

PAINESVILLE CITY LOCAL SCHOOL DISTRICT



Basic Financial Statements

June 30, 2011

PLATTENBURG
Certified Public Accountants



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Painesville City Local School District, Lake County, prepared by Plattenburg & Associates, Inc., for the audit period July 1, 2010 through June 30, 2011. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

November 28, 2011

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Painesville City Local School District (the District) as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

Ohio Administrative Code 117-2-03(B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United State of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2011, and the respective changes in financial position, thereof and the budgetary comparison for the General fund and Classroom Facilities Maintenance fund for the year then ended in conformity with the basis of accounting Note 2 describes.

As described in Note 19 to the financial statements, during the year ended June 30, 2011, the District implemented Governmental Accounting Standards Board ("GASB") Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions".

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2011, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Plattenburg & Associates, Inc.

Plattenburg & Associates, Inc.
October 7, 2011

Painesville City Local School District
Lake County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
(Unaudited)

The discussion and analysis of Painesville City Local School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2011, within the limitations of the District's cash basis of accounting. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the notes to the basic financial statements and cash basis financial statements to enhance their understanding of the District's performance.

Financial Highlights

Key financial highlights for 2011 are as follows:

- Net cash assets of governmental activities decreased \$1,969,754 which represents a 23% decrease from 2010.
- General receipts accounted for \$30,525,009 in receipts or 79% of all receipts. Program specific receipts in the form of charges for services and sales, grants and contributions accounted for \$7,975,722 or 21% of total receipts of \$38,500,731 .
- The District had \$40,470,485 in disbursements related to governmental activities; which were offset by program specific charges for services and sales, grants and contributions of \$7,975,722 .

OVERVIEW OF THE CASH BASIS FINANCIAL STATEMENTS

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the District's cash basis of accounting.

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

Government-wide Financial Statements – Cash Basis

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2011?" The Government-wide Financial Statements answer this question. These statements include only net assets using the cash basis of accounting, which is a basis of accounting other than accounting principals generally accepted in the United States of America. This basis of accounting takes into account only the current year's receipts and disbursements if the cash is actually received or paid.

Painesville City Local School District
Lake County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
(Unaudited)

These two statements report the District's net assets and changes in those assets on a cash basis. This change in net cash assets is important because it tells the reader that, for the District as a whole, the cash basis financial position of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, mandated federal and state programs and other factors.

As a result of the use of the cash basis of accounting, certain assets and their related receipts (such as accounts receivable and receipts for billed or provided services not collected) and liabilities and their related disbursements (such as accounts payable and disbursements for goods or services received but not yet paid, and accrued disbursements and liabilities) are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

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

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

Fund Financial Statements

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

Governmental Funds Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using the cash basis of accounting, which is a basis of accounting other than accounting principals generally accepted in the United States of America. The governmental fund statements provide a detailed view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer cash basis financial resources that can be readily spent to finance various District programs. Since the District is reporting on the cash basis of accounting, there are no differences in the net cash assets and fund cash balances or changes in net cash assets and changes in fund cash balances. Therefore, no reconciliation is necessary between such financial statements.

The District's budgetary process accounts for certain transactions on a cash basis. The budgetary statement for the General Fund is presented to demonstrate the District's compliance with annually adopted budgets.

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

Painesville City Local School District
Lake County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
(Unaudited)

The District as a Whole

As stated previously, the Statement of Net Assets – Cash Basis looks at the District as a whole. Table 1 provides a summary of the District's net cash assets for fiscal year 2011 compared to fiscal year 2010:

Table 1
Net Cash Assets

	Governmental Activities	
	2011	2010 Restated
Assets:		
Equity in Pooled Cash and Cash Equivalents	\$5,914,847	\$7,914,474
Restricted Cash and Cash Equivalents	568,563	538,690
Total Assets	<u>6,483,410</u>	<u>8,453,164</u>
Net Assets:		
Restricted	5,262,809	7,091,455
Unrestricted	1,220,601	1,361,709
Total Net Cash Assets	<u>\$6,483,410</u>	<u>\$8,453,164</u>

The total net cash assets of governmental activities decreased \$1,969,754 which represents a 23% decrease from 2010.

A portion of the District's net cash assets, \$5,262,809 represents resources that are subject to external restriction on how they must be used. The external restriction will not affect the availability of fund resources for future use.

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Painesville City Local School District
Lake County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
(Unaudited)

Table 2 shows the changes in net cash assets for fiscal year 2011. Since this is the first year the District has prepared financial statements following GASB 34 Look-alikes, receipt and disbursement comparisons to fiscal year 2010 are not available.

Table 2
Changes in Net Cash Assets

	<u>Governmental Activities</u>
	<u>2011</u>
Cash Receipts:	
Program Cash Receipts:	
Charges for Services and Sales	\$2,291,282
Operating Grants and Contributions	5,474,221
Capital Grants and Contributions	210,219
General Receipts:	
Property Taxes	9,488,433
Grants and Entitlements	20,388,109
Other	648,467
Total Cash Receipts	<u>38,500,731</u>
Cash Disbursements:	
Instruction	21,595,310
Support Services:	
Pupil and Instructional Staff	4,537,453
School Administrative, General	
Administration, Fiscal and Business	3,814,914
Operations and Maintenance	3,143,439
Pupil Transportation	1,235,783
Central	254,748
Operation of Non-Instructional Services	1,291,970
Extracurricular Activities	520,637
Capital Outlay	1,895,714
Debt Service:	
Principal Retirement	845,298
Interest and Fiscal Charges	1,335,219
Total Cash Disbursements	<u>40,470,485</u>
Change in Net Cash Assets	(1,969,754)
Net Cash Assets Beginning of Year, Restated	<u>8,453,164</u>
Net Cash Assets End of Year	<u>\$6,483,410</u>

Painesville City Local School District
Lake County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
(Unaudited)

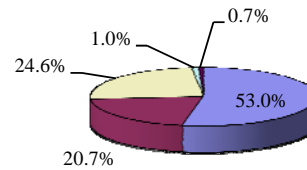
Governmental Activities

The District's receipts are mainly from two sources. Property taxes levied for general, special revenue, debt service and capital project purposes and grants and entitlements comprised 78% of the District's receipt for governmental activities.

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

Thus Ohio districts dependent upon property taxes are hampered by a lack of receipt growth and must regularly return to the voters to maintain a constant level of service. Property taxes made up 25% of revenue for governmental activities for the District in fiscal year 2011.

<u>Receipt Sources</u>	<u>2011</u>	<u>Percent of Total</u>
General Grants	\$20,388,109	53.0%
Program Receipts	7,975,722	20.7%
General Tax Receipts	9,488,433	24.6%
Investment Earnings	375,317	1.0%
Other Receipts	273,150	0.7%
	<u>\$38,500,731</u>	<u>100.00%</u>



Instruction comprises 53% of governmental program disbursements. Support services disbursements were 32% of governmental program disbursements. All other disbursements including principal and interest charges were 15%. Interest charges was attributable to the outstanding bond and borrowing for capital projects.

The Statement of Activities – Cash Basis shows the cost of program services and the charges for services and sales and grants offsetting those services. Table 3 shows, for government activities, the total cost of services and the net cost of services. These services are mainly supported by tax receipts and unrestricted State grants and entitlements. Comparisons to 2010 have not been made since they are not available.

