



**PAINESVILLE CITY LOCAL SCHOOL DISTRICT
LAKE COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2001



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT
LAKE COUNTY**

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STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

Lausche Bldg
615 W Superior Ave
Floor 12
Cleveland OH 44113 - 1801
Telephone 216-787-3665
800-626-2297
Facsimile 216-787-3361
www.auditor.state.oh.us

REPORT OF INDEPENDENT ACCOUNTANTS

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

To the Board of Education:

We have audited the accompanying general-purpose financial statements of the Painesville City Local School District, Lake County, Ohio, (the District) as of and for the year ended June 30, 2001, as listed in the table of contents. These general-purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Painesville City Local School District, Lake County, Ohio, as of June 30, 2001, and the results of its operations and the cash flows of its proprietary fund types for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2001 on our consideration of the District's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements of the District, taken as a whole. The accompanying schedule of federal awards expenditures is presented for 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 general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statement and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

Jim Petro
Auditor of State

December 21, 2001

PAINESVILLE CITY LOCAL SCHOOL DISTRICT - LAKE COUNTY
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2001

	Governmental Fund Types				Proprietary Fund Types			Fiduciary Fund Types			Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service	Expendable Trust and Agency	Account Group			
								General Long-term Debt	General Fixed Assets		
ASSETS AND OTHER DEBITS:											
Assets:											
Equity in pooled cash and investments	\$ 4,905,303	\$ 721,991	\$ 171,967	\$ 140,109	\$ 218,771	\$ 3,685	\$ 68,039	\$ -	\$ -	\$ -	\$ 6,229,865
Restricted cash	692,689	-	-	-	-	-	-	-	-	-	692,689
Cash with fiscal agent	435,858	-	-	-	-	-	-	-	-	-	435,858
Receivables:											
Taxes	8,908,561	-	138,829	165,318	-	-	-	-	-	-	9,212,708
Accounts	11,524	-	-	-	-	-	-	-	-	-	11,524
Accrued interest	23,520	2,045	-	-	-	-	-	-	-	-	25,565
Interfund	61,073	-	-	-	-	-	-	-	-	-	61,073
Intergovernmental	182,695	-	1,390	1,806	-	-	-	-	-	-	185,891
Materials and supplies inventory	27,532	-	-	-	26,723	-	-	-	-	-	54,255
Fixed assets - net of accumulated depreciation	-	-	-	-	70,175	-	-	-	-	11,874,339	11,944,514
Other Debits:											
Amount to be provided for retirement of general long-term debt	-	-	-	-	-	-	-	3,136,059	-	-	3,136,059
Amount available in Debt Service Fund	-	-	-	-	-	-	-	171,967	-	-	171,967
Total assets and other debits	\$ 15,248,755	\$ 724,036	\$ 312,186	\$ 307,233	\$ 315,669	\$ 3,685	\$ 68,039	\$ 3,308,026	\$ 11,874,339	\$ 32,161,968	

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

PAINESVILLE CITY LOCAL SCHOOL DISTRICT - LAKE COUNTY
COMBINED BALANCE SHEET (CONTINUED)
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2001

	Governmental Fund Types				Proprietary Fund Types			Fiduciary Fund Types			Totals (Memorandum Only)
	Special Revenue		Debt Service	Capital Projects	Enterprise	Internal Service	Expendable Trust and Agency	General Long-term Debt	General Fixed Assets		
	General										
LIABILITIES, FUND EQUITY AND OTHER CREDITS:											
Liabilities :											
Accounts payable	\$ 92,310	\$ 23,692	\$ -	\$ -	\$ 102	\$ 320	\$ 736	\$ -	\$ -	\$ -	\$ 117,160
Accrued wages and benefits	2,330,405	361,621	-	-	31,036	-	-	315,372	-	-	3,038,434
Interfund payable	-	56,028	-	-	4,925	-	120	-	-	-	61,073
Due to students	-	-	-	-	-	-	51,823	-	-	-	51,823
Compensated absences payable	257,775	29,151	-	-	10,876	-	-	1,040,973	-	-	1,338,775
Claims payable	207,376	-	-	-	-	-	-	-	-	-	207,376
Deferred revenue	8,561,818	-	130,630	155,969	8,841	-	-	1,140,000	-	-	8,857,258
General obligation bonds payable	-	-	-	-	-	-	-	533,568	-	-	1,140,000
Notes payable	-	-	-	-	-	-	-	278,113	-	-	533,568
Capital lease obligations	-	-	-	-	-	-	-	-	-	-	278,113
Total liabilities	11,449,684	470,492	130,630	155,969	55,780	320	52,679	3,308,026	-	-	15,623,580
Fund Equity and Other Credits:											
Retained earnings:											
Investment in general fixed assets	-	-	-	-	-	-	-	-	11,874,339	-	11,874,339
Unreserved	-	-	-	-	259,889	3,365	-	-	-	-	263,254
Fund Balances:											
Reserved for encumbrances	2,107,931	193,737	-	106,214	-	-	-	-	-	-	2,407,882
Reserved for revenue bond retirement	-	-	171,967	-	-	-	-	-	-	-	171,967
Reserved for inventory	27,532	-	-	-	-	-	-	-	-	-	27,532
Textbook reserve	153,999	-	-	-	-	-	-	-	-	-	153,999
Budget stabilization reserve	105,468	-	-	-	-	-	-	-	-	-	105,468
Property tax reserve	480,867	-	9,589	11,155	-	-	-	-	-	-	501,611
Board designation for budget stabilization	433,222	-	-	-	-	-	-	-	-	-	433,222
Unreserved, undesignated	490,052	59,807	-	33,895	-	-	15,360	-	-	-	599,114
Total fund equity and other credits	3,799,071	253,544	181,556	151,264	259,889	3,365	15,360	-	11,874,339	-	16,538,388
Total liabilities, fund equity and other credits	\$ 15,248,755	\$ 724,036	\$ 312,186	\$ 307,233	\$ 315,669	\$ 3,685	\$ 68,039	\$ 3,308,026	\$ 11,874,339	\$ 32,161,968	

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

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT - LAKE COUNTY
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE
 ALL GOVERNMENTAL FUND TYPES
 FOR THE YEAR ENDED JUNE 30, 2001**

