

Painesville City Local School District

**Basic Financial Statements
June 30, 2008**



Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditors' Report* of the Painesville City Local School District, Lake County, prepared by Ciuni & Panichi, Inc., for the audit period July 1, 2007 through June 30, 2008. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

January 14, 2009

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Painesville City Local School District

For The Year Ended June 30, 2008

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Painesville City Local School District

For The Year Ended June 30, 2008

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Independent Auditors' Report

Board of Education
Painesville City Local School District
Painesville, Ohio

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Painesville City Local School District (the "District"), as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Painesville City Local School District, as of June 30, 2008, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 22 to the financial statements, during the year ended June 30, 2008, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEB)"; GASB Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues"; and GASB Statement No. 50, "Pension Disclosures."

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2008 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Board of Education
Painesville City Local School District

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

Cini & Parichi, Inc.

Cleveland, Ohio
December 19, 2008

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT
LAKE COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2008
(Unaudited)**

The discussion and analysis of Painesville City Local School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2008. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the District's performance.

Financial Highlights

Key financial highlights for 2008 are as follows:

- Net assets of governmental activities increased \$31,541,382 which represents a 99.3% increase from 2007.
- General revenues accounted for \$28,752,727 in revenue or 40.5% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$42,173,743 or 59.5% of total revenues of \$70,926,470 .
- The District had \$39,385,088 in expenses related to governmental activities; all of which were offset by program specific charges for services, grants or contributions of \$42,173,743 .

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

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

Government-wide Financial Statements

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2008?" The Government-wide Financial Statements answer this question. These statements include *all assets* and *liabilities* using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the financial position has improved or diminished. The causes of this change may be the result of many factors, both financial and non-financial. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

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

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

Fund Financial Statements

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

Governmental Funds Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the financial statements.

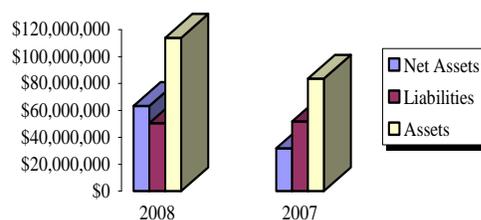
Fiduciary Funds Fiduciary Funds are used to account for resources held for the benefits of parties outside the government. Fiduciary Funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs.

The District as a Whole

As stated previously, the Statement of Net Assets looks at the District as a whole. Table 1 provides a summary of the District's net assets for 2008 compared to 2007:

Table 1
Net Assets

	Governmental Activities	
	2008	2007
Assets:		
Current and Other Assets	\$43,083,413	\$49,549,375
Capital Assets	70,815,529	34,071,962
Total Assets	113,898,942	83,621,337
Liabilities:		
Other Liabilities	17,739,463	18,272,779
Long-Term Liabilities	32,865,004	33,595,465
Total Liabilities	50,604,467	51,868,244
Net Assets:		
Invested in Capital Assets, Net of Related Debt	39,701,171	3,981,469
Restricted	21,458,368	25,202,733
Unrestricted	2,134,936	2,568,891
Total Net Assets	\$63,294,475	\$31,753,093



Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2008, the District's assets exceeded liabilities by \$63,294,475 .

At year-end, capital assets represented 62% of total assets. Capital assets include land, construction in progress, buildings and improvements, and equipment. Capital assets, net of related debt to acquire the assets at June 30, 2008, was \$39,701,171 . These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$21,458,368 represents resources that are subject to external restriction on how they must be used. The external restriction will not affect the availability of fund resources for future use.

Capital Assets increased due to the continued progress of the ongoing school improvement projects. Long-Term Liabilities decreased due to the District making scheduled debt payments.

Table 2 shows the changes in net assets for fiscal years 2008 and 2007.