Painesville City Local School District
Lake County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
(Unaudited)

Table 3
Governmental Activities

	Total Cost of Services	Net Cost of Services
	<u>2011</u>	<u>2011</u>
Cash Disbursements:		
Instruction	\$21,595,310	(\$16,621,539)
Support Services:		
Pupil and Instructional Staff	4,537,453	(3,387,311)
School Administrative, General		
Administration, Fiscal and Business	3,814,914	(3,676,097)
Operations and Maintenance	3,143,439	(3,027,223)
Pupil Transportation	1,235,783	(1,176,374)
Central	254,748	(254,748)
Operation of Non-Instructional Services	1,291,970	70,939
Extracurricular Activities	520,637	(346,179)
Capital Outlay	1,895,714	(1,895,714)
Debt Service:		
Principal Retirement	845,298	(845,298)
Interest and Fiscal Charges	1,335,219	(1,335,219)
	<u>\$40,470,485</u>	<u>(\$32,494,763)</u>
Total Cash Disbursements		

The District's Funds

The District's governmental funds are accounted for using the cash basis of accounting.

The District has five major governmental funds: the General Fund, the Debt Service Fund, the Building Fund, the Classroom Facilities Fund and the Classroom Facilities Maintenance Fund. Assets of these funds comprised \$5,803,817 (90%) of the total \$6,483,410 in governmental funds assets.

General Fund: Fund cash balance at June 30, 2011 was \$1,250,474.

Classroom Facilities Maintenance Fund: The net change in fund cash balance for fiscal year 2011 was \$90,787.

Debt Service Fund: The net change in fund cash balance for fiscal year 2011 was (\$294,939).

Building Fund: The net change in fund cash balance for fiscal year 2011 was (\$14,430).

Classroom Facilities Fund: The net change in fund cash balance for fiscal year 2011 was (\$1,408,355).

General Fund Budgeting Highlights

The District's Budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund.

Painesville City Local School District
Lake County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
(Unaudited)

During the course of fiscal year 2011, the District amended its General Fund budget numerous times, however none were significant. The District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management. During the course of the year, the District revised the Budget in an attempt to deal with unexpected changes in receipts and disbursements.

For the General Fund, final budget basis receipts was \$28,343,610, compared to original budget estimates of \$30,393,352. Of this (\$2,049,742) difference, most was due to overestimating for taxes and intergovernmental receipts.

The District's ending unobligated cash balance was \$1,042,549.

Capital Assets and Debt Administration

Capital Assets

The District does not currently present its capital assets in the accompanying cash basis basic financial statements, but records payments for capital assets as disbursements.

Debt

The District does not currently present its debt in the accompanying cash basis basic financial statements, but records principal, and interest and fiscal charges payments as disbursements.

At June 30, 2011, the District had \$29,174,379 in debt outstanding, \$892,434 due within one year. Table 4 summarizes total debt outstanding.

Table 4
Outstanding Debt, at Year End

	Governmental Activities	
	2011	2010
General Obligation Bonds:		
2004 School Improvement Bonds	\$17,430,000	\$17,900,000
Current Interest Bonds - 2005 School Improvement	10,240,007	10,465,007
Premium on 2005 School Improvement Bonds	433,587	453,754
Capital Appreciation Bonds - 2005 School Improvement	454,993	454,993
Accreted Interest	351,560	272,171
Stadium Project - Refinancing	145,000	260,000
Notes Payable:		
Project - National City	119,232	154,530
Total Outstanding Debt at Year End	<u>\$29,174,379</u>	<u>\$29,960,455</u>

See note 6 to the basic financial statements for further details on the District's debt.

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Painesville City Local School District
Lake County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
(Unaudited)

For the Future

A challenge facing the District is the future of state funds. On December 11, 2002, the Ohio Supreme Court found the state's school funding system unconstitutional but declined to retain jurisdiction of the matter meaning the decision included no timeline for compliance or accountability for lack of compliance. The District is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

In July, 2009, the Ohio's Governor signed HB 1, the state biennium budget bill. Included in this bill was a complete overhaul of the school funding model for all school districts in Ohio. The new Ohio Evidence-Based Model (OEBM) replaces the long-standing foundation formula that was declared unconstitutional by the Ohio Supreme Court. If ever fully-funded, the new model has the potential to drive funding based on student needs and could result in additional revenue. However, the current economic crisis has reduced revenue at the state level prompting budget reduction measures across the State. As such, the funding for the OEBM started in FY10 by allocating the funding for each year based on 99% of the FY09 funding and 98% of the FY10 funding, respectively. Federal stimulus funds are being used in Ohio to balance the education budget and as such, funding for public education at the current level is not secure beyond FY11. This uncertainty could have a major impact on our instructional and operational programs. The need for additional revenue and or expenditure reductions will need to be monitored closely.

In June, 2011, Ohio's Governor signed HB153, the state biennium budget bill for 2012 and 2013. Language included in HB153 eliminated the OEBM funding model. As of this date a new funding model has not been developed. The district has been guaranteed the same basic level of funding in Fiscal Year 2012 as in Fiscal Year 2011.

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

Contacting the District's Financial Management

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

Painesville City Local School District
Statement of Net Assets - Cash Basis
June 30, 2011

	Governmental Activities
Assets:	
Equity in Pooled Cash and Cash Equivalents	\$5,914,847
Restricted Cash and Cash Equivalents	568,563
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Total Assets	6,483,410
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Net Assets:	
Restricted for:	
Debt Service	899,869
Capital Projects	2,997,926
Classroom Facilities Maintenance	993,385
State Funded Programs	36,902
Federally Funded Programs	128,761
Public School Support	25,879
Student Activities	26,566
Set Asides	29,873
Other Purposes	123,648
Unrestricted	1,220,601
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Total Cash Net Assets	\$6,483,410
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See accompanying notes to the basic financial statements.

Painesville City Local School District
Statement of Activities - Cash Basis
For the Fiscal Year Ended June 30, 2011

	Cash Disbursements	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Cash Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Total
Governmental Activities:					
Instruction:					
Regular	\$13,361,249	\$1,148,539	\$1,992,542	\$210,219	(\$10,009,949)
Special	4,964,026	217,559	1,228,470	0	(3,517,997)
Vocational	336,305	11,385	0	0	(324,920)
Other	2,933,730	0	165,057	0	(2,768,673)
Support Services:					
Pupil	1,949,647	434,402	260,108	0	(1,255,137)
Instructional Staff	2,587,806	83,966	371,666	0	(2,132,174)
General Administration	103,364	94	0	0	(103,270)
School Administration	3,264,643	38,189	100,534	0	(3,125,920)
Fiscal	395,639	0	0	0	(395,639)
Business	51,268	0	0	0	(51,268)
Operations and Maintenance	3,143,439	29,333	86,883	0	(3,027,223)
Pupil Transportation	1,235,783	58,929	480	0	(1,176,374)
Central	254,748	0	0	0	(254,748)
Operation of Non-Instructional Services	1,291,970	127,365	1,235,544	0	70,939
Extracurricular Activities	520,637	141,521	32,937	0	(346,179)
Capital Outlay	1,895,714	0	0	0	(1,895,714)
Debt Service:					
Principal Retirement	845,298	0	0	0	(845,298)
Interest and Fiscal Charges	1,335,219	0	0	0	(1,335,219)
Total Governmental Activities	\$40,470,485	\$2,291,282	\$5,474,221	\$210,219	(32,494,763)

General Receipts:	
Property Taxes Levied for:	
General Purposes	6,191,046
Special Revenue Purposes	1,651,771
Debt Service Purposes	1,505,967
Capital Projects Purposes	139,649
Grants and Entitlements not Restricted to Specific Programs	20,388,109
Investment Earnings	375,317
Other Receipts	273,150
Total General Receipts	30,525,009
Change in Net Cash Assets	(1,969,754)
Net Cash Assets Beginning of Year, Restated	8,453,164
Net Cash Assets End of Year	\$6,483,410

See accompanying notes to the basic financial statements.

