

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT
LAKE COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 1999

PAINESVILLE CITY LOCAL SCHOOL DISTRICT

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REPORT OF INDEPENDENT ACCOUNTANTS

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

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, 1999, 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 generally accepted auditing standards 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 general-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general-purpose 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 District as of June 30, 1999, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 1999 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts.

Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for the purposes of additional analysis as required by OMB Circular A-133 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 statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Jim Petro", is written over the printed name and title.

JIM PETRO
Auditor of State

December 21, 1999

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PAINESVILLE CITY LOCAL SCHOOL DISTRICT - LAKE COUNTY
 COMBINED BALANCE SHEET
 ALL FUND TYPES AND ACCOUNT GROUPS
 JUNE 30, 1988

	Governmental Fund Types					Proprietary Fund Types			Fiduciary Fund Types			Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Internal Service	Enterprise	Trust and Agency	Account Group		Fixed Assets		
								General	Long-term Debt			
ASSETS AND OTHER DEBITS:												
Assets:												
Equity in pooled cash and investments	\$ 2,826,727	\$ 593,752	\$ 144,572	\$ 131,212	\$ 77,586	\$ 1,849	\$ 54,659	\$ -	\$ -	\$ -	\$ -	\$ 3,830,357
Restricted cash	657,556	-	-	-	-	-	-	-	-	-	-	657,556
Cash with fiscal agent	273,491	-	-	-	-	-	-	-	-	-	-	273,491
Receivables:												
Taxes	7,392,762	-	127,057	-	-	-	-	-	-	-	-	7,519,819
Accounts	24,484	-	-	-	-	-	-	-	-	-	-	24,484
Accrued interest	17,523	1,010	-	-	-	-	-	-	-	-	-	18,533
Interfund	29,064	-	-	-	-	-	-	-	-	-	-	29,064
Intragovernmental	179,011	-	1,527	-	-	-	-	-	-	-	-	181,138
Materials and supplies inventory	25,413	-	-	-	27,016	-	-	-	-	-	-	52,429
Fixed assets - net of accumulated depreciation	-	-	-	-	41,553	-	-	-	11,075,965	-	-	11,117,518
Other Debits:												
Amount to be provided for retirement of general long-term debt	-	-	-	-	-	-	-	-	2,852,655	-	-	2,852,655
Amount available in Debt Service Fund	-	-	-	-	-	-	-	-	154,471	-	-	154,471
Total assets and other debits	\$ 11,426,631	\$ 594,762	\$ 273,156	\$ 131,212	\$ 146,155	\$ 1,849	\$ 54,659	\$ 3,007,126	\$ 11,075,965	\$ 11,075,965	\$ 26,711,515	

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, 1999

	Governmental Fund Types					Proprietary Fund Types			Fiduciary Fund Types			Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service	Expendable		Account Group		General Fixed Assets	
							Trust and Agency	Long-term Debt	General	Fixed Assets		
LIABILITIES, FUND EQUITY AND OTHER CREDITS:												
Liabilities:												
Accounts payable	\$ 134,402	\$ 9,327	\$ -	\$ -	\$ 75	\$ 639	\$ 72	\$ -	\$ -	\$ -	\$ -	\$ 144,515
Accrued wages and benefits	1,666,006	169,124	-	-	13,899	-	-	179,569	-	-	-	2,028,598
Interfund payable	-	22,164	-	-	6,900	-	-	-	-	-	-	29,064
Due to students	-	-	-	-	-	-	47,252	-	-	-	-	47,252
Compensated absences payable	194,549	5,369	-	-	11,873	-	-	962,479	-	-	-	1,174,270
Claims payable	92,472	-	-	-	-	-	-	-	-	-	-	92,472
Deferred revenue	7,067,885	-	-	-	11,251	-	-	-	-	-	-	7,197,821
General obligation bonds payable	-	-	-	-	-	-	-	1,255,000	-	-	-	1,255,000
Notes payable	-	-	-	-	-	-	-	294,817	-	-	-	294,817
Capital lease obligations	-	-	-	-	-	-	-	315,261	-	-	-	315,261
Total liabilities	9,155,314	205,984	118,685	-	43,998	639	47,324	3,007,126	-	-	-	12,579,070
Fund Equity and Other Credits:												
Retained earnings:												
Investment in general fixed assets	-	-	-	-	-	-	-	-	-	-	11,075,965	11,075,965
Unreserved	-	-	-	-	102,157	1,210	-	-	-	-	-	103,367
Fund Balances:												
Reserved for encumbrances	1,429,654	145,240	-	41,180	-	-	-	-	-	-	-	1,616,074
Reserved for revenue bond retirement	-	-	154,471	-	-	-	-	-	-	-	-	154,471
Reserved for inventory	25,413	-	-	-	-	-	-	-	-	-	-	25,413
Textbook reserve	114,553	-	-	-	-	-	-	-	-	-	-	114,553
Capital maintenance reserve	130,599	-	-	-	-	-	-	-	-	-	-	130,599
Budget stabilization reserve	243,993	-	-	-	-	-	-	-	-	-	-	243,993
Unreserved, undesignated	327,105	243,538	-	90,032	-	-	7,335	-	-	-	-	668,010
Total fund equity and other credits	2,271,317	388,778	154,471	131,212	102,157	1,210	7,335	-	-	11,075,965	-	14,132,445
Total liabilities, fund equity and other credits	\$ 11,426,631	\$ 594,762	\$ 273,156	\$ 131,212	\$ 146,155	\$ 1,849	\$ 54,659	\$ 3,007,126	\$ 11,075,965	\$ 11,075,965	\$ 26,711,515	\$ 26,711,515

