharge, during the 2002 fiscal year equaled \$ 508,655.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2001 (the latest information available), were \$ 161.4 million and the target level was \$ 242.2 million. At June 30, 2001, SERS had net assets available for payment of health care benefits of \$ 315.7 million. SERS has approximately 50,000 participants currently receiving health care benefits.

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

18. CONTINGENCIES

Grants - The District receives 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 at June 30, 2002.

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

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

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

19. JOINTLY GOVERNED ORGANIZATIONS

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

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

19. JOINTLY GOVERNED ORGANIZATIONS (CONTINUED)

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 School 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 School District. Financial information can be obtained from: Lake Geauga Computer Association, 8140 Auburn Road, Painesville, Ohio 44077.

East Shore Center - The East Shore Center is a jointly governed organization that was formed for the purpose of providing special education for the handicapped children in the sixteen (16) member school districts. The governing board consists of the superintendents of the member school districts. The degree of control exercised by any participating school district is limited to its representation of the governing board. East Shore Center is not accumulating significant financial resources or experiencing fiscal distress, which would cause additional financial benefit or burden on the School District. Financial information can be obtained by writing the fiscal agent, Mentor Exempted Village School District, 6451 Center Street, Mentor, OH 44060.

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

Ohio Schools Council Association – The Ohio Schools Council Association (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 School 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, OH 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.

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

20. CLAIMS SERVICING POOL

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

21. 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 2002, the District contracted with Ohio School Plan for property and general liability insurance. There is a \$ 3,000,000 limit of liability.

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

The District has elected to provide medical coverage through a self insured program. The District uses the general fund to account for and finance its uninsured risks of loss in this program. The claims are serviced through the Lake County Schools Council of Governments Health Care Benefits Program. The claims liability of \$ 232,070 reported in the general fund at June 30, 2002 is based on the requirements of Governmental Accounting Standards Board Statement No. 10 which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses.

Changes in the District's share of the claims liability amount in 2002 and 2001 were:

	Balance at Beginning of Year	Current Year Claims	Claim Payments	Balance at End of Year
2001	\$ 110,545	\$ 1,606,820	\$ 1,509,989	\$ 207,376
2002	\$ 207,376	\$ 1,894,242	\$ 1,869,548	\$ 232,070

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

22. 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.

23. STATUTORY RESERVES

The District is required by State law to set-aside certain General Fund revenue amounts, as defined by Statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2002, the reserve activity was as follows:

	Textbook Reserve	Capital Maintenance Reserve	Budget Stabilization Reserve	Total
Balance July 1, 2001	\$ 153,999	\$ --	\$ 105,468	\$ 259,467
Required set-aside	336,735	336,735	--	673,470
Qualifying expenditures	<u>(661,573)</u>	<u>(1,334,722)</u>	<u>--</u>	<u>(1,996,295)</u>
Total	<u>\$ (170,839)</u>	<u>\$ (997,987)</u>	<u>\$ 105,468</u>	<u>\$ (1,063,358)</u>
Reserve balance, June 30, 2002	\$ --	\$ --	\$ 105,468	\$ 105,468
Designation balance, June 30, 2002	<u>--</u>	<u>--</u>	<u>433,222</u>	<u>433,222</u>
Restricted cash	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 538,690</u>	<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.

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT
LAKE COUNTY
SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2002**