Table 2
Changes in Net Assets

	Governmental Activities	
	2008	2007
Revenues:		
Program Revenues		
Charges for Services	\$1,645,579	\$1,540,132
Operating Grants, Contributions	8,743,063	8,437,002
Capital Grants and Contributions	31,785,101	11,316,531
General Revenues:		
Property Taxes	11,592,492	12,470,518
Grants and Entitlements	15,328,526	14,384,787
Other	1,831,709	2,373,604
Total Revenues	<u>70,926,470</u>	<u>50,522,574</u>
Program Expenses:		
Instruction	21,087,019	20,631,078
Support Services:		
Pupil and Instructional Staff	4,550,642	4,469,975
School Administrative, General		
Administration, Fiscal and Business	4,671,036	4,195,478
Operations and Maintenance	2,815,045	2,644,340
Pupil Transportation	1,732,828	1,483,297
Central	307,216	479,250
Operation of Non-Instructional Services	2,153,528	2,037,573
Extracurricular Activities	626,464	651,994
Interest and Fiscal Charges	1,441,310	1,480,030
Total Program Expenses	<u>39,385,088</u>	<u>38,073,015</u>
Change in Net Assets	31,541,382	12,449,559
Net Assets Beginning of Year	<u>31,753,093</u>	<u>19,303,534</u>
Net Assets End of Year	<u><u>\$63,294,475</u></u>	<u><u>\$31,753,093</u></u>

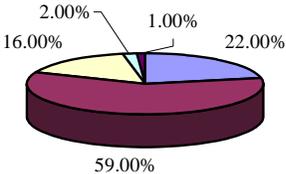
Governmental Activities

The District revenues are mainly from two sources. Property taxes levied for general purposes, debt service and capital projects and grants and entitlements comprised 38% of the District’s revenues for governmental activities.

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

Thus Ohio districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to the voters to maintain a constant level of service. Property taxes made up 16% of revenue for governmental activities for the District in fiscal year 2008.

Revenue Sources	2008	Percent of Total
General Grants	\$15,328,526	22.00%
Program Revenues	42,173,743	59.00%
General Tax Revenues	11,592,492	16.00%
Investment Earnings	1,623,328	2.00%
Other Revenues	208,381	1.00%
	<u>\$70,926,470</u>	<u>100.00%</u>



Instruction comprises 53.54% of governmental program expenses. Support services expenses were 35.74% of governmental program expenses. All other expenses including interest expense were 10.72%. Interest expense was attributable to the outstanding bond and borrowing for capital projects.

Capital Grants Program revenue increased in 2008 as compared to 2007. This increase resulted from capital grants received from the State of Ohio to build and improve buildings throughout the District. Total expenses remained relatively consistent in 2008 as compared to 2007.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government activities, the total cost of services and the net cost of services. These services are mainly supported by tax revenue and unrestricted State entitlements.

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2008	2007	2008	2007
Instruction	\$21,087,019	\$20,631,078	\$16,748,550	(\$3,635,077)
Support Services:				
Pupil and Instructional Staff	4,550,642	4,469,975	(2,814,522)	(2,499,978)
School Administrative, General				
Administration, Fiscal and Business	4,671,036	4,195,478	(4,430,851)	(3,984,550)
Operations and Maintenance	2,815,045	2,644,340	(2,706,954)	(2,613,003)
Pupil Transportation	1,732,828	1,483,297	(1,604,513)	(1,307,282)
Central	307,216	479,250	(307,216)	(478,974)
Operation of Non-Instructional Services	2,153,528	2,037,573	(441,256)	(356,745)
Extracurricular Activities	626,464	651,994	(213,273)	(423,711)
Interest and Fiscal Charges	1,441,310	1,480,030	(1,441,310)	(1,480,030)
Total Expenses	\$39,385,088	\$38,073,015	\$2,788,655	(\$16,779,350)

The District's Funds

The District has two major governmental funds: the General Fund and the Classroom Facilities Fund. Assets of these funds comprised \$33,779,003 (78%) of the total \$43,048,674 governmental funds assets.