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, 1999**

	Governmental Fund Types				Fiduciary Fund Type		Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust		
REVENUES:							
Revenue from local sources:							
Taxes	\$ 7,981,156	\$ 438,679	\$ 126,270	\$ 57,091	\$ -	\$ -	\$ 8,603,196
Tuition	695,655	-	-	-	-	-	695,655
Transportation fees	11,342	-	-	-	-	-	11,342
Earnings on investments	237,257	16,076	-	1,997	2,790	-	258,120
Extracurricular activities	-	100,804	-	-	226	-	101,030
Classroom materials and fees	29,785	1,216	-	-	-	-	31,001
Miscellaneous receipts - local sources	295,011	41,280	-	-	3,448	-	339,739
Revenue from intermediate sources:							
Unrestricted grants-in-aid	89,146	46,205	15,824	-	-	-	151,175
Revenue from state sources:							
Unrestricted grants-in-aid	8,765,441	66,008	-	-	-	-	8,831,449
Restricted grants-in-aid	27,144	655,783	-	167,574	-	-	850,501
Revenue from federal sources							
Unrestricted grants-in-aid	-	1,145,829	-	-	-	-	1,145,829
Restricted grants-in-aid	-	33,218	-	-	-	-	33,218
Total revenue	18,131,937	2,545,096	142,094	226,662	6,464	-	21,052,253

EXPENDITURES:							
Instruction:							
Regular	6,681,026	780,253	-	244,575	8,838	-	7,714,692
Special	1,564,653	654,760	-	-	-	-	2,219,413
Vocational	483,281	-	-	-	-	-	483,281
Other	1,875,860	86,952	-	-	-	-	1,962,812
Supporting services:							
Pupils	835,275	219,370	-	-	41,390	-	1,096,035
Instructional staff	465,013	139,103	-	-	1,029	-	605,145
Board of Education	95,846	-	-	-	-	-	95,846
Administration	1,718,609	204,313	-	-	-	-	1,922,922
Fiscal services	433,463	7,837	1,959	1,006	-	-	444,265
Business	46,097	-	-	-	-	-	46,097
Operation and maintenance - plant	1,855,489	5,708	-	-	43,985	-	1,905,192
Pupil transportation	1,130,007	6,816	-	-	-	-	1,136,823
Central	279,791	22,082	-	-	-	-	301,873

Operation of non-instructional services:									
Food service	-	7,746	-	-	-	-	-	-	7,746
Community services	-	279,621	-	-	-	-	-	-	279,621
Extracurricular activities:									
Academic and subject oriented activities	22,696	6,404	-	-	-	-	-	-	29,100
Sports oriented activities	288,629	98,169	-	-	-	-	-	-	386,798
Co-curricular activities	42,571	12,789	-	-	-	-	-	-	55,360
Fiscal acquisition and construction:									
Other facility acquisition and construction	22,483	-	-	-	-	-	6,030	-	28,513
Debt service:									
Principal	-	-	209,622	-	-	-	-	-	209,622
Interest	-	-	106,255	-	-	-	-	-	106,255
Total expenditures	17,840,789	2,531,923	317,636	246,581	101,282				21,037,411
Excess (deficiency) of revenues over (under) expenditures	291,148	13,173	(176,742)	(18,919)	(94,818)				14,842
OTHER FINANCING SOURCES:									
Sale and gain of assets	310	-	-	-	-	-	-	-	310
Transfers-in	-	30,000	176,036	-	-	-	-	-	206,036
Refund of prior year's expenditures/revenues	12,030	(7,873)	-	(55)	-	-	-	-	4,102
Transfers-out	(134,566)	-	-	(71,470)	-	-	-	-	(206,036)
Total other financing sources (uses)	(122,226)	22,127	176,036	(71,525)	-	-	-	-	4,412
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	168,922	35,300	294	(90,444)	(94,818)				19,254
BEGINNING FUND BALANCE	2,096,021	353,478	154,177	221,656	102,153				2,927,485
DECREASE IN RESERVE FOR INVENTORY	6,374	-	-	-	-				6,374
ENDING FUND BALANCE	\$ 2,271,317	\$ 388,778	\$ 154,471	\$ 131,212	\$ 7,335				\$ 2,963,113