	Governmental Fund Types				Fiduciary	Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	
REVENUES:						
Revenue from local sources:						
Taxes	\$ 9,434,557	\$ -	\$ 133,921	\$ 161,402	\$ -	\$ 9,729,880
Tuition	884,149	-	-	-	-	884,149
Transportation fees	30,087	-	-	-	-	30,087
Earnings on investments	380,882	10,222	-	4,863	249	396,216
Extracurricular activities	-	100,779	-	-	178	100,957
Classroom materials and fees	17,647	472	-	-	-	18,119
Miscellaneous receipts - local sources	337,307	57,008	-	-	10,623	404,938
Revenue from intermediate sources:						
Unrestricted grants-in-aid	69,052	-	-	-	-	69,052
Restricted grants-in-aid	-	75,384	-	-	-	75,384
Revenue from state sources:						
Unrestricted grants-in-aid	10,219,608	-	16,059	19,454	-	10,255,121
Restricted grants-in-aid	39,324	1,636,293	-	275,181	-	1,950,798
Revenue from federal sources:						
Unrestricted grants-in-aid	-	1,386,647	-	-	-	1,386,647
Restricted grants-in-aid	-	32,488	-	-	-	32,488
Total revenue	<u>21,412,613</u>	<u>3,299,293</u>	<u>149,980</u>	<u>460,900</u>	<u>11,050</u>	<u>25,333,836</u>
EXPENDITURES:						
Instruction:						
Regular	7,862,560	963,620	-	211,291	-	9,037,471
Special	1,853,436	690,918	-	-	-	2,544,354
Vocational	428,519	-	-	-	-	428,519
Other	1,841,589	93,567	-	-	-	1,935,156
Supporting services:						
Pupils	1,199,474	415,447	-	-	1,910	1,616,831
Instructional staff	543,217	382,831	-	-	700	926,748
Board of Education	125,910	-	-	-	-	125,910
Administration	2,149,126	203,473	-	300	-	2,352,899
Fiscal services	428,124	-	1,405	1,672	-	431,201
Business	63,081	-	-	-	-	63,081
Operation and maintenance - plant	2,553,186	62,776	-	287,246	-	2,903,208
Pupil transportation	1,140,054	8,173	-	-	-	1,148,227
Central	281,570	-	-	-	-	281,570
Operation of non-instructional services:						
Food service	-	5,901	-	-	-	5,901
Community services	-	501,493	-	-	-	501,493
Extracurricular activities:						
Academic and subject oriented activities	25,247	2,562	-	-	-	27,809
Sports oriented activities	274,383	111,687	-	-	-	386,070
Co-curricular activities	61,066	12,839	-	-	-	73,905
Facility acquisition and construction:						
Other facility acquisition and construction	130,180	-	-	-	-	130,180
Debt service:						
Principal	-	-	140,100	-	-	140,100
Interest	-	-	111,473	-	-	111,473
Total expenditures	<u>20,960,722</u>	<u>3,455,287</u>	<u>252,978</u>	<u>500,509</u>	<u>2,610</u>	<u>25,172,106</u>
Excess (deficiency) of revenues over (under) expenditures	451,891	(155,994)	(102,998)	(39,609)	8,440	161,730
OTHER FINANCING SOURCES (USES):						
Sale and gain on assets	3,659	-	-	-	-	3,659
Transfers-in	-	37,500	114,880	-	-	152,380
Refund of prior year's expenditures (revenues)	873	(2,541)	-	-	-	(1,668)
Transfers-out	(152,380)	-	-	-	-	(152,380)
Total other financing sources (uses)	<u>(147,848)</u>	<u>34,959</u>	<u>114,880</u>	<u>-</u>	<u>-</u>	<u>1,991</u>
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	304,043	(121,035)	11,882	(39,609)	8,440	163,721
BEGINNING FUND BALANCE	3,496,769	374,579	169,674	190,873	6,920	4,238,815
INCREASE IN RESERVE FOR INVENTORY	(1,741)	-	-	-	-	(1,741)
ENDING FUND BALANCE	<u>\$ 3,799,071</u>	<u>\$ 253,544</u>	<u>\$ 181,556</u>	<u>\$ 151,264</u>	<u>\$ 15,360</u>	<u>\$ 4,400,795</u>

The accompanying notes are an integral part of the financial statements

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT - LAKE COUNTY
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET (NON-GAAP BASIS) AND ACTUAL
 ALL GOVERNMENTAL FUND TYPES
 FOR THE YEAR ENDED JUNE 30, 2001**

	General Fund		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Taxes	\$ 9,503,000	\$ 9,505,207	\$ 2,207
Classroom materials and fees	10,000	17,647	7,647
Tuition	720,000	868,350	148,350
Extracurricular activities	-	-	-
Transportation fees	26,000	29,101	3,101
Earnings on investments	370,000	385,694	15,694
Miscellaneous	199,000	354,454	155,454
Revenue from intermediate sources	-	69,738	69,738
Revenue from state sources	10,385,000	10,258,932	(126,068)
Revenue from federal sources	-	-	-
Total revenues	<u>21,213,000</u>	<u>21,489,123</u>	<u>276,123</u>
EXPENDITURES			
Current			
Instruction:			
Regular	8,407,588	7,875,998	531,590
Special	1,826,232	1,780,094	46,138
Vocational	465,613	440,191	25,422
Adult-continuing	1,052	379	673
Other	2,652,816	2,495,377	157,439
Support services:			
Pupil	1,260,386	1,142,805	117,581
Instructional staff	663,254	554,874	108,380
Board of Education	136,795	127,400	9,395
Administration	2,425,845	2,228,229	197,616
Fiscal	492,203	452,888	39,315
Business	83,940	81,200	2,740
Operation and maintenance of plant	3,303,204	3,011,546	291,658
Pupil transportation	1,621,395	1,350,630	270,765
Central	322,830	286,028	36,802
Extracurricular activities:			
Academic and subject-oriented activities	40,641	25,247	15,394
Sports oriented	337,315	274,687	62,628
Co-curricular activities	62,500	61,066	1,434
Non-instructional services:			
Food services	-	-	-
Community services	-	-	-
Facilities acquisition and construction services:			
Architecture and engineering	175,541	161,393	14,148
Other facilities acquisition and construction	148,700	148,267	433
Repayment of debt	-	-	-
Total expenditures	<u>24,427,850</u>	<u>22,498,299</u>	<u>1,929,551</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(3,214,850)</u>	<u>(1,009,176)</u>	<u>2,205,674</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	892,784	893,340	556
Transfers out	(1,175,000)	(1,045,720)	129,280
Advances in	210,000	273,813	63,813
Advances out	(336,000)	(295,773)	40,227
Refund of prior year expenditures	-	954	954
Refund of prior year receipts	(1,000)	(81)	919
Pass-through	(538,690)	-	538,690
Proceeds from sale of assets	-	3,659	3,659
Total other financing sources (uses)	<u>(947,906)</u>	<u>(169,808)</u>	<u>778,098</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>(4,162,756)</u>	<u>(1,178,984)</u>	<u>2,983,772</u>
FUND BALANCES - BEGINNING OF YEAR	2,825,876	2,825,876	-
PRIOR YEAR ENCUMBRANCES - APPROPRIATED	1,751,462	1,751,462	-
FUND BALANCES - END OF YEAR	<u>\$ 414,582</u>	<u>\$ 3,398,354</u>	<u>\$ 2,983,772</u>