Painesville City Local School District
Statement of Assets and Fund Balances - Cash Basis
Governmental Funds
June 30, 2011

	General	Classroom Facilities Maintenance	Debt Service	Building
Assets:				
Equity in Pooled Cash and Cash Equivalents	\$681,911	\$993,385	\$899,869	\$1,939,664
Restricted Cash and Cash Equivalents	568,563	0	0	0
Total Assets	<u>1,250,474</u>	<u>993,385</u>	<u>899,869</u>	<u>1,939,664</u>
Fund Balances:				
Restricted	29,873	985,658	899,869	1,939,664
Committed	433,222	0	0	0
Assigned	207,925	7,727	0	0
Unassigned	579,454	0	0	0
Total Fund Balances	<u>1,250,474</u>	<u>993,385</u>	<u>899,869</u>	<u>1,939,664</u>
Total Fund Balances	<u>\$1,250,474</u>	<u>\$993,385</u>	<u>\$899,869</u>	<u>\$1,939,664</u>

See accompanying notes to the basic financial statements.

Classroom Facilities	Other Governmental Funds	Total Governmental Funds
\$720,425	\$679,593	\$5,914,847
0	0	568,563
<u>720,425</u>	<u>679,593</u>	<u>6,483,410</u>
720,425	289,311	4,864,800
0	390,282	823,504
0	0	215,652
0	0	579,454
<u>720,425</u>	<u>679,593</u>	<u>6,483,410</u>
<u>\$720,425</u>	<u>\$679,593</u>	<u>\$6,483,410</u>

Painesville City Local School District
Statement of Cash Receipts, Cash Disbursements
and Changes in Fund Cash Balances - Cash Basis
Governmental Funds
For the Fiscal Year Ended June 30, 2011

	General	Classroom Facilities Maintenance	Debt Service	Building
Receipts:				
Taxes	\$6,191,046	\$0	\$1,505,967	\$0
Tuition and Fees	1,122,164	0	0	0
Investment Earnings	8,553	908	11,897	16,378
Intergovernmental	20,459,833	86,551	345,311	0
Extracurricular Activities	115	0	0	0
Charges for Services	0	0	0	0
Other Revenue	346,007	0	0	116
Total Receipts	28,127,718	87,459	1,863,175	16,494
Cash Disbursements:				
Current:				
Instruction:				
Regular	9,646,304	0	0	0
Special	3,579,904	0	0	0
Vocational	324,920	0	0	0
Other	2,776,451	0	0	0
Support Services:				
Pupil	1,223,331	0	0	0
Instructional Staff	2,129,222	0	0	0
General Administration	103,259	0	0	0
School Administration	3,063,011	0	0	0
Fiscal	371,243	0	22,244	0
Business	51,268	0	0	0
Operations and Maintenance	3,022,488	120,601	0	0
Pupil Transportation	1,196,330	0	0	0
Central	254,748	0	0	0
Operation of Non-Instructional Services	6,744	0	0	0
Extracurricular Activities	338,114	0	0	0
Capital Outlay	70,953	0	0	30,924
Debt Service:				
Principal Retirement	0	0	845,298	0
Interest and Fiscal Charges	0	0	1,335,219	0
Total Cash Disbursements	28,158,290	120,601	2,202,761	30,924
Excess of Receipts Over (Under) Cash Disbursements	(30,572)	(33,142)	(339,586)	(14,430)
Other Financing Sources (Uses):				
Proceeds from Sale of Capital Assets	0	0	0	0
Advances In	291,045	0	0	0
Advances (Out)	(243,036)	0	0	0
Transfers In	0	123,929	44,647	0
Transfers (Out)	(128,672)	0	0	0
Total Other Financing Sources (Uses)	(80,663)	123,929	44,647	0
Net Change in Fund Cash Balance	(111,235)	90,787	(294,939)	(14,430)
Fund Cash Balance Beginning of Year, Restated	1,361,709	902,598	1,194,808	1,954,094
Fund Cash Balance End of Year	\$1,250,474	\$993,385	\$899,869	\$1,939,664

See accompanying notes to the basic financial statements.

Classroom Facilities	Other Governmental Funds	Total Governmental Funds
\$0	\$1,791,420	\$9,488,433
0	7,173	1,129,337
10,397	412	48,545
77,506	6,116,858	27,086,059
0	167,501	167,616
0	137,439	137,439
1,941	46,903	394,967
<u>89,844</u>	<u>8,267,706</u>	<u>38,452,396</u>
0	3,714,945	13,361,249
0	1,384,122	4,964,026
0	11,385	336,305
0	157,279	2,933,730
0	726,316	1,949,647
0	458,584	2,587,806
0	105	103,364
0	201,632	3,264,643
0	2,152	395,639
0	0	51,268
0	350	3,143,439
0	39,453	1,235,783
0	0	254,748
0	1,285,226	1,291,970
0	182,523	520,637
1,498,199	295,638	1,895,714
0	0	845,298
0	0	1,335,219
<u>1,498,199</u>	<u>8,459,710</u>	<u>40,470,485</u>
<u>(1,408,355)</u>	<u>(192,004)</u>	<u>(2,018,089)</u>
0	48,335	48,335
0	243,035	534,080
0	(291,044)	(534,080)
0	84,025	252,601
0	(123,929)	(252,601)
<u>0</u>	<u>(39,578)</u>	<u>48,335</u>
<u>(1,408,355)</u>	<u>(231,582)</u>	<u>(1,969,754)</u>
<u>2,128,780</u>	<u>911,175</u>	<u>8,453,164</u>
<u>\$720,425</u>	<u>\$679,593</u>	<u>\$6,483,410</u>

Painesville City Local School District
Statement of Receipts, Cash Disbursements and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2011

	General Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Budgetary Basis Receipts:				
Taxes	\$6,689,723	\$6,238,565	\$6,191,046	(\$47,519)
Tuition and Fees	1,212,552	1,130,777	1,122,164	(8,613)
Investment Earnings	9,242	8,619	8,553	(66)
Intergovernmental	22,107,833	20,616,870	20,459,833	(157,037)
Extracurricular Activities	124	116	115	(1)
Other Receipts	373,877	348,663	346,007	(2,656)
Total Budgetary Basis Receipts	30,393,351	28,343,610	28,127,718	(215,892)
Budgetary Basis Disbursements:				
Current:				
Instruction:				
Regular	10,304,123	10,032,406	9,684,162	348,244
Special	3,827,787	3,726,849	3,597,483	129,366
Vocational	345,721	336,604	324,920	11,684
Other	2,994,704	2,915,735	2,814,524	101,211
Support Services:				
Pupil	1,302,611	1,268,262	1,224,238	44,024
Instructional Staff	2,267,077	2,207,294	2,130,675	76,619
General Administration	109,869	106,972	103,259	3,713
School Administration	3,284,116	3,197,515	3,086,523	110,992
Fiscal	395,112	384,693	371,340	13,353
Business	55,230	53,774	51,907	1,867
Operations and Maintenance	3,274,729	3,188,375	3,077,701	110,674
Pupil Transportation	1,294,144	1,260,018	1,216,280	43,738
Central	275,692	268,422	259,105	9,317
Operation of Non-Instructional Services	7,495	7,297	7,044	253
Extracurricular Activities	368,258	358,547	346,101	12,446
Capital Outlay	75,495	73,504	70,953	2,551
Total Budgetary Basis Disbursements	30,182,163	29,386,267	28,366,215	1,020,052
Excess of Budgetary Basis Receipts Over (Under) Budgetary Basis Disbursements	211,188	(1,042,657)	(238,497)	804,160
Other Financing Sources (Uses):				
Advances In	314,488	293,279	291,045	(2,234)
Advances (Out)	(258,595)	(251,776)	(243,036)	8,740
Transfers (Out)	(136,909)	(133,299)	(128,672)	4,627
Total Other Financing Sources (Uses)	(81,016)	(91,796)	(80,663)	11,133
Net Change in Fund Balance	130,172	(1,134,453)	(319,160)	815,293
Fund Balance Beginning of Year (includes prior year encumbrances appropriated)	1,361,709	1,361,709	1,361,709	0
Fund Balance End of Year	\$1,491,881	\$227,256	\$1,042,549	\$815,293

See accompanying notes to the basic financial statements.