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, 1999**

	General Fund		Variance Favorable (Unfavorable)
	Budget	Actual	
REVENUES			
Taxes	\$ 7,932,617	\$ 7,956,806	\$ 24,189
Classroom materials and fees	20,100	29,785	9,685
Tuition	711,000	711,928	928
Extracurricular activities	-	-	-
Transportation fees	7,000	12,266	5,266
Earnings on investments	227,000	237,193	10,193
Miscellaneous	287,900	296,008	8,108
Miscellaneous from intermediate sources	89,000	89,146	146
Miscellaneous revenue from state sources	8,780,000	8,792,584	12,584
Miscellaneous revenue from federal sources	-	-	-
Total revenues	<u>18,054,617</u>	<u>18,125,716</u>	<u>71,099</u>
EXPENDITURES			
Current			
Instruction:			
Regular	6,664,106	6,596,327	67,779
Special	1,594,960	1,575,175	19,785
Vocational	512,883	499,210	13,673
Adult-continuing	2,023	389	1,634
Other	2,542,222	2,540,735	1,487
Support services:			
Pupil	1,056,358	910,983	145,375
Instructional staff	508,677	415,587	93,090
Board of Education	112,500	100,124	12,376
Administration	1,968,344	1,856,420	111,924
Fiscal	487,170	442,266	44,884
Business	58,149	51,774	6,375
Operation and maintenance of plant	2,260,627	2,064,341	196,286
Pupil transportation	1,380,762	1,276,339	104,423
Central	370,244	334,697	35,547
Extracurricular activities:			
Academic and subject-oriented activities	45,047	22,690	22,357
Sports oriented	301,730	284,251	17,479
Co-curricular activities	47,857	42,571	5,286
Non-instructional services:			
Food services	-	-	-
Community services	-	-	-
Facilities acquisition and construction services:			
Architecture and engineering	42,665	38,810	3,855
Other facilities acquisition and construction	2,130	1,932	198
Repayment of debt	-	-	-
Total expenditures	<u>19,958,454</u>	<u>19,054,641</u>	<u>903,813</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(1,903,837)</u>	<u>(928,925)</u>	<u>974,912</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	16,000	160,164	144,164
Transfers out	(295,096)	(294,710)	386
Advances in	134,952	149,479	14,527
Advances out	(142,000)	(142,940)	(940)
Refund of prior year expenditures	95,048	13,690	(81,358)
Refund of prior year receipts	(2,000)	(1,660)	340
Pass-through	(245,048)	-	245,048
Sale and loss of assets	-	310	310
Total other financing uses	<u>(438,144)</u>	<u>(115,667)</u>	<u>322,477</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	<u>(2,341,981)</u>	<u>(1,044,592)</u>	<u>1,297,389</u>
FUND BALANCES - BEGINNING OF YEAR	1,248,051	1,248,051	-
PRIOR YEAR ENCUMBRANCES - APPROPRIATED	1,737,710	1,737,710	-
FUND BALANCES - END OF YEAR	<u>\$ 643,780</u>	<u>\$ 1,941,169</u>	<u>\$ 1,297,389</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)
\$ 593,268	\$ 593,268	\$ -	\$ 126,466	\$ 127,898	\$ 1,432
8,300	1,216	(7,084)	-	-	-
293,100	100,804	(192,296)	-	-	-
19,957	18,359	(1,598)	-	-	-
185,050	41,280	(143,770)	-	-	-
97,311	46,205	(51,106)	-	-	-
751,497	730,011	(21,486)	15,824	15,824	-
1,288,003	1,179,045	(108,958)	-	-	-
3,236,486	2,710,188	(526,298)	142,290	143,722	1,432
1,150,717	1,090,912	59,805	-	-	-
830,770	648,712	182,058	-	-	-
2,100	320	1,780	-	-	-
140,901	86,758	54,143	-	-	-
1,840	1,840	-	-	-	-
406,404	229,297	177,107	-	-	-
192,232	154,374	37,858	-	-	-
-	-	-	-	-	-
265,809	209,690	56,119	-	-	-
8,843	8,843	-	2,000	1,959	41
-	-	-	-	-	-
13,092	5,724	7,368	-	-	-
25,020	8,960	16,060	-	-	-
22,611	22,082	529	-	-	-
66,016	7,104	58,912	-	-	-
208,630	107,716	100,914	-	-	-
70,480	12,818	57,662	-	-	-
13,906	9,671	4,235	-	-	-
482,697	410,117	72,580	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	315,879	315,877	2
3,902,068	3,074,938	827,130	317,879	317,836	43
(665,582)	(304,750)	360,832	(175,589)	(174,114)	1,475
33,750	30,000	(3,750)	176,036	176,036	-
(73,090)	(71,490)	1,600	-	-	-
-	112,540	112,540	-	-	-
-	(122,979)	(122,979)	-	-	-
400	503	103	-	-	-
(8,628)	(8,378)	250	-	-	-
-	-	-	-	-	-
(47,568)	(59,804)	(12,236)	176,036	176,036	-
(713,150)	(364,554)	348,596	447	1,922	1,475
597,103	597,103	-	142,649	142,649	-
206,635	206,635	-	-	-	-
\$ 90,588	\$ 439,184	\$ 348,596	\$ 143,096	\$ 144,571	\$ 1,475

**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, 1999**

	Capital Projects Fund		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Taxes	\$ -	\$ -	\$ -
Classroom materials and fees	-	-	-
Tuition	-	-	-
Extracurricular activities	-	-	-
Transportation fees	-	-	-
Earnings on investments	-	-	-
Miscellaneous	-	-	-
Miscellaneous from intermediate sources	-	-	-
Miscellaneous revenue from state sources	159,299	159,354	55
Miscellaneous revenue from federal sources	-	-	-
Total revenues	<u>159,299</u>	<u>159,354</u>	<u>55</u>
EXPENDITURES			
<i>Current</i>			
Instruction:			
Regular	254,325	231,228	23,097
Special	-	-	-
Vocational	-	-	-
Adult-continuing	-	-	-
Other	-	-	-
Support services:			
Pupil	-	-	-
Instructional staff	-	-	-
Board of Education	-	-	-
Administration	-	-	-
Fiscal	-	-	-
Business	-	-	-
Operation and maintenance of plant	65,010	-	65,010
Pupil transportation	-	-	-
Central	-	-	-
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	1,925	-	1,925
Other facilities acquisition and construction	-	-	-
Repayment of debt	-	-	-
Total expenditures	<u>321,260</u>	<u>231,228</u>	<u>90,032</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(161,961)</u>	<u>(71,874)</u>	<u>90,087</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	-
Transfers out	-	-	-
Advances in	-	25,000	25,000
Advances out	-	(25,000)	(25,000)
Refund of prior year expenditures	-	-	-
Refund of prior year receipts	(55)	(55)	-
Pass-through	-	-	-
Sale and loss of assets	-	-	-
Total other financing uses	<u>(55)</u>	<u>(55)</u>	<u>-</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	<u>(162,016)</u>	<u>(71,929)</u>	<u>90,087</u>
FUND BALANCES - BEGINNING OF YEAR	110,143	110,143	-
PRIOR YEAR ENCUMBRANCES - APPROPRIATED	51,818	51,818	-
FUND BALANCES - END OF YEAR	<u>\$ (55)</u>	<u>\$ 90,032</u>	<u>\$ 90,087</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)
\$ -	\$ -	\$ -	\$ 8,652,351	\$ 8,677,972	\$ 25,621
-	-	-	28,400	31,001	2,601
-	-	-	711,000	711,928	928
4,250	226	(4,024)	297,350	101,030	(196,320)
-	-	-	7,000	12,266	5,266
4,054	2,790	(1,264)	251,011	258,342	7,331
14,000	3,447	(10,553)	486,950	340,735	(146,215)
86,696	-	(86,696)	273,007	135,351	(137,656)
-	-	-	9,706,620	9,697,773	(8,847)
-	-	-	1,288,003	1,179,045	(108,958)
109,000	6,463	(102,537)	21,701,692	21,145,443	(556,249)
13,500	8,838	4,662	8,082,648	7,927,305	155,343
-	-	-	2,425,730	2,223,887	201,843
-	-	-	514,983	499,530	15,453
-	-	-	142,924	87,147	55,777
-	-	-	2,544,062	2,542,575	1,487
49,280	41,390	7,890	1,512,042	1,181,670	330,372
1,300	1,029	271	702,209	570,990	131,219
-	-	-	112,500	100,124	12,376
-	-	-	2,234,153	2,066,110	168,043
-	-	-	498,013	453,088	44,925
-	-	-	58,149	51,774	6,375
44,500	43,995	505	2,383,229	2,114,060	269,169
-	-	-	1,405,782	1,285,299	120,483
-	-	-	392,855	358,779	36,076
-	-	-	111,063	29,794	81,269
-	-	-	510,360	391,967	118,393
-	-	-	118,337	55,389	62,948
-	-	-	13,906	9,671	4,235
-	-	-	482,697	410,117	72,580
-	6,030	(6,030)	44,590	44,840	(250)
-	-	-	2,130	1,932	198
-	-	-	315,879	315,877	2
108,580	101,282	7,298	24,608,241	22,719,925	1,888,316
420	(94,819)	(95,239)	(2,906,549)	(1,574,482)	1,332,067
-	-	-	225,786	366,200	140,414
-	-	-	(368,186)	(366,200)	1,986
-	-	-	134,952	287,019	152,067
-	-	-	(142,000)	(290,919)	(148,919)
-	-	-	95,448	14,193	(81,255)
-	-	-	(10,683)	(10,093)	590
-	-	-	(245,048)	-	245,048
-	-	-	-	310	310
-	-	-	(309,731)	510	310,241
420	(94,819)	(95,239)	(3,216,280)	(1,573,972)	1,642,308
1,348	1,348	-	2,099,294	2,099,294	-
100,806	100,806	-	2,096,969	2,096,969	-
\$ 102,574	\$ 7,335	\$ (95,239)	\$ 979,983	\$ 2,622,291	\$ 1,642,308