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

Special Revenue Fund			Debt Service Fund		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
\$ -	\$ -	\$ -	\$ 130,721	\$ 134,682	\$ 3,961
8,550	472	(8,078)	-	-	-
315,280	100,780	(214,500)	-	-	-
-	-	-	-	-	-
6,100	9,985	3,885	-	-	-
176,900	56,609	(120,291)	-	-	-
144,172	75,384	(68,788)	-	-	-
1,654,118	1,636,292	(17,826)	15,600	16,059	459
1,561,365	1,419,134	(142,231)	-	-	-
<u>3,866,485</u>	<u>3,298,656</u>	<u>(567,829)</u>	<u>146,321</u>	<u>150,741</u>	<u>4,420</u>
910,926	849,642	61,284	-	-	-
960,962	735,083	225,879	-	-	-
-	-	-	-	-	-
162,129	93,686	68,443	-	-	-
-	-	-	-	-	-
598,934	443,460	155,474	-	-	-
444,469	361,468	83,001	-	-	-
-	-	-	-	-	-
270,292	216,535	53,757	-	-	-
-	-	-	1,444	1,405	39
-	-	-	-	-	-
70,267	62,945	7,322	-	-	-
24,010	11,774	12,236	-	-	-
-	-	-	-	-	-
46,050	2,798	43,252	-	-	-
224,404	124,248	100,156	-	-	-
86,390	13,049	73,341	-	-	-
19,733	7,058	12,675	-	-	-
690,479	636,511	53,968	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	252,268	251,573	695
<u>4,509,045</u>	<u>3,558,257</u>	<u>950,788</u>	<u>253,712</u>	<u>252,978</u>	<u>734</u>
<u>(642,560)</u>	<u>(259,601)</u>	<u>382,959</u>	<u>(107,391)</u>	<u>(102,237)</u>	<u>5,154</u>
38,000	37,899	(101)	115,575	115,436	(139)
(2,000)	-	2,000	(556)	(556)	-
-	234,148	234,148	-	-	-
-	(211,533)	(211,533)	-	-	-
1,100	-	(1,100)	-	-	-
(7,351)	(2,541)	4,810	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>29,749</u>	<u>57,973</u>	<u>28,224</u>	<u>115,019</u>	<u>114,880</u>	<u>(139)</u>
(612,811)	(201,628)	411,183	7,628	12,643	5,015
466,168	466,168	-	159,324	159,324	-
240,017	240,017	-	-	-	-
<u>\$ 93,374</u>	<u>\$ 504,557</u>	<u>\$ 411,183</u>	<u>\$ 166,952</u>	<u>\$ 171,967</u>	<u>\$ 5,015</u>

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT - LAKE COUNTY
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET (NON-GAAP BASIS) AND ACTUAL
 ALL GOVERNMENTAL FUND TYPES
 FOR THE YEAR ENDED JUNE 30, 2001**

	Capital Projects Fund		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Taxes	\$ 163,370	\$ 163,175	\$ (195)
Classroom materials and fees	-	-	-
Tuition	-	-	-
Extracurricular activities	-	-	-
Transportation fees	-	-	-
Earnings on investments	5,219	4,863	(356)
Miscellaneous	-	-	-
Revenue from intermediate sources	-	-	-
Revenue from state sources	293,681	294,635	954
Revenue from federal sources	-	-	-
Total revenues	<u>462,270</u>	<u>462,673</u>	<u>403</u>
EXPENDITURES			
Current			
Instruction:			
Regular	233,035	211,741	21,294
Special	-	-	-
Vocational	-	-	-
Adult-continuing	-	-	-
Other	-	-	-
Support services:			
Pupil	-	-	-
Instructional staff	3,000	-	3,000
Board of Education	-	-	-
Administration	1,000	300	700
Fiscal	1,672	1,672	-
Business	-	-	-
Operation and maintenance of plant	375,009	375,009	-
Pupil transportation	-	-	-
Central	26,500	18,000	8,500
Extracurricular activities:			
Academic and subject-oriented activities	-	-	-
Sports oriented	-	-	-
Co-curricular activities	-	-	-
Non-instructional services:			
Food services	-	-	-
Community services	-	-	-
Facilities acquisition and construction services:			
Architecture and engineering	-	-	-
Other facilities acquisition and construction	-	-	-
Repayment of debt	-	-	-
Total expenditures	<u>640,216</u>	<u>606,722</u>	<u>33,494</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(177,946)</u>	<u>(144,049)</u>	<u>33,897</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	-
Transfers out	-	-	-
Advances in	122,000	122,000	-
Advances out	(122,000)	(122,000)	-
Refund of prior year expenditures	-	-	-
Refund of prior year receipts	-	-	-
Pass-through	-	-	-
Proceeds from sale of assets	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>(177,946)</u>	<u>(144,049)</u>	<u>33,897</u>
FUND BALANCES - BEGINNING OF YEAR	(75,805)	(75,805)	-
PRIOR YEAR ENCUMBRANCES - APPROPRIATED	253,751	253,751	-
FUND BALANCES - END OF YEAR	<u>\$ -</u>	<u>\$ 33,897</u>	<u>\$ 33,897</u>

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

Expendable Trust Fund			Totals (Memorandum Only)		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
\$ -	\$ -	\$ -	\$ 9,797,091	\$ 9,803,064	\$ 5,973
-	-	-	18,550	18,119	(431)
-	-	-	720,000	868,350	148,350
4,450	178	(4,272)	319,730	100,958	(218,772)
-	-	-	26,000	29,101	3,101
546	249	(297)	381,865	400,791	18,926
22,450	10,623	(11,827)	398,350	421,686	23,336
-	-	-	144,172	145,122	950
-	-	-	12,348,399	12,205,918	(142,481)
-	-	-	1,561,365	1,419,134	(142,231)
27,446	11,050	(16,396)	25,715,522	25,412,243	(303,279)
1,200	150	1,050	9,552,749	8,937,531	615,218
-	-	-	2,787,194	2,515,177	272,017
-	-	-	465,613	440,191	25,422
-	-	-	163,181	94,065	69,116
-	-	-	2,652,816	2,495,377	157,439
21,000	1,910	19,090	1,880,320	1,588,175	292,145
1,270	700	570	1,111,993	917,042	194,951
-	-	-	136,795	127,400	9,395
-	-	-	2,697,137	2,445,064	252,073
-	-	-	495,319	455,965	39,354
-	-	-	83,940	81,200	2,740
-	-	-	3,748,480	3,449,500	298,980
-	-	-	1,645,405	1,362,404	283,001
-	-	-	349,330	304,028	45,302
-	-	-	86,691	28,045	58,646
-	-	-	561,719	398,935	162,784
-	-	-	148,890	74,115	74,775
-	-	-	19,733	7,058	12,675
-	-	-	690,479	636,511	53,968
-	-	-	175,541	161,393	14,148
-	-	-	148,700	148,267	433
-	-	-	252,268	251,573	695
23,470	2,760	20,710	29,854,293	26,919,016	2,935,277
3,976	8,290	4,314	(4,138,771)	(1,506,773)	2,631,998
-	-	-	1,046,359	1,046,675	316
-	-	-	(1,177,556)	(1,046,276)	131,280
-	-	-	332,000	629,961	297,961
-	-	-	(458,000)	(629,306)	(171,306)
-	-	-	1,100	954	(146)
-	-	-	(8,351)	(2,622)	5,729
-	-	-	(538,690)	-	538,690
-	-	-	-	3,659	3,659
-	-	-	(803,138)	3,045	806,184
3,976	8,290	4,314	(4,941,909)	(1,503,728)	3,438,182
6,919	6,919	-	3,382,482	3,382,482	-
-	-	-	2,245,230	2,245,230	-
\$ 10,895	\$ 15,209	\$ 4,314	\$ 685,803	\$ 4,123,984	\$ 3,438,182