Painesville City Local School District
Statement of Receipts, Cash Disbursements and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2011

	Classroom Facilities Maintenance Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Budgetary Basis Receipts:				
Investment Earnings	\$906	\$536	\$908	\$372
Intergovernmental	86,392	51,110	86,551	35,441
Total Budgetary Basis Receipts	87,298	51,646	87,459	35,813
Budgetary Basis Disbursements:				
Current:				
Support Services:				
Operations and Maintenance	500,000	500,000	128,328	371,672
Total Budgetary Basis Disbursements	500,000	500,000	128,328	371,672
Excess of Budgetary Basis Receipts Over (Under) Budgetary Basis Disbursements	(412,702)	(448,354)	(40,869)	407,485
Other Financing Sources (Uses):				
Transfers In	123,702	73,183	123,929	50,746
Total Other Financing Sources (Uses)	123,702	73,183	123,929	50,746
Net Change in Fund Balance	(289,000)	(375,171)	83,060	458,231
Fund Balance Beginning of Year (includes prior year encumbrances appropriated)	902,598	902,598	902,598	0
Fund Balance End of Year	\$613,598	\$527,427	\$985,658	\$458,231

See accompanying notes to the basic financial statements.

Painesville City Local School District
Statement of Fiduciary Net Assets - Cash Basis
Fiduciary Funds
June 30, 2011

	Private Purpose Trust	Agency
Assets:		
Equity in Pooled Cash and Cash Equivalents	\$9,640	\$27,747
Total Assets	<u>9,640</u>	<u>27,747</u>
Net Assets:		
Unrestricted	<u>9,640</u>	<u>27,747</u>
Total Net Assets	<u>\$9,640</u>	<u>\$27,747</u>

See accompanying notes to the basic financial statements.

Painesville City Local School District
Statement of Changes in Fiduciary Net Assets - Cash Basis
Fiduciary Fund
For the Fiscal Year Ended June 30, 2011

	Private Purpose Trust
Additions:	
Investment Earnings	\$11
Total Additions	11
Deductions:	
Scholarships	4,647
Total Deductions	4,647
Change in Net Cash Assets	(4,636)
Net Cash Assets Beginning of Year, Restated	14,276
Net Cash Assets End of Year	\$9,640

See accompanying notes to the basic financial statements.

Painesville City Local School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

Note 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, 2011 was 3,139. The District employed 248 certificated employees and 178 non-certificated employees. It currently operates six instructional facilities.

Reporting Entity

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

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

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

Note 2 – Summary of Significant Accounting Policies

As discussed further in Note 3, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles general accepted in the United States of America (GAAP). Generally accepted accounting principles include all the relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting.

Ohio Administrative Code, Section 117-2-03 (B), requires the District to prepare its annual financial report in accordance with generally accepted accounting principles. However, the District prepared its financial statements on a cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net assets/fund balances, and disclosures that, while material, cannot be determined at this time. The District can be fined and various other administrative remedies may be taken against the District

Painesville City Local School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

Fund Accounting

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

Governmental Funds

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

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

Classroom Facilities Maintenance Fund – The classroom facilities maintenance fund is used to account for the proceeds of a levy for the maintenance of facilities.

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

Building Fund – The building fund is used to account for receipts and expenditures related to the acquisition and construction of capital facilities including real property.

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

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

Fiduciary Funds

Fiduciary fund reporting focuses on net cash assets and changes in net cash assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. Agency funds are custodial in nature (assets equal liabilities)

Painesville City Local School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

and do not involve measurement of results of operations. The District's only trust fund is a private purpose trust which accounts for scholarship programs for students. The District has a student managed activity agency fund which accounts for assets and liabilities generated by student managed activities.

Basis of Presentation

Government-wide Financial Statements

The statement of net assets - cash basis and the statement of activities - cash basis display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The government-wide statement of activities compares disbursements with program receipts for each function or program of the District's governmental activities. These disbursements are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program receipts include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Receipts which are not classified as program receipts are presented as general receipts of the District. The comparison of direct disbursements with program receipts identifies the extent to which each business segment or governmental function is self-financing on the cash basis or draws from the general receipts of the District.

Fund Financial Statements

The fund financial statements report more detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Fund statements present each major fund in a separate column and aggregate non-major funds in a single column. Fiduciary funds are reported by fund type.

Equity in Pooled Cash and Investments

To improve cash management, cash received by the District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the basic financial statements.

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

Painesville City Local School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2011. 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, 2011.

Following Ohio statutes, the Board has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue during the fiscal year amounted to \$8,553 credited to the general fund, \$908 credited to the classroom facilities maintenance fund, \$11,897 credited to the debt service fund, \$16,378 credited to the building fund, \$10,397 credited to the classroom facilities fund, and \$412 credited to other governmental funds.

Inventory and Prepaid Items

The District reports disbursements for inventory and prepaid items when paid. These items are not reflected in the accompanying financial statements under the cash basis of accounting.

Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected in the accompanying financial statements under the cash basis of accounting.

Unpaid Vacation and Sick Leave

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the District.

Interfund Activity

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.

Employer Contributions to Cost-Sharing Plans

The District recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described later in the notes, the employer contributions include portions for pension benefits and for postretirement health care benefits.

Painesville City Local School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

Budgetary Process

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

Tax Budget

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates.

By no later than January 20, the Board-adopted budget is filed with the Lake County Budget Commission for rate determination.

Estimated Resources

Prior to April 1, the Board accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the Commission's certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the amended certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2011.

Painesville City Local School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

Appropriations

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

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

Lapsing of Appropriations

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

While the District is reporting financial position, results of operations and changes in fund balances on the cash basis, the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balance – Budget and Actual (Budgetary Basis) presented for the general fund and classroom facilities maintenance are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budget basis and the cash basis is outstanding year end encumbrances are treated as disbursements (budget) rather than a reservation of fund balance (cash).

The following table summarizes the adjustments necessary to reconcile the cash basis statement to the budgetary basis statement for the general fund and classroom facilities maintenance:

Painesville City Local School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

Net Change in Fund Cash Balance:

	General Fund	Classroom Facilities Maintenance
Cash Basis	(\$111,235)	\$90,787
Adjustment for Encumbrances	(207,925)	(7,727)
Budget Basis	<u>(\$319,160)</u>	<u>\$83,060</u>

Long-Term Debt

Bonds and other long-term debt issuances are not recognized as a liability in the financial statements under the cash basis of accounting. These statements report proceeds of debt when cash is received, and debt service disbursements for debt principal payments.