**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, 1999**

	Enterprise Funds	Internal Service Funds	Totals (Memorandum Only)
OPERATING REVENUES:			
Food services and other charges	\$ 243,262	\$ -	\$ 243,262
Extracurricular activities	-	11,297	11,297
Classroom materials fees	2,385	-	2,385
Total operating revenues	<u>245,647</u>	<u>11,297</u>	<u>256,944</u>
OPERATING EXPENSES:			
Personal services - salaries	290,029	-	290,029
Fringe benefits	131,552	-	131,552
Purchased services	13,872	11,073	24,945
Supplies and materials	205,816	-	205,816
Depreciation	9,859	-	9,859
Other objects	1,475	-	1,475
Total operating expenses	<u>652,603</u>	<u>11,073</u>	<u>663,676</u>
Operating income (loss)	<u>(406,956)</u>	<u>224</u>	<u>(406,732)</u>
NON-OPERATING REVENUES AND EXPENSES:			
Earnings on investments	4,133	-	4,133
State sources:			
Unrestricted grants-in-aid	27,112	-	27,112
Federal sources:			
Unrestricted grants-in-aid	382,879	-	382,879
Refund of prior year expenditures (receipts)	(10)	723	713
Total non-operating revenues and expenses	<u>414,114</u>	<u>723</u>	<u>414,837</u>
Net income	7,158	947	8,105
BEGINNING RETAINED EARNINGS	<u>94,999</u>	<u>263</u>	<u>95,262</u>
ENDING RETAINED EARNINGS	<u>\$ 102,157</u>	<u>\$ 1,210</u>	<u>\$ 103,367</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, 1999

	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									
Food service	\$ 216,000	\$ 211,872	\$ (4,128)	\$ -	\$ -	\$ -	\$ 216,000	\$ 211,872	\$ (4,128)
Extracurricular activities	-	-	-	25,300	11,297	(14,003)	25,300	11,297	(14,003)
Classroom materials and fees	5,100	2,385	(2,715)	-	-	-	5,100	2,385	(2,715)
Total operating revenues	221,100	214,257	(6,843)	25,300	11,297	(14,003)	246,400	225,554	(20,846)
OPERATING EXPENSES									
Salaries and wages	304,254	283,725	20,529	-	-	-	304,254	283,725	20,529
Fringe benefits	131,413	125,992	5,421	-	-	-	131,413	125,992	5,421
Contractual services	16,799	14,201	2,598	21,899	11,174	10,725	38,698	25,375	13,323
Supplies and materials	215,299	201,675	13,624	3,500	-	3,500	218,799	201,675	17,124
Capital outlay	14,902	7,814	7,088	-	-	-	14,902	7,814	7,088
Other operating expenses	2,000	1,475	525	-	-	-	2,000	1,475	525
Total operating expenses	684,667	634,882	49,785	25,399	11,174	14,225	710,066	646,056	64,010
Operating gain (loss)	(463,567)	(420,625)	42,942	(99)	123	222	(463,666)	(420,502)	43,164
NON-OPERATING REVENUE									
Miscellaneous	31,080	31,390	310	-	-	-	31,080	31,390	310
Earnings on investments	3,000	4,133	1,133	-	-	-	3,000	4,133	1,133
State sources - restricted grants-in-aid	28,000	27,112	(888)	-	-	-	28,000	27,112	(888)
Federal sources - unrestricted grants-in-aid	370,000	382,879	12,879	-	-	-	370,000	382,879	12,879
Refund of prior year receipts	(50)	(10)	40	-	-	-	(50)	(10)	40
Refund of prior year expenditures	-	-	-	-	723	723	-	723	723
Operating transfers in	-	-	-	-	-	-	-	-	-
Advances in	-	5,400	5,400	-	-	-	-	5,400	5,400
Advances out	-	(1,500)	(1,500)	-	-	-	-	(1,500)	(1,500)
Transfers out	-	-	-	-	-	-	-	-	-
Total non-operating revenues	432,030	449,404	17,374	-	723	723	432,030	450,127	18,097
Excess of revenues over (under) expenses, advances and operating transfers	(31,537)	28,779	60,316	(99)	846	945	(31,636)	29,625	61,261
FUND EQUITY - BEGINNING OF YEAR	46,953	46,953	-	263	263	-	47,216	47,216	-
PRIOR YEAR ENCUMBRANCE-APPROPRIATED	-	-	-	-	-	-	-	-	-
FUND EQUITY - END OF YEAR	\$ 15,416	\$ 75,732	\$ 60,316	\$ 164	\$ 1,109	\$ 945	\$ 15,580	\$ 76,841	\$ 61,261