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT - LAKE COUNTY
 COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
 ALL PROPRIETARY FUND TYPES
 FOR THE YEAR ENDED JUNE 30, 2001**

	Enterprise Funds	Internal Service Funds	Totals (Memorandum Only)
OPERATING REVENUES:			
Food services and other charges	\$ 267,132	\$ -	\$ 267,132
Extracurricular activities	1,984	7,320	9,304
Total operating revenues	<u>269,116</u>	<u>7,320</u>	<u>276,436</u>
OPERATING EXPENSES:			
Personal services - salaries	337,365	-	337,365
Fringe benefits	142,868	-	142,868
Purchased services	11,072	8,171	19,243
Supplies and materials	295,547	-	295,547
Depreciation	20,137	-	20,137
Other objects	2,379	-	2,379
Total operating expenses	<u>809,368</u>	<u>8,171</u>	<u>817,539</u>
Operating loss	<u>(540,252)</u>	<u>(851)</u>	<u>(541,103)</u>
NON-OPERATING REVENUES:			
Earnings on investments	9,777	-	9,777
State sources:			
Unrestricted grants-in-aid	35,287	-	35,287
Federal sources:			
Unrestricted grants-in-aid	578,817	-	578,817
Total non-operating revenues and expenses	<u>623,881</u>	<u>-</u>	<u>623,881</u>
Net income (loss)	83,629	(851)	82,778
BEGINNING RETAINED EARNINGS	<u>176,260</u>	<u>4,216</u>	<u>180,476</u>
ENDING RETAINED EARNINGS	<u>\$ 259,889</u>	<u>\$ 3,365</u>	<u>\$ 263,254</u>

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

PAINESVILLE CITY LOCAL SCHOOL DISTRICT - LAKE COUNTY
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND EQUITY
BUDGET (NON-GAAP BASIS) AND ACTUAL
ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2001

	Enterprise Fund			Internal Service Fund			Totals (Memorandum Only)		
	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance
			Favorable (Unfavorable)			Favorable (Unfavorable)			Favorable (Unfavorable)
OPERATING REVENUES	\$ 241,500	\$ 232,682	\$ (8,818)	\$ -	\$ -	\$ -	\$ 241,500	\$ 232,682	\$ (8,818)
Food service	-	-	-	27,372	7,320	(20,052)	27,372	7,320	(20,052)
Extracurricular activities	3,600	1,994	(1,606)	-	-	-	3,600	1,994	(1,606)
Classroom materials and fees	245,100	234,676	(10,424)	27,372	7,320	(20,052)	272,472	241,996	(30,476)
Total operating revenues									
OPERATING EXPENSES	392,909	333,942	58,967	-	-	-	392,909	333,942	58,967
Salaries and wages	153,500	133,720	19,780	-	-	-	153,500	133,720	19,780
Fringe benefits	12,429	11,141	1,288	26,260	8,094	18,166	38,689	19,235	19,454
Contractual services	280,237	261,741	18,496	3,500	-	3,500	283,737	261,741	21,996
Supplies and materials	55,862	30,979	24,883	-	-	-	55,862	30,979	24,883
Capital outlay	2,379	2,379	-	99	-	99	2,478	2,379	99
Other operating expenses	897,316	773,902	123,414	29,859	8,094	21,765	927,175	781,996	145,179
Total operating expenses	(652,216)	(539,226)	112,990	(2,487)	(774)	1,713	(654,703)	(540,000)	114,703
Operating loss									
NON-OPERATING REVENUE	36,605	34,450	(2,155)	-	-	-	36,605	34,450	(2,155)
Miscellaneous	8,000	9,777	1,777	-	-	-	8,000	9,777	1,777
Earnings on investments	29,000	35,287	6,287	-	-	-	29,000	35,287	6,287
State sources - restricted grants-in-aid	496,000	531,211	35,211	-	-	-	496,000	531,211	35,211
Federal sources - unrestricted grants-in-aid	(50)	(10)	40	-	-	-	(50)	(10)	40
Refund of prior year receipts	-	-	-	(100)	(99)	1	(100)	(99)	1
Operating transfers-out	1,400	1,125	(275)	-	-	-	1,400	1,125	(275)
Advances in	-	(1,100)	(1,100)	-	-	-	-	(1,100)	(1,100)
Advances out	570,955	610,740	39,785	(100)	(99)	1	570,855	610,641	39,786
Total non-operating revenues									
Excess (deficiency) of revenues over (under) expenses, advances and operating transfers	(81,261)	71,514	152,775	(2,587)	(873)	1,714	(83,848)	70,641	154,489
FUND EQUITY - BEGINNING OF YEAR	138,159	138,159	-	1,556	1,556	-	139,715	139,715	-
PRIOR YEAR ENCUMBRANCE-APPROPRIATED	6,261	6,261	-	2,660	2,660	-	8,921	8,921	-
FUND EQUITY - END OF YEAR	\$ 63,159	\$ 215,934	\$ 152,775	\$ 1,629	\$ 3,343	\$ 1,714	\$ 64,788	\$ 219,277	\$ 154,489

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

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT - LAKE COUNTY
 COMBINED STATEMENT OF CASH FLOWS
 ALL PROPRIETARY FUND TYPES
 FOR THE YEAR ENDED JUNE 30, 2001**