Fund Cash Balance

In accordance with Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting*, the District classifies its fund cash balance based on the purpose for which the resources were received and the level of constraint placed on the resources. The following categories are used:

Nonspendable – resources that are not in spendable form or have legal or contractual requirements to maintain the balance intact.

Restricted – resources that have external purpose restraints imposed on them by providers, such as creditors, grantors, or other regulators.

Committed – resources that are constrained for specific purposes that are internally imposed by the government at its highest level of decision making authority, the Board of Education.

Assigned – resources that are intended to be used for specific purposes as approved through the District’s formal purchasing procedure by the Treasurer.

Unassigned – residual fund balance within the General Fund that is not restricted, committed, or assigned. In other governmental funds, the unassigned classification is used only to report a deficit cash balance resulting from incurred expenses for specific purposes exceeding amounts which had been restricted, committed or assigned for said purposes.

The District applies restricted resources first when a disbursement has incurred for purposes which both restricted and unrestricted net assets are available. The District considers committed, assigned, and unassigned fund balances, respectively, to be spent when disbursements have incurred for purposes for which any of the unrestricted fund cash balance classifications could be used.

Painesville City Local School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

Net Cash Assets

Net cash assets are reported as restricted when enabling legislation or creditors, grantors or laws or regulations of other governments have imposed limitations on its use.

The District first applies restricted resources when a disbursement is incurred for purposes for which both restricted and unrestricted net cash assets are available.

Note 3 – Change in Basis of Accounting and Restatement

Change in Basis of Accounting

In fiscal year 2011, the District converted from a reporting in accordance with generally accepted accounting principles (GAAP) to cash basis reporting.

Restatement

The implementation of this change had the following effects on the major and nonmajor fund balances as they were previously reported:

	General	Debt Service	Building	Classroom Facilities	Classroom Facilities Maintenance	Other Governmental Funds	Total Governmental Funds
Ending Fund Balances, June 30, 2010	(\$1,242,405)	\$1,373,150	\$1,951,044	\$1,259,461	\$902,598	(\$129,451)	\$4,114,397
GAAP Adjustments:							
Taxes Receivable	(6,907,177)	(1,693,040)	0	0	0	(155,296)	(8,755,513)
Accounts Receivable	(13,120)	0	0	0	0	(69,468)	(82,588)
Interest Receivable	(930)	0	0	(14,479)	0	0	(15,409)
Intergovernmental Receivable	(95,460)	0	0	(77,506)	0	(861,914)	(1,034,880)
Interfund Receivable	(594,716)	0	0	0	0	0	(594,716)
Due From Other Funds	0	0	0	0	0	(44,025)	(44,025)
Inventory	0	0	0	0	0	(29,151)	(29,151)
GASB 31 Adjustment to Cash	0	0	0	(16,238)	0	0	(16,238)
Accounts Payable	198,002	0	346	22,272	0	51,824	272,444
Accrued Wages and Benefits	3,517,112	0	0	0	0	839,157	4,356,269
Compensated Absences	191,932	0	0	0	0	39,606	231,538
Retainage Payable	0	0	0	550,591	0	0	550,591
Contracts Payable	0	0	2,704	404,679	0	123,652	531,035
Interfund Payable	0	0	0	0	0	594,716	594,716
Unearned Revenue	6,250,129	1,514,698	0	0	0	551,525	8,316,352
Other Liabilities	14,317	0	0	0	0	0	14,317
Due To Other Funds	44,025	0	0	0	0	0	44,025
Restated Beginning Fund Cash Balance, July 1, 2010	\$1,361,709	\$1,194,808	\$1,954,094	\$2,128,780	\$902,598	\$911,175	\$8,453,164

Painesville City Local School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

In addition, the entity-wide statements net assets had to be restated as follows:

Ending Net Assets – Governmental Activities, June 30, 2010	\$68,527,102
GAAP Adjustments:	
GASB 31 Adjustment to Cash	(16,238)
Taxes Receivable	(8,755,513)
Accounts Receivable	(82,588)
Interest Receivable	(15,409)
Intergovernmental Receivable	(1,034,880)
Deferred Bond Issuance Cost	(123,487)
Inventory	(29,151)
Capital Assets	(94,399,877)
Accounts Payable	272,444
Accrued Wages and Benefits	4,356,269
Retainage Payable	550,591
Accrued Interest Payable	112,417
Contracts Payable	531,035
Unearned Revenue	7,279,439
Other Liabilities	14,317
Long-Term Liabilities	<u>31,266,693</u>
Restated Governmental Activities Net Assets, July 1, 2010	<u><u>\$8,453,164</u></u>

Note 4 - Equity in Pooled Cash and Investments

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

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

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

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

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

Painesville City Local School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

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

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

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

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

Painesville City Local School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's policy for deposits is any balance not covered by depository insurance will be collateralized by the financial institutions with pledged securities. As of June 30, 2011, none of the District's bank balance of \$2,264,040 exposed to custodial risk because it was all FDIC insured.

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

Investments

Investments are reported at fair value. As of June 30, 2011, the District had the following investments (there were no long-term investments; for financial statement reporting purposes the investments below are considered cash equivalents):

Investment Type	Fair Value	Weighted Average Maturity (Years)
Money Market Funds	\$2,579,910	0.00
STAR Ohio	1,778,554	0.16
Total Fair Value	\$4,358,464	
Portfolio Weighted Average Maturity		0.07

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

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

Concentration of Credit Risk – The District's investment policy allows investments in Federal Agencies or Instrumentalities. All investments were issued or guaranteed by the federal government. At year end, the District's allocations of investments (cash equivalents) were as follows: Money Market Accounts (59%) and STAROhio (41%).

Painesville City Local School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

Custodial Credit Risk is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the District's securities are either insured and registered in the name of the District or at least registered in the name of the District.

Note 5 - Property Taxes

Property taxes are levied and assessed on a calendar year basis. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31 of the prior year, were levied April 1 and are collected with real property taxes. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. All property is required to be revalued every six years. Public utility property taxes are assessed on tangible personal property at 88 percent of true value (with certain exceptions) and on real property at 35 percent of true value.

Tangible personal property tax revenue received during calendar year 2011 (other than public utility property tax) represents the collection of 2011 taxes levied against local and interexchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, and furniture and fixtures is no longer levied and collected. The October 2008 tangible personal property tax settlement was the last property tax settlement for general personal property taxes. Tangible personal property taxes received from telephone companies in calendar year 2011 were levied after April 1, 2010, on the value as of December 31, 2010. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. The District receives property taxes from Lake County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2011, are available to finance fiscal year 2012 operations. The amount available for advance can vary based on the date the tax bills are sent.