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, 1999**

	Enterprise Funds	Internal Service Funds	Totals (Memorandum Only)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Operating income (loss)	\$ (406,956)	\$ 224	\$ (406,732)
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:			
Depreciation	9,859	-	9,859
Net decrease in assets:			
Inventory	(5)	-	(5)
Net increase (decrease) in liabilities:			
Accounts payable	(892)	639	(253)
Interfund payable	3,900	-	3,900
Accrued wages and benefits	4,711	-	4,711
Compensated absences	7,153	-	7,153
Deferred revenue	1,887	-	1,887
Total adjustments	<u>26,613</u>	<u>639</u>	<u>27,252</u>
Net cash provided by (used in) operating activities	<u>(380,343)</u>	<u>863</u>	<u>(379,480)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Operating grants received	409,991	-	409,991
Refund of prior year expenditures (receipts)	(10)	723	713
Total cash flows from non-capital financing activities	<u>409,981</u>	<u>723</u>	<u>410,704</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	4,133	-	4,133
Purchase of equipment	(3,134)	-	(3,134)
Total cash flows from investing activities	<u>999</u>	<u>-</u>	<u>999</u>
Net increase in cash and cash equivalents	30,637	1,586	32,223
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>46,949</u>	<u>263</u>	<u>47,212</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 77,586</u>	<u>\$ 1,849</u>	<u>\$ 79,435</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, 1999 was 2,494. The District employed 184 certificated employees and 132 noncertificated employees. It currently operates six 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 four Jointly Governed Organizations 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 Fund - The capital projects fund is 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 Funds - Internal service funds are 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. Extracurricular activities represent the operations included in the Internal Service Funds.

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.

**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)

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.

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.

**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)

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 reallocate or increase 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.

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.

**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)

An analysis of the difference in fund balance for all governmental and proprietary fund types and the expendable trust fund at June 30, 1999 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	\$ 2,271,317	\$ 388,788	\$ 154,471	\$ 131,212	\$ 102,157	\$ 1,210	\$ 7,335
Adjustments for GAAP basis:							
Accrued revenue/prepaid expenses at June 30, 1999	(7,942,348)	(1,010)	(128,584)	-	(68,569)	-	-
Accrued expenditures/deferred revenues at June 30, 1999	9,155,314	205,984	118,684	-	43,998	639	-
Encumbrances outstanding at June 30, 1999 (budget basis)	(1,543,114)	(154,578)	-	(41,180)	(1,854)	(740)	-
Budget basis - fund balance	<u>\$ 1,941,169</u>	<u>\$ 439,184</u>	<u>\$ 144,571</u>	<u>\$ 90,032</u>	<u>\$ 75,732</u>	<u>\$ 1,109</u>	<u>\$ 7,335</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 1999, 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.

The District has invested funds in the State Treasury Assets Reserve (STAR Ohio) during fiscal year 1999. 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, 1999.

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 1999 amounted to \$ 237,257.

**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)

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 are valued at cost, which approximates market, using the first-in, first-out method (FIFO) and are determined by physical count. Inventory in Governmental Fund Types consists of expendable supplies held for consumption. The cost of inventory items is recognized as an expenditure when used (consumption method). Reported inventories in the general fund are equally offset by a fund balance reserve which indicates they are unavailable for appropriation.

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.

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. A 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, 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.

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

DEFICIT FUND BALANCE

Fund balances at June 30, 1999 included the following individual fund deficits:

<u>Special Revenue Fund</u>	<u>Deficit Fund</u>
<u>GED Test Site Fund</u>	<u>Balance</u>
	\$ (1,595)

The deficit in the above-mentioned fund is due to timing difference 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.

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;

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

EQUITY IN POOLED CASH AND INVESTMENTS (CONTINUED)

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.

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, 1999, the School District's general fund had a balance of \$ 273,491 with Lake County Council of Governments Health Care Benefits Program, a claims servicing 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 Painesville City School District. To obtain financial information, write to Mr. James Metz, Treasurer, Mentor City 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 \$ 139,913 and the bank balance was \$ 266,090. The bank balance is categorized as follows:

Amount insured by the FDIC	\$ 192,419
Collateralized with securities held by the pledging financial institution's trust department but not in the name of the District	73,671

- (b) Investments - Investments made by the District as of June 30, 1999 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.

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

EQUITY IN POOLED CASH AND INVESTMENTS (CONTINUED)

- 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.

	<u>Carrying Value</u>	<u>Fair Value</u>
Investment in STAR Ohio	\$ 4,348,000	\$ 4,348,000

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

INTERFUND TRANSACTIONS

Interfund balances at June 30, 1999 consist of the following individual fund receivables and payables:

	<u>Receivables</u>	<u>Payables</u>
General fund	\$ 29,064	\$ —
Special revenue funds	—	22,164
Enterprise fund	—	6,900

A summary of interfund transfers made during 1999 by fund is as follows:

	<u>Transferred To</u>	<u>Transferred From</u>
General fund	\$ —	\$ 134,566
Special revenue fund	30,000	—
Capital projects	—	71,470
Debt service fund	176,036	—
	<u>\$ 206,036</u>	<u>\$ 206,036</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 1999 taxes were collected was \$ 183,868,490. Agricultural/residential and other real estate represented 79% (\$ 145,336,490) of this total; public utility tangible property 4% (\$ 7,591,840) and general tangible property 17% (\$ 30,940,160). The general tax rate for operations for the fiscal year ended June 30, 1999 was \$ 71.18 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.

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

PROPERTY TAXES (CONTINUED)

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

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes, which became measurable as of June 30, 1999. 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, 1999 was \$ 459,194 in the General Fund and \$ 9,899 in the Debt Service Fund.