	Enterprise Funds	Internal Service Funds	Totals (Memorandum Only)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Operating loss	\$ (540,252)	\$ (851)	\$ (541,103)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:			
Depreciation	20,137	-	20,137
Net decrease in assets:			
Inventory	(2,049)	-	(2,049)
Net increase (decrease) in liabilities:			
Accounts payable	(476)	320	(156)
Interfund payable	25	-	25
Accrued wages and benefits	11,589	-	11,589
Compensated absences	982	-	982
Deferred revenue	(1,098)	-	(1,098)
Total adjustments	<u>29,110</u>	<u>320</u>	<u>29,430</u>
Net cash used in operating activities	<u>(511,142)</u>	<u>(531)</u>	<u>(511,673)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Operating grants received	614,104	-	614,104
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	9,777	-	9,777
Purchase of equipment	(38,389)	-	(38,389)
Total cash flows from investing activities	<u>(28,612)</u>	<u>-</u>	<u>(28,612)</u>
Net increase (decrease) in cash and cash equivalents	74,350	(531)	73,819
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>144,421</u>	<u>4,216</u>	<u>148,637</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 218,771</u>	<u>\$ 3,685</u>	<u>\$ 222,456</u>

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

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

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, 2001 was 2,598. The District employed 206 certificated employees and 106 noncertificated employees. It currently operates seven instructional facilities.

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

FINANCIAL REPORTING ENTITY

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, the financial reporting entity consists of a primary government and its component units. The District is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate and is fiscally independent of other state and local governments. Furthermore, there are no component units combined with the District for financial statement presentation purposes, and it is not included in any other governmental reporting entity. Consequently, the District's financial statements include only the funds and account groups of those organizational entities for which its elected governing body is financially accountable. The District's major operations include education, pupil transportation, food service and maintenance of District facilities.

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

BASIS OF PRESENTATION

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

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

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

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

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

Governmental Fund Types

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

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

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

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

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

Proprietary Fund Types

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

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

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

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

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

Fiduciary Fund Types

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

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

Account Groups

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

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

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

BASIS OF ACCOUNTING

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

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

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

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

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

BUDGETARY BASIS OF ACCOUNTING

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

1. Prior to January 15 of the preceding fiscal year, the Treasurer submits to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Lake County Budget Commission (the "Commission") for tax rate determination.
3. Prior to March 15, the Board of Education accepts, by formal resolution, the tax rates as determined by the Commission and receives the Commission's certificate of estimated resources, which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the certificate of estimated resources is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund, function and object level of expenditures, which are the legal levels of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Resolution appropriations by fund must be within the estimated resources as certified by the Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund appropriation or alter total function appropriations within a fund, or alter object appropriations within functions must be approved by the Board of Education.
6. Formal budgetary integration is to be employed as a management control device during the year for all funds consistent with statutory provision.
7. Appropriation amounts are amended by the Board of Education through the year by supplemental appropriations, which either reallocates or modifies the original appropriated amounts.
8. Unencumbered appropriations lapse at year end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund, function and/or object level.

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

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

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

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

An analysis of the difference in fund balance for all governmental and proprietary fund types and the expendable trust fund at June 30, 2001 as determined under the GAAP basis and budget basis follows:

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Expendable Trust Fund
GAAP basis-fund balance	\$ 3,799,071	\$ 253,544	\$ 181,556	\$ 151,264	\$ 259,889	\$ 3,365	\$ 15,360
Adjustments for GAAP basis:							
Accrued revenue/prepaid expenses at June 30, 2001	(9,650,763)	(2,045)	(140,219)	(167,124)	(96,898)	--	--
Accrued expenditures/deferred revenues at June 30, 2001	11,449,684	470,492	130,630	155,969	55,780	320	--
Encumbrances outstanding at June 30, 2001 (budget basis)	<u>(2,199,638)</u>	<u>(217,434)</u>	<u>--</u>	<u>(106,212)</u>	<u>(2,837)</u>	<u>(342)</u>	<u>(151)</u>
Budget basis - fund balance	<u>\$ 3,398,354</u>	<u>\$ 504,557</u>	<u>\$ 171,967</u>	<u>\$ 33,897</u>	<u>\$ 215,934</u>	<u>\$ 3,343</u>	<u>\$ 15,209</u>

ENCUMBRANCES

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

CASH AND INVESTMENTS

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

During fiscal year 2001, investments were limited to STAR Ohio, the State Treasurer's Investment Pool. All investments of the District had a maturity of two years or less. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

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

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

The District has invested funds in the State Treasury Assets Reserve (STAR Ohio) during fiscal year 2001. 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, 2001.

Following Ohio statutes, the Board of Education has, by resolution, identified the funds to receive an allocation of interest. Interest revenue credited to the general fund during fiscal year 2001 amounted to \$ 380,882.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an original maturity of more than three months that are not made from the pool are considered to be investments.

INVENTORY

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

FIXED ASSETS AND DEPRECIATION

General Fixed Assets Account Group - General fixed assets are capitalized at cost (or estimate historical cost) and updated for the cost of additions and retirements during the year in the General Fixed Assets Account Group. Donated fixed assets are recorded at their fair market values as of the date donated. The District follows the policy of not capitalizing assets with a cost of less than \$ 500 and a useful life of less than one year. No depreciation is recognized for assets in the General Fixed Assets Account Group.

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

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

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

INTERFUND TRANSACTIONS

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

RESTRICTED CASH

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

FUND BALANCE RESERVES

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

DEFICIT FUND BALANCE

Fund balances at June 30, 2001 included the following individual fund deficits:

<u>Special Revenue Fund</u>	<u>Deficit Fund Balance</u>
D.P.I.A. Grant	\$ 145,072
Summer Food Service	\$ 3,865
CDBG Grant	\$ 1,347
Chapter 1	\$ 16,007
Community Service Block Grant	\$ 1,176
EMIS	\$ 809

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

EQUITY IN POOLED CASH AND INVESTMENTS

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

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

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

EQUITY IN POOLED CASH AND INVESTMENTS (CONTINUED)

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

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

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

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

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.

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

EQUITY IN POOLED CASH AND INVESTMENTS (CONTINUED)

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

At June 30, 2001, the District's general fund had a balance of \$ 435,858 with Lake County Council of Governments Health Care Benefits Program, a shared risk pool. The money is held by the claims servicer in a pooled account which is representative of numerous entities and, therefore, cannot be classified by risk under GASB No. 3. The classification of cash and cash equivalents and investments for the Lake County Council of Governments Health Care Benefits Program Self Insurance Plan as a whole may be obtained from the Plan's fiscal agent, the Mentor Exempted Village School District. To obtain financial information, write to Mr. James Metz, Treasurer, Mentor Exempted Village School District, 6451 Center Street, Mentor, OH 44060.