Painesville City Local School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

The assessed values upon which the fiscal year 2011 taxes were collected are:

	<u>Second Half</u> <u>2010 Amount</u>	<u>First Half</u> <u>2011 Amount</u>
Agricultural/Residential and Other Real Estate	\$218,417,090	\$211,859,520
Public Utility Personal	1,528,740	1,561,640
Tangible Personal Property	<u>358,073</u>	<u>0</u>
Total	<u><u>\$220,303,903</u></u>	<u><u>\$213,421,160</u></u>

Note 6 - Long-Term Debt

	<u>Maturity</u> <u>Dates</u>	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Due In</u> <u>One Year</u>
Governmental Activities:						
General Obligation Bonds:						
School Improvement Bonds						
2004 4.62%	12/1/32	\$17,900,000	\$0	\$470,000	\$17,430,000	\$485,000
Stadium Project - Refinancing						
2002 1.60-3.55%	6/1/14	260,000	0	115,000	145,000	125,000
Current Interest Bonds -						
School Improvement 2005						
4.87%	12/1/33	10,465,007	0	225,000	10,240,007	245,000
Premium on 2005 School						
Improvement Bonds	12/1/33	453,754	0	20,167	433,587	0
Capital Appreciation Bonds -						
School Improvement 2005						
Accreted Interest	12/1/15	454,993	0	0	454,993	0
		272,171	79,389	0	351,560	0
Notes Payable	6/1/14	<u>154,530</u>	<u>0</u>	<u>35,298</u>	<u>119,232</u>	<u>37,434</u>
Total Long Term Debt		<u><u>\$29,960,455</u></u>	<u><u>\$79,389</u></u>	<u><u>\$865,465</u></u>	<u><u>\$29,174,379</u></u>	<u><u>\$892,434</u></u>

Painesville City Local School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

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

Fiscal Year Ending June 30	<u>Current Interest Bonds and Notes Payable</u>			<u>Capital Appreciation Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$892,434	\$1,303,697	\$2,196,131	\$0	\$0	\$0
2013	814,698	1,376,974	2,191,672	0	0	0
2014	562,100	1,028,594	1,590,694	167,621	217,379	385,000
2015	540,000	989,675	1,529,675	151,124	233,876	385,000
2016	560,000	950,674	1,510,674	136,248	248,752	385,000
2017-2021	5,365,000	5,278,815	10,643,815	0	0	0
2022-2026	6,760,000	3,846,850	10,606,850	0	0	0
2027-2031	8,570,000	1,994,972	10,564,972	0	0	0
2032-2033	3,870,007	181,924	4,051,931	0	0	0
Total	<u>\$27,934,239</u>	<u>\$16,952,175</u>	<u>\$44,886,414</u>	<u>\$454,993</u>	<u>\$700,007</u>	<u>\$1,155,000</u>

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

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

School Improvement Bonds

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

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

The capital appreciation bonds will mature in fiscal years 2013 through 2015. The final maturity amount of the bonds is \$1,155,000. For fiscal year 2010, \$71,575 of accretion was recorded for the capital appreciation bonds.

Notes Payable

In August 1999, the District obtained \$432,211 of energy conservation notes, with interest at 6.05%. Payments of principal and interest relating to this liability are recorded as expenditures in the General Fund via transfers to the Debt Service Fund. These notes will be paid down through fiscal year 2014.

Painesville City Local School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

Note 7 – Leases

GW Lease – In April 2010, the District entered into a 12 month lease with GW Enterprises to lease property for storage at a rate of \$900 per month.

ComDoc – In July 2008, the District entered into a lease for copiers for 60 months at a minimum rate of \$14,430 per month.

The lease for the vehicles meet the criteria of capital lease as defined by statement of Financial Accounting Standards No. 13 “Accounting for Leases”, which defines a capital lease generally as one that transfers benefits and risks of ownership to the lessee. Capital lease payments for the property will be made from the General Fund; capital lease payments for the copiers will be made from the General Fund and Title VI B Fund.

Total rental expense for the year was \$181,259. Future minimum payments for leases with remaining lease terms in excess of one year for the years ended June 30, are as follows:

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

Fiscal Year Ending June 30,	GW Lease	ComDoc	Total Payments
2011	\$8,100	\$173,159	\$181,259
2012	0	173,159	173,159
2013	0	173,159	173,159
2014	0	14,430	14,430
Total Minimum Lease Payments	\$8,100	\$533,907	\$542,007

Capital assets acquired under capital leases in accordance with Statement of Financial Accounting Standards No. 13 are as follows:

Property for Storage	\$ 10,800
Copiers	707,065

Lessor

Headstart – In July 2008, the District entered into a 4 year lease with Lake-Geauga United Head Start to lease property for use at a rate of \$123,750 per year.

Riverside – In July 2008, the District entered into a 4 year lease with Riverside LS BOE for Early Childhood Education Program to lease property for use at a rate of \$17,059.10 per year.

The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 “Accounting for Leases,” and therefore has been recorded as a sale since all the benefits and risks of ownership have been transferred to the lessee.

Painesville City Local School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

Rental payments received for FY 2011 were \$140,809. Future minimum payments to be received for leases with remaining lease terms in excess of one year for the years ended June 30 are as follows:

Fiscal Year Ending June 30,	Head Start	Riverside	Total Payments
2011	\$123,750	\$17,059	\$140,809
Total Minimum Lease Payments	<u>\$123,750</u>	<u>\$17,059</u>	<u>\$140,809</u>

Note 8 - Pension Plans

School Employees Retirement System of Ohio

Plan Description

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability, and survivor benefits; annual cost-of-living adjustments; and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at www.ohsers.org under *Employers/Audit Resources*.

Funding Policy

Plan members are required to contribute 10% of their annual covered salary and District is required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care fund) of the System. For fiscal year ending June 30, 2011, the allocation to pension and death benefits is 11.81%. The remaining 2.19% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. The District's contributions to SERS for the years ended June 30, 2011, 2010, and 2009 were \$890,352, \$843,624, and \$874,896, respectively; 51% has been contributed for fiscal year 2011 and 100% for fiscal years 2010 and 2009.

Painesville City Local School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

State Teachers Retirement System of Ohio

Plan Description

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement system. STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, community school, college, university, institution, or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof. Additional information or copies of STRS Ohio's *Comprehensive Annual Financial Report* can be requested by writing to STRS Ohio, 275 E. Broad Street, Columbus, OH 43215-3771, by calling toll-free 1-888-227-7877, or by visiting the STRS Ohio web site at www.strsoh.org.

Plan Options

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

DB Plan Benefits

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

Painesville City Local School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

DC Plan Benefits

Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members' accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Combined Plan Benefits

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

Eligible faculty of Ohio's public colleges and universities may choose to enroll in either STRS Ohio or an alternative retirement plan (ARP) offered by their employer. Employees have 120 days from their employment date to select a retirement plan.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. A reemployed retiree may alternatively receive a refund of only member contributions with interest before age 65, once employment is terminated.

Benefits are increased annually by 3% of the original base amount for DB Plan participants.

The DB and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalizations, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

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

Painesville City Local School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

Funding Policy

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers.

Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2011, were 10% of covered payroll for members and 14% for employers. The District's contributions to STRS for the years ended June 30, 2011, 2010, and 2009 were \$2,278,224, \$2,379,792, and \$2,174,124, respectively; 83% has been contributed for fiscal year 2011 and 100% for fiscal years 2010 and 2009.

Note 9 - Post Employment Benefits

School Employees Retirement System of Ohio

Plan Description

In addition to a cost-sharing multiple-employer defined benefit pension plan, the School Employees Retirement System of Ohio (SERS) administers two postemployment benefit plans.

Medicare Part B Plan

The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2011 was \$96.40 for most participants, but could be as high as \$369.10 depending on their income; SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2011, the actuarially required allocation was .76%. District contributions for the year ended June 30, 2011, 2010 and 2009 were \$48,333, \$45,797 and \$46,869, respectively, which equaled the required contributions each year.

Health Care Plan

ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMO's, PPO's, Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

Painesville City Local School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans.

The Health Care Fund was established under, and is administered in accordance with, Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. At June 30, 2011, the health care allocation was 1.43%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2011, the minimum compensation level was established at \$35,800. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The District contributions assigned to health care for the years ended June 30, 2011, 2010, and 2009 were \$90,943, \$27,719, and \$259,969, respectively; 51% has been contributed for fiscal year 2011 and 100% for fiscal years 2010 and 2009.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

The financial reports of SERS' Health Care and Medicare B plans are included in its *Comprehensive Annual Financial Report*. The report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at www.ohsers.org under *Employers/Audit Resources*.