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM OR CLUSTER TITLE	Federal CFDA Number	Pass-Through Entity Number	Receipts	Non-cash Receipts	Disburse- ments	Non-cash Disburse- ments
U.S. DEPARTMENT OF EDUCATION						
<i>Passed-Through State Department of Education:</i>						
<i>Special Education Cluster</i>						
Preschool Grant	84.173	044628-PG-S1-02P	\$23,753	\$0	\$23,499	\$0
Educational Handicap VI-B	84.027	044628-6B-SF-02	241,502	0	197,291	0
	84.027	044628-6B-SF-01P	18,044	0	51,099	0
	84.027	044628-6B-SF-00P	3,179	0	3,097	0
			<u>262,725</u>	<u>0</u>	<u>251,487</u>	<u>0</u>
Total Special Education Cluster			286,478	0	274,986	0
Title I	84.010	044628-C-1-S1-02	458,308	0	427,921	0
	84.010	044628-C1-SD-02	12,200	0	13,174	0
	84.010	044628-C1-SD-01	0	0	4,604	0
	84.010	044628-C1-S1-01	51,792	0	133,670	0
			<u>522,300</u>	<u>0</u>	<u>579,369</u>	<u>0</u>
Title VI Education Improv. & Consol.	84.151	044628-C2-S1-95	770	0	712	0
Innovative Education Program Strategies	84.298	044628-C2-S1-02	19,458	0	14,134	0
	84.298	044628-C2-S1-01	0	0	4,357	0
	84.298	044628-C2-S1-00	0	0	3,062	0
			<u>19,458</u>	<u>0</u>	<u>21,553</u>	<u>0</u>
Math/Science	84.281	044628-MS-S1-02	19,652	0	15,657	0
	84.281	044628-MS-S1-01	0	0	231	0
	84.281	044628-MS-S1-00	0	0	1,518	0
			<u>19,652</u>	<u>0</u>	<u>17,406</u>	<u>0</u>
Adult Education	84.002	044628-AB-S1-02	32,328	0	37,353	0
	84.002	044628-AB-S1-01	0	0	12,629	0
	84.002	044628-AB-S1-00	29,750	0	24,088	0
			<u>62,078</u>	<u>0</u>	<u>74,070</u>	<u>0</u>
Continuous Improvement	84.276	044628-G2-S2-02	15,000	0	420	0
	84.276	044628-G2-S2-02	0	0	1,768	0
	84.276	044628-G2-S2-01	0	0	17,880	0
			<u>15,000</u>	<u>0</u>	<u>20,068</u>	<u>0</u>
Migrant Education	84.011	044628-MG-S1-02	218,448	0	129,305	0
	84.011	044628-MG-S1-01	36,349	0	167,262	0
	84.011	044628-MG-S1-00	0	0	1,399	0
			<u>254,797</u>	<u>0</u>	<u>297,966</u>	<u>0</u>
Immigration Education	84.162	044628-E1-S1-02	30,420	0	18,903	0
	84.162	044628-E1-S1-01	0	0	4,622	0
	84.162	044628-E1-S1-00	0	0	2,910	0
			<u>30,420</u>	<u>0</u>	<u>26,435</u>	<u>0</u>
Drug-Free Schools	84.186	044628-DR-S1-02	24,720	0	23,354	0
	84.186	044628-DR-S1-01	9	0	9,634	0
	84.186	044628-DR-S1-00	0	0	452	0
			<u>24,729</u>	<u>0</u>	<u>33,440</u>	<u>0</u>
Class Size Reduction	84.340	044628-CR-S1-02	107,447	0	101,449	0
	84.340	044628-CR-S1-01	0	0	20,037	0
			<u>107,447</u>	<u>0</u>	<u>121,486</u>	<u>0</u>
Total U.S. Department of Education			<u>1,343,129</u>	<u>0</u>	<u>1,467,491</u>	<u>0</u>
U.S. Department of Agriculture						
<i>Passed Through State Department of Education</i>						
<i>Child Nutrition Cluster</i>						
Food Distribution Program	10.550	N/A	0	39,555	0	46,258
School Breakfast Program	10.553	044628-05-PU-02	100,921	0	100,921	0
National School Lunch Program	10.555	044628-LL-P4-02	486,636	0	486,636	0
	10.555	044628-LL-P4-01	8,725	0	8,725	0
			<u>495,361</u>	<u>0</u>	<u>495,361</u>	<u>0</u>
Summer Food Service Program	10.559	044628-01	15,744	0	15,744	0
Total U.S. Department of Agriculture -Child Nutrition Cluster			<u>612,026</u>	<u>39,555</u>	<u>612,026</u>	<u>46,258</u>
CORPORATION FOR NATIONAL AND COMMUNITY SERVICES						
<i>Passed Through State Department of Education</i>						
<i>Learn and Serve America</i>						
	94.004	044628-SV-S1-02	9,200	0	3,425	0
	94.004	044628-SV-S3-01	0	0	9,470	0
Total Corporation for National and Community Services			<u>9,200</u>	<u>0</u>	<u>12,895</u>	<u>0</u>
U. S. Department of Human Services						
<i>Passed Through the Ohio Department of Mental Retardation/Developmental Disabilities</i>						
Medical Assistance Program	93.778		30,556	0	25,881	0
<i>Passed Through the East Shore SERRC</i>						
Medical Assistance Program	93.778		12,150	0	12,150	0
Total U.S. Department of Health and Human Services			<u>42,706</u>	<u>0</u>	<u>38,031</u>	<u>0</u>
Total Expenditures of Federal Awards			<u>\$2,007,061</u>	<u>\$39,555</u>	<u>\$2,130,443</u>	<u>\$46,258</u>

See accompanying notes to Schedule of Expenditures of Federal Awards

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT
LAKE COUNTY
FISCAL YEAR ENDED JUNE 30, 2002**

Notes to Schedule of Federal Awards Expenditures

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the Government's federal award programs. The schedule has been prepared 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.

NOTE B - FOOD DISTRIBUTION

Nonmonetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Values may change from month to month and are entirely subjective. At June 30, 2002, the District had no significant food commodities in inventory.

NOTE C - NATIONAL SCHOOL LUNCH PROGRAM

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

N/A - Not Applicable

CFDA – Catalog of Federal Domestic Assistance



Auditor of State Betty Montgomery

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

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

To the Board of Education:

We have audited the financial statements of the Painesville City Local School District, Lake County, Ohio (the District) as of and for the year ended June 30, 2002, and have issued our report thereon dated March 14, 2003, wherein we noted the District adjusted its beginning fixed assets based on new inventory reports and a new capitalization threshold. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated March 14, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated March 14, 2003.

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

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

Betty Montgomery
Auditor of State

March 14, 2003



Auditor of State Betty Montgomery

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

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

To the Board of Education:

Compliance

We have audited the compliance of Painesville City Local School District, Lake County, Ohio (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2002. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2002.

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. We noted other matters involving the internal control over federal compliance that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated March 14, 2003.

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

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

Betty Montgomery
Auditor of State

March 14, 2003

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT
LAKE COUNTY
FISCAL YEAR ENDED JUNE 30, 2002**

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

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Nutrition Cluster, CFDA 10.550, 10.553, 10.555, and 10.559
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



**Auditor of State
Betty Montgomery**

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

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

PAINESVILLE CITY LOCAL SCHOOL DISTRICT

LAKE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 8, 2003**