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, 1998 As Previously Reported	Restatement	Balance July 1, 1998 As Restated	Additions	Disposals	Balance June 30, 1999
Land and improvements	\$ 107,055		\$ 784,650	\$ --	\$ --	\$ 784,650
Building and improvements	8,011,951	--	8,011,951	--	--	8,011,951
Furniture and equipment	2,803,288	--	2,803,288	371,509	10,083	2,864,712
Vehicles	982,613	--	982,613	--	101,780	880,833
Equipment under capital lease	453,799	--	453,799	--	--	453,799
Total	\$ 10,158,704	\$ 657,595	\$ 10,816,299	\$ 371,509	\$ 111,863	\$ 11,075,965

**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, 1999 follows:

	Balance July 1, 1998	Additions	Disposals	Balance June 30, 1999
Equipment	\$ 303,156	\$ 3,134	\$ --	\$ 306,290
Less accumulated depreciation	254,678	9,859	--	264,537
Net fixed assets	<u>\$ 48,478</u>	<u>\$ (6,725)</u>	<u>\$ --</u>	<u>\$ 41,553</u>

Depreciation expense of \$ 9,859 was recorded in the Enterprise Fund.

During fiscal 1999, the District determined land improvements totaling \$ 657,595 were erroneously omitted from the financial statements. As a result, the beginning fixed asset balance has been restated to reflect the correction.

COMPENSATED ABSENCES

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

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

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

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

CHANGES IN GENERAL LONG-TERM DEBT ACCOUNT GROUP

During the year ended June 30, 1999, 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, 1998	Increase (Decrease)	Balance at June 30, 1999
General obligation bonds	\$ 1,310,000	\$ (55,000)	\$ 1,255,000
Notes payable	449,439	(154,622)	294,817
Compensated absences	1,078,473	(115,994)	962,479
Capital lease obligations	399,104	(83,843)	315,261
Accrued benefits	182,559	(2,990)	179,569
Total	<u>\$ 3,419,575</u>	<u>\$ (412,449)</u>	<u>\$ 3,007,126</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 .80 mill bonded-debt tax levy.

The following is a schedule of bonds outstanding at June 30, 1999 for the District:

	Stadium Project
Interest rate	8.7%
Issue date	02/01/92
Maturity date	12/01/12
Amount outstanding beginning of year	\$ 1,310,000
Principal redemptions during year	\$ 55,000
Amount outstanding end of year	\$ 1,255,000

B. Notes Payable - Payments of principal and interest relating to these liabilities are recorded as expenditures in the General Fund via transfers to the Debt Service Fund. The following is a schedule of notes outstanding as of June 30, 1999 for the District:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Balance June 30, 1998</u>	<u>Retired During 1999</u>	<u>Balance June 30, 1999</u>
Energy Conservation	5.950%	03/16/93	12/01/02	\$ 304,439	\$ 49,622	\$ 254,817
Permanent Improvement	4.232%	12/15/93	12/01/98	70,000	70,000	-
Energy Conservation	5.750%	08/01/94	12/01/99	75,000	35,000	40,000
				<u>\$ 449,439</u>	<u>\$ 154,622</u>	<u>\$ 294,817</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
2000	\$ 149,862	\$ 100,171	\$ 250,033
2001	120,482	90,345	210,827
2002	131,508	83,236	214,744
2003	142,965	75,379	218,344
2004	75,000	66,767	141,767
2005	80,000	62,117	142,117
2006	85,000	57,078	142,078
2007	90,000	51,638	141,638
2008	95,000	45,563	140,563
2009	100,000	39,150	139,150
2010	110,000	32,400	142,400
2011	115,000	24,975	139,975
2012	125,000	17,213	142,213
2013	130,000	8,775	138,775
	<u>\$ 1,549,817</u>	<u>\$ 754,807</u>	<u>\$ 2,304,624</u>

CAPITAL LEASE OBLIGATIONS

The District has entered into two 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, 1999:

<u>Year Ending June 30,</u>	
2000	\$ 114,270
2001	114,270
2002	114,270
2003	<u>16,919</u>
Total payments	359,729
Less: Amount representing interest	<u>44,468</u>
Present value of minimum lease payments	<u>\$ 315,261</u>

	Balance June 30, 1998	Deletions	Balance June 30, 1999
Leasing obligations	\$ 399,104	\$ 83,843	\$ 315,261

**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	\$ 211,872	\$ 31,390	\$ 2,385	\$ 245,647
Operating expenses				
before depreciation	\$ 597,496	\$ 37,759	\$ 7,489	\$ 642,744
Depreciation	\$ 9,354	\$ —	\$ 505	\$ 9,859
Operating loss	\$ (394,978)	\$ (6,369)	\$ (5,609)	\$ (406,956)
Earnings on investments	\$ 4,133	\$ —	\$ —	\$ 4,133
Unrestricted grants	\$ 409,991	\$ —	\$ —	\$ 409,991
Refund of prior year receipts	\$ —	\$ —	\$ (10)	\$ (10)
Net income (loss)	\$ 19,146	\$ (6,369)	\$ (5,619)	\$ 7,158
Net working capital	\$ 62,102	\$ 5,318	\$ (6,815)	\$ 60,605
Total assets	\$ 138,859	\$ 7,211	\$ 85	\$ 146,155
Total liabilities	\$ 37,098	\$ —	\$ 6,900	\$ 43,998
Total retained earnings	\$ 101,761	\$ 7,211	\$ (6,815)	\$ 102,157

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 public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215 or by calling (614) 222-5853.

Plan members are required to contribute 9 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by SERS' Retirement Board. The District's contributions to SERS for the fiscal years ended June 30, 1999, 1998 and 1997 were \$ 394,016, \$ 452,360 and \$ 325,740, respectively, equal to the required contributions for each year.

State Teachers Retirement System - The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available 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 or by calling (614) 227-4090.

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

DEFINED BENEFIT PENSION PLANS (CONTINUED)

Plan members are required to contribute 9.3 percent of their annual covered salary and the District is required to contribute 14 percent. 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 obligation to STRS for the fiscal years ended June 30, 1999, 1998 and 1997 were \$ 1,378,587, \$ 1,354,683 and \$ 1,101,408, respectively, equal to the required contributions for each year.

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.

The State Teachers Retirement 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 Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. Through June 30, 1999, the Board allocated employer contributions equal to 8 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$ 343,338.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$ 2,156 million at June 30, 1998. For the year ended June 30, 1998, net health care costs paid by STRS were \$ 219,224,000 and STRS had 91,999 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, 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.