State Teachers Retirement System of Ohio

Plan Description

STRS Ohio administers a pension plan that is comprised of: a Defined Benefit Plan; a self-directed Defined Contribution Plan and a Combined Plan that is a hybrid of the Defined Benefit and the Defined Contribution Plan.

Ohio law authorized STRS Ohio to offer a cost-sharing, multiple-employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the Defined Benefit or Combined Plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums.

Pursuant to 3307 of the Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients, for the most recent year, pay a portion of the health care costs in the form of a monthly premium.

Painesville City Local School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

STRS Ohio issues a stand-alone financial report. Interested parties can view the most recent *Comprehensive Annual Financial Report* by visiting www.strsoh.org or by requesting a copy by calling toll-free 1-888-227-7877.

Funding Policy

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14% employer contributions rate, 1% of covered payroll was allocated to post-employment health care for the year ended June 30, 2011, 2010 and 2009. The 14% employer contribution rate is the maximum rate established under Ohio law. The District contributions for the years ended June 30, 2011, 2009, and 2008 were \$162,730, \$169,985, and \$155,295, respectively; 83% has been contributed for fiscal year 2010 and 100% for fiscal years 2009 and 2008.

Note 10 – Contingent Liabilities

Grants

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

However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District as of June 30, 2011.

Litigation

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

Note 11 – Lake County School Financing District

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

Painesville City Local School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

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

Note 12 – 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. The students of each participating school district may attend classes offered at the vocational facility. Each participant's control over the operation of the Auburn Career Center is limited to representation on the board. Continued existence of the Auburn Career Center is not dependent on the District's continued participation. Financial information can be obtained by writing the Auburn Career Center, 8140 Auburn Road, Painesville, Ohio 44077.

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

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

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

Painesville City Local School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

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.

Note 13 – 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 ten Lake County school districts plus Lakeland Community College and Lake County Educational Service Center. Each school district has a representative on the assembly (usually the superintendent or designee). Each member pays an administrative fee to the pool. The plan's business and affairs are conducted by a five member Board of Directors elected by the HCBP's assembly. The assembly elects officers for one year terms to serve on the Board of Directors.

Note 14 – 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 2010, the District contracted with Ohio Casualty Insurance for property and general liability insurance. There is a \$3,000,000 limit of liability.

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

The District has elected to provide medical coverage through the Lake County Council of Governments Health Care Benefits Program.

Note 15 – 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.

Painesville City Local School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

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 CompManagement & Co. provides administrative, cost control and actuarial services to the GRP.

Note 16 – Fund Balance Reserves for Set-Asides

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

For fiscal year ended June 30, 2011, the District was no longer required to set aside funds in the budget reserve set-aside, with the exception of refund monies received from the Bureau of Workers' Compensation, which must be spent for specified purposes.

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

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set Aside Reserve Balance as of June 30, 2010	(\$429,183)	\$0	\$105,468
Current Year Set Aside Requirements	459,056	459,056	0
Current Year Offsets	0	(20,560,272)	0
Total	<u>\$29,873</u>	<u>(\$20,101,216)</u>	<u>\$105,468</u>
Set Aside Reserve Balance			
Carried Forward to Future Years	\$29,873	\$0	\$0
Set Aside Balance as of June 30, 2011	0	0	105,468
Committed Balance as of June 30, 2011	<u>0</u>	<u>0</u>	<u>433,222</u>
Restricted Cash as of June 30, 2011	<u>\$29,873</u>	<u>\$0</u>	<u>\$538,690</u>

Painesville City Local School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

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 as a 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.

Note 17 – Interfund Transactions

Interfund transactions at June 30, 2011, consisted of the following transfers in and transfers out, advances in and advances out:

	Transfers		Advances	
	In	Out	In	Out
General Fund	\$0	\$128,672	\$291,045	\$243,036
Classroom Facilities Maintenance Fund	123,929	0	0	0
Debt Service Fund	44,647	0	0	0
Other Governmental Funds	84,025	123,929	243,035	291,044
Total All Funds	<u>\$252,601</u>	<u>\$252,601</u>	<u>\$534,080</u>	<u>\$534,080</u>

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

Note 18 – Fund Balances

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in the government funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

Painesville City Local School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

Fund Balances	General	Classroom Facilities Maintenance	Debt Service	Building	Classroom Facilities	Other Governmental Funds	Total
Restricted for:							
Textbook	\$29,873	\$0	\$0	\$0	\$0	\$0	\$29,873
Other Grants	0	0	0	0	0	69,822	69,822
Auxiliary Services	0	0	0	0	0	26,593	26,593
Management Information System	0	0	0	0	0	6,317	6,317
High Schools That Work	0	0	0	0	0	875	875
Miscellaneous State Grants	0	0	0	0	0	3,117	3,117
Adult Basic Education	0	0	0	0	0	5,913	5,913
Race To The Top	0	0	0	0	0	12,177	12,177
Title VI B	0	0	0	0	0	44,677	44,677
Title II D Technology	0	0	0	0	0	328	328
Title III	0	0	0	0	0	14,992	14,992
Title I	0	0	0	0	0	34,753	34,753
Drug Free Schools	0	0	0	0	0	1,673	1,673
Preschool	0	0	0	0	0	7,242	7,242
Improving Teacher Grants	0	0	0	0	0	7,006	7,006
Uniform School Supply	0	0	0	0	0	53,826	53,826
Classroom Facilities Maintenance	0	985,658	0	0	0	0	985,658
Debt Service Payments	0	0	899,869	0	0	0	899,869
Capital Improvements	0	0	0	1,939,664	720,425	0	2,660,089
Total Restricted	29,873	985,658	899,869	1,939,664	720,425	289,311	4,864,800
Committed to:							
Fund Deficit/Emergency	433,222	0	0	0	0	0	433,222
Public School	0	0	0	0	0	25,879	25,879
District Managed Student Activity	0	0	0	0	0	26,566	26,566
Capital Improvements	0	0	0	0	0	337,837	337,837
Total Committed	433,222	0	0	0	0	390,282	823,504
Assigned to:							
Encumbrances	207,925	7,727	0	0	0	0	215,652
Total Assigned	207,925	7,727	0	0	0	0	215,652
Unassigned (Deficit)	579,454	0	0	0	0	0	579,454
Total Fund Balance	\$1,250,474	\$993,385	\$899,869	\$1,939,664	\$720,425	\$679,593	\$6,483,410

Painesville City Local School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

Note 19 – Change in Accounting Principles

For fiscal year 2011, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions.” GASB 54 does not effect the calculation of the District’s fund balance but it shifts the focus of fund balance reporting from the availability of fund resources for budgeting to the extent to which the District is bound to honor constraints on the specific purposes for which amounts in funds can be spent.

Note 20 – Compliance

Ohio Administrative Code, Section 117-2-03(B), requires the District to prepare its annual financial report in accordance with generally accepted accounting principles. However, the District prepared its financial statements on a cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net assets/fund balances, and disclosures that, while material, cannot be determined at this time. The District can be fined and various other administrative remedies may be taken against the District.