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

- (a) Deposits - At year end, the carrying amount of the District's deposits was \$ 165,554 and the bank balance was \$ 397,595. The bank balance is categorized as follows:

Amount insured by the FDIC	\$ 255,390
Collateralized with securities held by the pledging financial institution's trust department but not in the name of the District	\$ 142,205

- (b) Investments - Investments made by the District as of June 30, 2001 are summarized below. The investments that are represented by specific identifiable investment securities are classified as to credit risk by the three categories described below:

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

	Carrying Value	Fair Value
Investment in STAR Ohio	\$ 6,757,000	\$ 6,757,000

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

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

INTERFUND TRANSACTIONS

Interfund balances at June 30, 2001 consist of the following individual fund receivables and payables:

	<u>Receivables</u>	<u>Payables</u>
General fund	\$ 61,073	\$ --
Special revenue funds	--	56,028
Enterprise fund	--	4,925
Agency fund	--	120
	<u>\$ 61,073</u>	<u>\$ 61,073</u>

A summary of interfund transfers made during 2001 by fund is as follows:

	<u>Transferred To</u>	<u>Transferred From</u>
General fund	\$ --	\$ 152,380
Special revenue fund	37,500	--
Debt service fund	114,880	--
	<u>\$ 152,380</u>	<u>\$ 152,380</u>

PROPERTY TAXES

Property taxes include amounts levied against all real, public utility and tangible (used in business) property located in the District. Real property taxes and public utility taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Assessed values are established by state law at 35% of appraised market value. Public utility property taxes are assessed on tangible personal property, as well as land and improvements, at true value (normally 50% of cost). Tangible personal property taxes attach as a lien and are levied on January 1 of the current year. Tangible personal property assessments are 25% of true value. The assessed value upon which the 2001 taxes were collected was \$ 208,480,677. Agricultural/residential and other real estate represented 80% (\$ 165,958,300) of this total; public utility tangible property 3% (\$ 6,495,280) and general tangible property 17% (\$ 36,027,097). The general tax rate for operations for the fiscal year ended June 30, 2001 was \$ 77.15 per \$ 1,000 of assessed valuation.

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

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

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

PROPERTY TAXES (CONTINUED)

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes, which became measurable as of June 30, 2001. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current year operations. The receivable is, therefore, offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30 is recognized as revenue. The amount available to the District as an advance at June 30, 2001 was \$ 480,867 in the General Fund, \$ 9,589 in the Debt Service Fund and \$ 11,155 in the Capital Projects Fund.

Taxes available for advance and recognized as revenue, but not received by the District prior to June 30, 2001, are reflected as a reservation of fund balance for future appropriations. The District is prohibited, by law, from appropriating this revenue in accordance with ORC Section 5705.35, since an advance of revenue was not requested or received prior to the fiscal year-end.

LAKE COUNTY SCHOOL FINANCING DISTRICT

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

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

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

FIXED ASSETS

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

	Balance July 1, 2000	Additions	Disposals	Balance June 30, 2001
Land and improvements	\$ 789,650	\$ --	\$ --	\$ 789,650
Building and improvements	6,011,951	78,660		6,090,611
Furniture and equipment	3,034,469	563,634	117,112	3,480,991
Vehicles	934,769	195,736	77,500	1,053,005
Equipment under capital lease	460,082	--	--	460,082
Total	<u>\$ 11,230,921</u>	<u>\$ 838,030</u>	<u>\$ 194,612</u>	<u>\$ 11,874,339</u>

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

FIXED ASSETS (CONTINUED)

A summary of Enterprise Fund fixed assets at June 30, 2001 follows:

	Balance July 1, 2000	Additions	Disposals	Balance June 30, 2001
Equipment	\$ 328,146	\$ 38,389	\$ --	\$ 366,535
Less accumulated depreciation	<u>276,223</u>	<u>20,137</u>	<u>--</u>	<u>296,360</u>
Net fixed assets	<u>\$ 51,923</u>	<u>\$ 18,252</u>	<u>\$ --</u>	<u>\$ 70,175</u>

Depreciation expense of \$ 20,137 was recorded in the Enterprise Fund.

COMPENSATED ABSENCES

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

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

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

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

CHANGES IN GENERAL LONG-TERM DEBT ACCOUNT GROUP

During the year ended June 30, 2001, the following changes occurred in liabilities reported in the General Long-Term Debt Account Group. Compensated absences will be paid from the fund from which the employee is paid.

	Balance at June 30, <u>2000</u>	Increase (Decrease)	Balance at June 30, <u>2001</u>
General obligation bonds	\$ 1,200,000	\$ (60,000)	\$ 1,140,000
Notes payable	613,668	(80,100)	533,568
Compensated absences	1,041,168	(195)	1,040,973
Capital lease obligations	370,232	(92,119)	278,113
Accrued benefits	<u>255,074</u>	<u>60,298</u>	<u>315,372</u>
Total	<u>\$ 3,480,142</u>	<u>\$ (172,116)</u>	<u>\$ 3,308,026</u>

LONG-TERM DEBT

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

The following is a schedule of bonds outstanding at June 30, 2001 for the District:

Interest rate	Stadium Project 6.7%
Issue date	02/01/92
Maturity date	12/01/12
Amount outstanding beginning of year	\$ 1,200,000
Principal redemptions during year	\$ 60,000
Amount outstanding end of year	\$ 1,140,000

B. Notes Payable - Payments of principal and interest relating to these liabilities were done as transfers from the General Fund to the Debt Service Fund. The following is a schedule of notes outstanding as of June 30, 2001 for the District:

Purpose	Interest Rate	Issue Date	Maturity Date	Balance	New	Retired	Balance
				June 30, 2000	Issues During 2001	During 2001	June 30, 2001
Energy Conservation	5.950%	03/16/93	12/01/02	\$ 199,955	\$ --	\$ 60,482	\$ 139,473
Energy Conservation	6.050%	08/20/99	06/01/14	<u>413,713</u>	<u>--</u>	<u>19,618</u>	<u>394,095</u>
				<u>\$ 613,668</u>	<u>\$ --</u>	<u>\$ 80,100</u>	<u>\$ 533,568</u>

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

LONG-TERM DEBT (CONTINUED)

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

Year	Principal	Interest	Total
2002	\$ 152,312	\$ 103,150	\$ 255,462
2003	165,028	93,957	258,685
2004	98,398	85,691	184,089
2005	104,813	79,431	184,244
2006	111,315	72,690	184,005
2007	117,907	65,340	183,247
2008	124,595	57,408	182,003
2009	131,386	49,037	180,423
2010	143,284	24,357	167,641
2011	150,298	13,737	164,035
2012	162,434	7,214	169,648
2013	169,698	4,949	174,647
2014	42,100	2,547	44,647
	<u>\$ 1,673,568</u>	<u>\$ 659,208</u>	<u>\$ 2,332,776</u>

CAPITAL LEASE OBLIGATIONS

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

The following is a schedule of future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2001:

<u>Year Ending June 30,</u>	
2002	\$ 96,522
2003	86,202
2004	69,282
2005	<u>34,641</u>
Total payments	286,647
Less: Amount representing interest	<u>8,534</u>
Present value of minimum lease payments	<u>\$ 278,113</u>

	Balance June 30, 2000	Additions	Deletions	Balance June 30, 2001
Leasing obligations	\$ 370,232	\$ --	\$ 92,119	\$ 278,113

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

SEGMENT INFORMATION FOR ENTERPRISE FUNDS

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

<u>Function</u>	<u>Food Service</u>	<u>Childcare</u>	<u>Uniform Supply and Various</u>	<u>Total</u>
Operating revenues	\$ 232,682	\$ 34,450	\$ 1,984	\$ 269,116
Operating expenses before depreciation	\$(753,328)	\$ (33,774)	\$ (2,129)	\$(789,231)
Depreciation	\$ (19,674)	\$ (463)	\$ --	\$ (20,137)
Operating income (loss)	\$(540,320)	\$ 213	\$ (145)	\$(540,252)
Earnings on investments	\$ 9,777	\$ --	\$ --	\$ 9,777
Unrestricted grants	\$ 614,104	\$ --	\$ --	\$ 614,104
Net income (loss)	\$ 83,561	\$ 213	\$ (145)	\$ 83,629
Net working capital				
Total assets	\$ 307,180	\$ 8,489	\$ --	\$ 315,669
Total liabilities	\$ 48,875	\$ 1,980	\$ 4,925	\$ 55,780
Total retained earnings	\$ 258,305	\$ 6,509	\$ (4,925)	\$ 259,889

DEFINED BENEFIT PENSION PLANS

School Employees Retirement System - The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2001, 4.2 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2001, 2000 and 1999 were \$ 586,436, \$ 544,513 and \$ 394,016, respectively; 100 percent has been contributed for fiscal years 2001, 2000 and 1999.

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

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

DEFINED BENEFIT PENSION PLANS (CONTINUED)

For fiscal year ended June 30, 2001, plan members were required to contribute 9.3 percent of their annual covered salaries. The District was required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2001, 2000 and 1999 were \$ 1,665,445, \$ 1,381,095 and \$ 1,378,587, respectively; 100 percent has been contributed for fiscal years 2001, 2000 and 1999.

POST EMPLOYMENT BENEFITS

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2001, the STRS Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$ 512,938 for fiscal year 2001.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2000, (the latest information available) the balance in the Fund was \$ 3.419 billion. For the year ended June 30, 2000, net health care costs paid by STRS were \$ 283.137 million and STRS had 99,011 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2001, employer contributions to fund health care benefits were 9.8 percent of covered payroll, an increase from 8.5 percent for fiscal year 2000. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2001, the minimum pay was established at \$ 12,400. For the District, the amount contributed to fund health care benefits, including the surcharge, during the 2001 fiscal year equaled \$ 412,167.

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

POST EMPLOYMENT BENEFITS (CONTINUED)

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2000 (the latest information available), were \$ 140.7 million and the target level was \$ 211.0 million. At June 30, 2000, SERS had net assets available for payment of health care benefits of \$ 252.3 million. SERS has approximately 50,000 participants currently receiving health care benefits.

CONTINGENCIES

Grants - The District receives financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District at June 30, 2001.

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

State School Funding Decision – On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
- Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of December 21, 2001, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts. Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

On November 2, 2001, the Court granted this motion for reconsideration. The Court may re-examine and redetermine any issue upon such reconsideration.

As the date of these financial statements, the District is unable to determine what effect, if any, this decision and the reconsideration will have on its future State funding and on its financial operations.

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

JOINTLY GOVERNED ORGANIZATIONS

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

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

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

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

Ohio Schools Council Association – The Ohio Schools Council Association (Council) is a jointly governed organization among eighty-two school districts. The jointly governed organization was formed to bring quality products and services at the lowest possible cost to the member districts. The Council's Board consists of seven superintendents of the participating districts whose term rotates every year. The degree of control exercised by any school district is limited to its representation on the Board. In fiscal year 2001, the School District paid \$ 500 to the Council. Financial information can be obtained by contacting the Executive Secretary of the Ohio Schools Council at 6133 Rockside Road, Suite 10, Independence, OH 44131.

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

JOINTLY GOVERNED ORGANIZATIONS (CONTINUED)

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

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

SHARED RISK POOL

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

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 2001, the District contracted with Nationwide Insurance for property and general liability insurance. There is a \$ 500 deductible and a \$ 5,000,000 limit of liability.

Commercial umbrella liability is protected by Nationwide Insurance with a \$ 5,000,000 single and aggregate occurrence limit. Vehicles are also covered by Nationwide Insurance and have a \$ 500 deductible for comprehensive collision. Automobile liability has a \$ 2,000,000 combined single limit of liability. Settled claims have not exceeded this commercial coverage in any of the past three years.

The District has contracted with the Lake County Schools Council of Governments (LCSC) to provide employee health and medical benefits since 1995. The LCSC is a shared risk pool comprised of eleven Lake County school districts. Rates are set through an annual calculation process. The District pays a monthly contribution, which is placed in a common fund from which claim payments are made for all participating school districts. Claims are paid for all participants regardless of claims flow. Upon termination, all District claims would be paid without regard to the District's account balance. The LCSC Board of Directors has a right to return monies to an exiting district subsequent to the settlement of all expenses and claims.

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

RISK MANAGEMENT (CONTINUED)

The LCSC has stop loss coverage of 110% of expected claims. The District's share of the claims liability was provided by the third party administrator and is based on the requirements of Government Accounting Standards Board, Statement No. 10, which requires that a liability for unpaid claims cost, including estimates of cost related to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claims adjustment expenses. Should contributions prove to be insufficient to pay program costs of the insurance program for any fiscal year, each participating member may be notified of the deficiency and can be billed for its share of the additional cost.