For this fiscal year, employer contributions to fund health care benefits were 6.3 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 1999, the minimum pay has been established at \$ 12,400. The surcharge, added to the 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 125 percent of annual health care expenses. Expenses for health care at June 30, 1998 were \$ 111,900,575 and the target level was \$ 139.9 million. At June 30, 1998, SERS had net assets available for payment of health care benefits of \$ 160.3 million. SERS has approximately 50,000 participants currently receiving health care benefits. For the District, the amount to fund health care benefits including surcharge, equaled \$ 180,726 during the 1999 fiscal year.

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

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, 1999.

Litigation - The District was named as defendant in several court actions during the period ended June 30, 1999. Management does not believe that the ultimate resolution of these cases will have a material impact on the general purpose financial statements of the District.

State School Funding Decision - On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the Ohio General Assembly to design a plan to remedy the perceived defects in the system. Declared unconstitutional was the State's "school foundation program", which provides significant amounts of monetary support to the District. During the fiscal year ended June 30, 1999, the District received \$ 7,748,265 of school foundation support for its general fund.

Since the Supreme Court ruling, numerous pieces of legislation have been passed by the Ohio General Assembly in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County has reviewed the new laws and, in a decision issued on February 26, 1999, determined they are not sufficiently responsive to the constitutional issues raised under the "thorough and efficient" clause of the Ohio Constitution. The State has appealed the decision made by the Court of Common Pleas to the Ohio Supreme Court. At this time, the Ohio Supreme Court has not rendered an opinion on this issue. The decision of the Court of Common Pleas in Perry County has been stayed by the Ohio Supreme Court, and, as such, school districts are still operating under the laws that the Common Pleas Court declared unconstitutional.

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

JOINTLY GOVERNED ORGANIZATIONS

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

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

JOINTLY GOVERNED ORGANIZATIONS (CONTINUED)

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

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

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

Ohio Schools Council Association - The Ohio Schools Council Association (Council) is a jointly governed organization among eighty-two school districts. The jointly governed organization was formed to bring quality products and services at the lowest possible cost to the member districts. The Council's Board consists of seven superintendents of the participating districts whose term rotates every year. The degree of control exercised by any school district is limited to its representation on the Board. In fiscal year 1999, the School District paid \$ 500 to the Council. Financial information can be obtained by contacting Joseph Lesak, the Executive Secretary of the Ohio Schools Council at 6736 Mill Road, Broadview Heights, Ohio 44147.

CLAIMS SERVICING POOL

The District participates in Lake County Council of Governments Health Care Benefits Program (HCBP) Self Insurance Program, a claims servicing pool, comprised of eleven members. Each member pays an administrative fee to the pool. A five-member Board of Directors elected from the HCBP's assembly conducts the Plan's business and affairs. All participating members retain their risk and the Plan acts as the claims servicing agent.

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

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 1999, the District contracted with Wausau Insurance Companies 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 Wausau Insurance Companies with a \$ 5,000,000 single and aggregate occurrence limit. Vehicles are also covered by Wausau Insurance Companies and have a \$ 500 deductible for comprehensive collision. Automobile liability has a \$ 5,000,000 combined single limit of liability. Settled claims have not exceeded this commercial coverage in any of the past three years.

The School District has elected to provide medical coverage through a self-insured program. The School District uses the general fund to account for and finance its uninsured risks of loss in this program. The claims are services through the Lake County Council of Governments Health Care Benefits Program. The Lake County Council of Governments Health Care Benefits Program has stop loss coverage of 110% of expected claims. The claims liability of \$ 92,472 reported in the general fund at June 30, 1999 is based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in the fund's claims liability amount in 1999 was:

	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claim Payments</u>	<u>Balance at End of Year</u>
1999	\$ 80,239	\$ 1,174,456	\$ 1,162,223	\$ 92,472

1998 information is not available.

OSBA GROUP RATING PROGRAM

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)**

YEAR 2000 ISSUE

The Year 2000 issue is the result of shortcomings in many electronic data processing systems and other equipment that may adversely affect the government's operations.

The District has completed an inventory of computer systems and other equipment necessary to conducting District operations and has identified such systems as being financial reporting, payroll and employee benefits and educational statistics reporting (through the State's Education Management and Information System (EMIS)).

The Northwest Ohio Computer Association State Software Development Team has indicated that:

- "The payroll processing software supported with OCEN State Software is compliant with the Year 2000."
- "The accounting software supported with the OCEN State Software is compliant with the Year 2000."
- "The education management information system software supported with OCEN State Software is compliant with the Year 2000."
- "The equipment inventory and vehicle inventory system software supported with the OCEN State Software will be compliant with the Year 2000, beginning with the March 1999 release of SAAS V2."

The State of Ohio distributes a substantial sum of money to the District in the form of "Foundation" and federal and state grant payments. Further, the State processes a significant amount of financial and non-financial information about the District through EMIS. The State is responsible for remediating these systems.

Lake County collects property taxes for distribution to the District. Lake County is responsible for remediating the tax collection system.

Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the District is or will be Year 2000 ready, that the District's remediation efforts will be successful in whole or in part, or that parties with whom the District does business will be Year 2000 ready.

**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, into various reserves. During the fiscal year ended June 30, 1999, 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, 1998	\$ --	\$ --	\$ 105,468	\$ 105,468
Required set-aside	277,050	277,050	138,525	692,625
Qualifying expenditures	<u>(162,497)</u>	<u>(146,451)</u>	<u>--</u>	<u>(308,948)</u>
Balance, June 30, 1999	<u>\$ 114,553</u>	<u>\$ 130,599</u>	<u>\$ 243,993</u>	<u>\$ 489,145</u>

SUBSEQUENT EVENT

On August 20, 1999, the District issued \$ 432,211 of school energy conservation improvement notes.