PAINESVILLE CITY LOCAL SCHOOL DISTRICT



Single Audit Reports

June 30, 2011

PAINESVILLE CITY LOCAL SCHOOL DISTRICT
SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2011

Federal Grant/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE						
Passed Through Ohio Department of Education:						
Nutrition Cluster:						
School Breakfast Program	3L70	10.553	\$276,913	\$31,627	\$276,913	\$31,627
National School Lunch Program	3L60	10.555	834,025	0	834,025	0
Total Nutrition Cluster			<u>1,110,938</u>	<u>31,627</u>	<u>1,110,938</u>	<u>31,627</u>
Team Nutrition Mini Grant	NMG1	10.574	0	0	907	0
Total U.S. Department of Agriculture			<u>1,110,938</u>	<u>31,627</u>	<u>1,111,845</u>	<u>31,627</u>
U.S. DEPARTMENT OF EDUCATION						
Passed Through Ohio Department of Education:						
Special Education Cluster:						
Special Education-Grants to States	3M20	84.027	503,705	0	597,544	0
Special Education-Grants to States - ARRA	3DJ0	84.391	183,032	0	117,819	0
Special Education-Preschool Grants	3C50	84.173	43,266	0	30,540	0
Special Education-Preschool Grants - ARRA	3DL0	84.392	13,122	0	7,281	0
Total Special Education Cluster			<u>743,125</u>	<u>0</u>	<u>753,184</u>	<u>0</u>
Title I Cluster:						
Title I Grants to Local Educational Agencies	3M00	84.010	1,076,447	0	1,156,840	0
Title I Grants to Local Educational Agencies - ARRA	3DK0	84.389	431,374	0	424,230	0
Total Title I Cluster			<u>1,507,821</u>	<u>0</u>	<u>1,581,070</u>	<u>0</u>
Migrant Education	ME11	84.011	0	0	4,299	0
Drug Free Schools	DF11	84.186	0	0	4,931	0
Education Technology State Grants	3S20	84.318	5,944	0	6,202	0
Improving Teacher Quality	3Y60	84.367	234,289	0	227,340	0
State Fiscal Stabilization Fund (SFSF) Ed St Grant - ARRA	GRF	84.394	1,488,860	0	1,488,860	0
English Language Acquisition Grants	3Y70	84.365	142,924	0	149,851	0
Education Jobs	3ET0	84.410	294,234	0	294,234	0
Race to the Top	3FD0	84.395	18,196	0	24,163	0
Passed through the University System of Ohio Board of Regents:						
ABLE Grant (Adult Education)	ABLE	84.002	150,603	0	158,592	0
Total Department of Education			<u>4,585,996</u>	<u>0</u>	<u>4,692,726</u>	<u>0</u>
Total Federal Assistance			<u>\$5,696,934</u>	<u>\$31,627</u>	<u>\$5,804,571</u>	<u>\$31,627</u>

NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES

NOTE A -- SIGNIFICANT ACCOUNTING POLICIES

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

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Painesville City Local School District (the District), as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 7, 2011, wherein we noted the District presented financial statements on the cash basis of accounting rather than in accordance with accounting principles generally accepted in the United States of America, as disclosed in Note 2; the District also adopted GASB Statement No. 54 as disclosed in Note 19. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and is described in the accompanying schedule of findings and questioned costs as item 2011-1.

We noted certain matters that we reported to management of the District in a separate letter dated October 7, 2011.

This report is intended solely for the information and use of management, the Auditor of State, Board of Education, 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.

Plattenburg & Associates, Inc.

Plattenburg & Associates, Inc.
October 7, 2011

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the Painesville City Local School District's (the District) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2011. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the 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 with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, the District, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the District as of and for the year ended June 30, 2011, and have issued our report thereon dated October 7, 2011, which contained an unqualified opinion on those financial statements wherein we noted the District presented financial statements on the cash basis of accounting rather than in accordance with accounting principles generally accepted in the United States of America, as disclosed in Note 2; the District also adopted GASB Statement No. 54 as disclosed in Note 19. Our audit was performed for the purpose of forming opinions on the financial statements as a whole. The schedule of expenditures of federal awards is presented for the purposes of 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

This report is intended solely for the information and use of management, the Auditor of State, the Board of Education, 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.

Plattenburg & Associates, Inc.

Plattenburg & Associates, Inc.
October 7, 2011

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2011**

Section I – Summary of Auditor’s Results

<i>(d)(1)(i)</i>	<i>Type of Financial Statement Opinion</i>	Unqualified
<i>(d)(1)(ii)</i>	<i>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(ii)</i>	<i>Were there any other significant control deficiencies reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(iii)</i>	<i>Was there any material reported non-compliance at the financial statement level (GAGAS)?</i>	Yes
<i>(d)(1)(iv)</i>	<i>Were there any material internal control weakness conditions reported for major federal programs?</i>	No
<i>(d)(1)(iv)</i>	<i>Were there any other significant control deficiencies reported for major federal programs?</i>	No
<i>(d)(1)(v)</i>	<i>Type of Major Programs' Compliance Opinion</i>	Unqualified
<i>(d)(1)(vi)</i>	<i>Are there any reportable findings under Section .510?</i>	No
<i>(d)(1)(vii)</i>	<i>Major Programs (list):</i>	Title I Cluster: Title I CFDA# 84.010 Title I - ARRA CFDA# 84.389 State Fiscal Stabilization Fund (SFSF) Education State Grants, Recovery Act CFDA# 84.394
<i>(d)(1)(viii)</i>	<i>Dollar Threshold: Type A/B Programs</i>	Type A: > \$300,000 Type B: all others
<i>(d)(1)(ix)</i>	<i>Low Risk Auditee?</i>	No

Section II – Findings Related to the Financial Statements Required to be Reported in Accordance with GAGAS

Noncompliance GAAP Reporting

Ohio Rev. Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. The auditor of state may prescribe forms by rule or may issue guidelines, or both, for such reports. If the auditor of state has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Rev. Code Section 117.38.

Ohio Administrative Code Section 117-2-03(B) requires the District to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP). For fiscal year 2011, the District prepared financial statements that, although formatted similar to financial statements prescribed by Governmental Accounting Standards Board Statement No. 34, report on the basis of cash receipts and cash disbursements, rather than GAAP. The accompanying financial statements and notes omit certain assets, liabilities, fund equities, and disclosures, that while material, cannot be determined at this time. Pursuant to Ohio Rev. Code Section 117.38 the District may be fined and subject to various other administrative remedies for its failure to file the required financial report. Failure to report on a GAAP basis compromises the District's ability to evaluate and monitor the overall financial condition of the District.

We recommend the District prepare its financial statements on the GAAP basis of accounting.

Officials' Response:

The Board of Education acknowledges that the District should be reporting on a GAAP basis. The District is reporting on a cash basis with GAAP look-a-like statements.

Section III – Federal Award Findings and Questioned Costs

None

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT
JUNE 30, 2011**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
*OMB CIRCULAR A-133***

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Finding Corrected</u>	<u>Explanation</u>
2010-1	Financial Reporting relating to year end financial transactions	Yes	The District did not do a GAAP Conversion at year end. The District prepared GASB #34 Look-Alike Statements.

PAINESVILLE CITY LOCAL SCHOOL DISTRICT



Agreed Upon Procedures Report

June 30, 2011

**INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREE-UPON PROCEDURE**

Board of Education
Painesville City Local School District
Lake County
Painesville, Ohio 44077

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether Painesville City Local School District (the District) has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board amended its anti-harassment policy in November 2010 to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board and is not intended to be and should not be used by anyone other than these specified parties.

Plattenburg & Associates, Inc.

Plattenburg & Associates, Inc.
October 7, 2011



Dave Yost • Auditor of State

PAINESVILLE CITY LOCAL SCHOOL DISTRICT

LAKE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 13, 2011**