Changes in the District's share of the claims liability amount in 2001 and 2000 were:

	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claim Payments</u>	<u>Balance at End of Year</u>
2000	\$ 92,472	\$ 1,372,837	\$ 1,354,764	\$ 110,545
2001	\$ 110,545	\$ 1,606,820	\$ 1,509,989	\$ 207,376

OSBA INSURANCE PURCHASING POOL

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

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

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

STATUTORY RESERVES

The District is required by State law to set-aside certain General Fund revenue amounts, as defined by Statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2001, the reserve activity was as follows:

	<u>Textbook Reserve</u>	<u>Capital Maintenance Reserve</u>	<u>Budget Stabilization Reserve</u>	<u>Total</u>
Balance July 1, 2000	\$ 236,040	\$ 34,148	\$ 275,680	\$ 545,868
Required set-aside	463,193	463,193	--	926,386
Offset credits	--	(163,175)	--	(163,175)
Qualifying expenditures	(545,234)	(334,166)	--	(879,400)
Transfer to designated balance	--	--	(170,212)	(170,212)
Total	<u>\$ 153,999</u>	<u>\$ --</u>	<u>\$ 105,468</u>	<u>\$ 259,467</u>
Reserve balance, June 30, 2001	\$ 153,999	\$ --	\$ 105,468	\$ 259,467
Designation balance, June 30, 2001	<u>--</u>	<u>--</u>	<u>433,222</u>	<u>433,222</u>
Restricted cash	<u>\$ 153,999</u>	<u>\$ --</u>	<u>\$ 538,690</u>	<u>\$ 692,689</u>

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

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

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PAINESVILLE CITY LOCAL SCHOOL DISTRICT - LAKE COUNTY
SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2001

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM OR CLUSTER TITLE	CFDA Number	Pass-Through Entity Number	Receipts	Non-cash Receipts	Disburse- ments	Disburse- ments
U.S. DEPARTMENT OF EDUCATION						
Passed-Through State Department of Education:						
Special Education Cluster						
Preschool Grant	84.173	044628-PG-S1-00P	\$ 23,049	\$ -	\$ 23,049	\$ -
Educational Handicap 6B	84.027	044628-6B-SF-01	-	-	29,996	-
	84.027	044628-6B-SF-00P	213,941	-	180,722	-
			213,941	-	210,718	-
Total Special Education Cluster			236,990	-	233,767	-
Title I	84.010	044628-C1-S1-00	18,578	-	128,847	-
	84.010	044628-C1-SD-00	-	-	6,870	-
	84.010	044628-C1-SD-01	16,771	-	12,167	-
	84.010	044628-C1-S1-01	523,685	-	441,807	-
			559,034	-	589,691	-
Innovative Education Program Strategies	84.298	044628-C2-S1-01	19,567	-	12,454	-
	84.298	044628-C2-S1-00	-	-	12,406	-
			19,567	-	24,860	-
Math/Science	84.281	044628-MS-S1-99C	-	-	5,829	-
	84.281	044628-MS-S1-00	-	-	12,430	-
	84.281	044628-MS-S1-01	14,297	-	13,301	-
			14,297	-	31,560	-
Adult Education	84.002	044628-AB-S1-00	6,345	-	6,345	-
	84.002	044628-AB-S1-01	32,488	-	32,488	-
			38,833	-	38,833	-
Migrant Education	84.011	044628-MG-S1-01	271,440	-	140,526	-
	84.011	044628-MG-S1-00	-	-	172,965	-
	84.011	044628-MG-S1-99	-	-	26,827	-
			271,440	-	340,318	-
Immigration Education	84.162	044628-E1-S1-00	1,544	-	1,544	-
	84.162	044628-E1-S1-01	21,334	-	16,712	-
			22,878	-	18,256	-
Drug-Free Schools	84.186	044628-DR-S1-01	30,197	-	20,248	-
	84.186	044628-DR-S1-99C	-	-	905	-
	84.186	044628-DR-S1-00	-	-	10,463	-
			30,197	-	31,616	-
Class Size Reduction Subsidy	84.340	044628-CR-S1-00	-	-	18,867	-
	84.340	044628-CR-S1-01	93,898	-	73,856	-
			93,898	-	92,723	-
Continuous Improvement	84.276	044628-G2-S2-01	18,000	-	10,000	-
	84.276	044628-G2-S2-00	27,000	-	25,232	-
			45,000	-	35,232	-
Total U.S. Department of Education			1,332,134	-	1,436,856	-
Passed-Through State Department of Education:						
Learn and Serve America						
	94.004	044628-SV-S1-99	-	-	3,178	-
	94.004	044628-SV-S3-01	14,304	-	2,843	-
			14,304	-	6,021	-
Total Corporation for National and Community Services			14,304	-	6,021	-
U.S. DEPARTMENT OF AGRICULTURE						
Passed-Through State Department of Education						
Child Nutrition Cluster						
Food Distribution Program						
	10.550	N/A	-	47,606	-	47,606
School Breakfast Program	10.553	044628-05-PU-00	25,359	-	25,359	-
	10.553	044628-05-PU-01	73,106	-	73,106	-
			98,465	-	98,465	-
National School Lunch Program	10.555	044628-LL-P1-00	101,190	-	101,190	-
	10.555	044628-LL-P4-00	15,553	-	15,553	-
	10.555	044628-LL-P1-01	274,897	-	274,897	-
	10.555	044628-LL-P4-01	41,107	-	41,107	-
			432,747	-	432,747	-
Summer Food Service Program	10.559	044628-01	28,051	-	-	-
Total U.S. Department of Agriculture Child Nutrition Cluster			559,263	47,606	531,212	47,606
DEPARTMENT OF HEALTH AND HUMAN SERVICES						
Medicaid Title XIX						
Medical Assistance Program	93.778	044628-01	69,738	-	69,738	-
Total expenditures of Federal awards			\$ 1,975,439	\$ 47,606	\$ 2,043,827	\$ 47,606

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

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT
LAKE COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2001**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - FOOD DISTRIBUTION

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

CFDA - Catalog of Federal Domestic Assistance



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

Lausche Bldg
615 W Superior Ave
Floor 12
Cleveland OH 44113 - 1801
Telephone 216-787-3665
800-626-2297
Facsimile 216-787-3361
www.auditor.state.oh.us

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

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

To the Board of Education:

We have audited the financial statements of the Painesville City Local School District, Lake County, Ohio, (the District) as of and for the year ended June 30, 2001, and have issued our report thereon dated December 21, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted a matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to management of the District in separate letter dated December 21, 2001.

Painesville City Local School District
Lake County
Report on Compliance and on Internal Control
Required by *Government Auditing Standards*
Page 2

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

Jim Petro
Auditor of State

December 21, 2001



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

Lausche Bldg
615 W Superior Ave
Floor 12
Cleveland OH 44113 - 1801
Telephone 216-787-3665
800-626-2297
Facsimile 216-787-3361
www.auditor.state.oh.us

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

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

To the Board of Education:

Compliance

We have audited the compliance of the Painesville City Local School District, Lake County, Ohio, (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2001. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2001.

Internal Control Over Compliance

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

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

This report is intended for the information and use of the Audit Committee, management, 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.

Jim Petro
Auditor of State

December 21, 2001

PAINESVILLE CITY LOCAL SCHOOL DISTRICT
LAKE COUNTY
JUNE 30, 2001

SCHEDULE OF FINDINGS

1. SUMMARY OF AUDITOR'S RESULTS
--

A-133 §.505

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

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
--

None.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

PAINESVILLE CITY LOCAL SCHOOL DISTRICT

LAKE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 10, 2002**