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT
SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CASH BASIS
FOR THE YEAR ENDED JUNE 30, 1999**

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM OR CLUSTER TITLE	Federal CFDA Number	Pass-Through Entity Number	Receipts	Non-cash Receipts	Disbursements	Non-cash Disbursements
U.S. DEPARTMENT OF EDUCATION						
Passed-Through State Department of Education:						
Special Education Cluster						
Preschool Grant						
	84.173	044628-PG-S1-98P	\$0	\$0	\$853	\$0
	84.173	044628-PG-S1-99P	22,308	0	22,057	0
			<u>22,308</u>	<u>0</u>	<u>22,910</u>	<u>0</u>
Educational Handicap VI-B						
	84.027	044628-6B-SF-98	0	0	22,753	0
	84.027	044628-6B-SF-99	158,368	0	144,338	0
			<u>158,368</u>	<u>0</u>	<u>167,091</u>	<u>0</u>
Total Special Education Cluster						
			<u>180,676</u>	<u>0</u>	<u>190,001</u>	<u>0</u>
Title I						
	84.010	044628-C1-S1-98	0	0	124,228	0
	84.010	044628-C1-SD-99	19,571	0	16,388	0
	84.010	044628-C1-S1-99	474,335	0	392,182	0
			<u>493,906</u>	<u>0</u>	<u>532,798</u>	<u>0</u>
Innovative Education Program Strategies						
	84.298	044628-C2-S1-98	0	0	898	0
	84.298	044628-C2-S1-99	16,556	0	10,789	0
			<u>16,556</u>	<u>0</u>	<u>11,687</u>	<u>0</u>
Math/Science						
	84.164	044628-MS-S1-97	0	0	254	0
			<u>0</u>	<u>0</u>	<u>254</u>	<u>0</u>
Eisenhower						
	84.281	044628-MS-S1-98	0	0	4,569	0
	84.281	044628-MS-S1-99	15,768	0	7,413	0
			<u>15,768</u>	<u>0</u>	<u>11,982</u>	<u>0</u>
Adult Education						
	84.002	044628-AB-S1-98	4,261	0	4,261	0
	84.002	044628-AB-S1-99	25,713	0	25,713	0
			<u>29,974</u>	<u>0</u>	<u>29,974</u>	<u>0</u>
Migrant Education						
	84.011	044628-MG-S1-97	0	0	219	0
	84.011	044628-MG-S1-98	108,900	0	97,078	0
	84.011	044628-MG-S1-99	272,000	0	114,518	0
			<u>380,900</u>	<u>0</u>	<u>211,815</u>	<u>0</u>
Immigration Education						
	84.162	044628-E1-S1-98	0	0	1,257	0
	84.162	044628-E1-S1-99	10,647	0	10,124	0
			<u>10,647</u>	<u>0</u>	<u>11,381</u>	<u>0</u>
Drug-Free Schools						
	84.186	044628-DR-S1-97	0	0	528	0
	84.186	044628-DR-S1-98	0	0	2,897	0
	84.186	044628-DR-S1-99	22,346	0	17,140	0
			<u>22,346</u>	<u>0</u>	<u>20,565</u>	<u>0</u>
Goals 2000						
	84.276	044628-G2-S1-97	0	0	12,818	0
	84.276	044628-G2-A2-99	1,356	0	1,356	0
			<u>1,356</u>	<u>0</u>	<u>14,174</u>	<u>0</u>
Total U.S. Department of Education						
			<u>1,152,129</u>	<u>0</u>	<u>1,034,431</u>	<u>0</u>
U.S. Department of Agriculture						
Passed Through State Department of Education						
Child Nutrition Cluster						
Food Distribution Program						
	10.550	N/A	0	47,055	0	45,149
Breakfast Federal Aid						
	10.553	044628-05-PU-00	64,908	0	64,908	0
National School Lunch Program						
	10.555	044628-04-PU-00	274,039	0	274,039	0
	10.555	044628-03-PU-00	43,932	0	43,932	0
			<u>317,971</u>	<u>0</u>	<u>317,971</u>	<u>0</u>
Total U.S. Department of Agriculture						
			<u>382,879</u>	<u>47,055</u>	<u>382,879</u>	<u>45,149</u>
U.S. Department of Housing and Urban Development						
Passed Through Lake County						
Community Development Block Grant						
	14.218		10,768	0	10,750	0
Total U.S. Department of Housing and Urban Development						
			<u>10,768</u>	<u>0</u>	<u>10,750</u>	<u>0</u>
U.S. Department of Health and Human Services						
Passed Through State Department of Development						
Community Services Block Grant						
	93.569	99-932	7,503	0	6,920	0
Total U.S. Department of Health and Human Services						
			<u>7,503</u>	<u>0</u>	<u>6,920</u>	<u>0</u>
U.S. DEPARTMENT OF LABOR						
Passed-Through State Department of Education:						
Continuous Improvement Development Grant						
	17.249	044628-STW-99	10,000	0	0	0
Total U.S. Department of Labor						
			<u>10,000</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Expenditures of Federal Awards						
			<u>\$1,563,279</u>	<u>\$47,055</u>	<u>\$1,434,980</u>	<u>\$45,149</u>

See accompanying notes to Schedule of Expenditures of Federal Awards

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT
NOTES TO SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 1999**

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



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

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

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, 1999, and have issued our report thereon dated December 21, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted an immaterial instance of non-compliance that we have reported to management of the District in a separate letter dated December 21, 1999.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated December 21, 1999.

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

This report is intended for the information and use of 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, 1999



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

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

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 programs for the year ended June 30, 1999. The District's major federal programs are 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 each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; 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 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 each of its major federal programs for the year ended June 30, 1999.

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.

Painesville City Local School District
Report on Compliance with Requirements Applicable to Each Major Federal Program
and on Internal Control over Compliance in Accordance with *OMB Circular A-133*
Page 2

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. However, we noted other matters involving the internal control over federal compliance that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated December 21, 1999.

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 RETRO
Auditor of State

December 21, 1999

Painesville City Local School District

June 30, 1999

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>	Title I, CFDA # 84.010, Nutrition Cluster: Food Distribution, CFDA # 10.550 National School Lunch Program, CFDA # 10.555 National School Breakfast Program, CFDA # 10.553
(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.



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PAINESVILLE CITY LOCAL SCHOOL DISTRICT

LAKE COUNTY

CLERK'S CERTIFICATION

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

By: Susan Babbitt

Date: JAN 11 2000