General Fund: Fund balance at June 30, 2008 was \$3,011,215, including \$1,362,738 of unreserved balance. The fund balance decreased mainly due to a decrease in taxes revenue.

Classroom Facilities Fund: The net change in fund balance for fiscal year 2008 was (\$1,884,425) and related to expenditures for construction of new schools.

General Fund Budgeting Highlights

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

During the course of fiscal 2008, the District amended its General Fund budget numerous times, however none were significant. The District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management. During the course of the year, the District revised the Budget in an attempt to deal with unexpected changes in revenues and expenditures.

For the General Fund, budget basis revenue was \$30,147,714, compare to original budget estimates of \$29,783,458. Of this \$364,256 difference, most was due to estimates for taxes and intergovernmental revenue.

The District's ending unobligated cash balance was \$1,727,364 above the final budgeted amount.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2008, the District had \$70,760,781 invested in land, construction in progress, buildings and improvements and equipment. Table 4 shows fiscal 2008 balances compared to fiscal 2007:

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

	Governmental Activities	
	2008	2007
Land	\$7,071,870	\$7,097,736
Constuction in Progress	47,610,778	23,962,239
Buildings and Improvements	14,849,320	2,000,428
Equipment	1,283,561	1,011,559
Total Net Capital Assets	<u>\$70,815,529</u>	<u>\$34,071,962</u>

The increase in capital assets is due mostly to the additions from construction in progress associated with the new schools. This District continues its ongoing commitment to maintaining and improving its capital assets.

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

Debt

At June 30, 2008, the District had \$31,114,358 in debt outstanding, \$631,390 due within one year. Table 5 summarizes total debt outstanding.

Table 5
Outstanding Debt, at Year End

	Governmental Activities	
	2008	2007
General Obligation Bonds:		
2004 School Improvement Bond	\$18,800,000	\$19,230,000
Current Interest Bonds - 2005 School Improvement	10,495,007	10,545,007
Premium on 2005 School Improvement Bonds	494,088	514,255
Capital Appreciation Bonds - 2005 School Improvement	454,993	454,993
Accreted Interest	136,066	77,888
Stadium Project - Refinancing	485,000	590,000
Notes Payable:		
Project - National City	219,200	248,795
Capital Lease Payable:		
Phone Lease	30,004	87,833
Total Outstanding Debt at Year End	<u>\$31,114,358</u>	<u>\$31,748,771</u>

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

For the Future

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

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

Contacting the District's Financial Management

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

Painesville City Local School District
Statement of Net Assets
June 30, 2008

	<u>Governmental Activities</u>
Assets:	
Equity in Pooled Cash and Investments	\$31,556,996
Restricted Cash and Investments	538,690
Receivables:	
Taxes	9,663,158
Accounts	68,566
Intergovernmental	1,104,402
Deferred Bond Issuance Costs	134,463
Inventory	17,138
Nondepreciable Capital Assets	54,682,648
Depreciable Capital Assets, Net	<u>16,132,881</u>
 Total Assets	 <u>113,898,942</u>
Liabilities:	
Accounts Payable	436,532
Accrued Wages and Benefits	4,137,118
Retainage Payable	865,836
Accrued Interest Payable	115,565
Contracts Payable	3,638,771
Deferred Revenue	8,531,324
Other Liabilities	14,317
Long-Term Liabilities:	
Due Within One Year	1,005,961
Due In More Than One Year	<u>31,859,043</u>
 Total Liabilities	 <u>50,604,467</u>
Net Assets:	
Invested in Capital Assets, Net of Related Debt	39,701,171
Restricted for:	
Special Revenue	539,917
Debt Service	1,319,864
Capital Projects	19,493,119
Set-Aside	105,468
Unrestricted	<u>2,134,936</u>
 Total Net Assets	 <u>\$63,294,475</u>

See accompanying notes to the basic financial statements.

Painesville City Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2008

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Instruction:					
Regular	\$13,477,535	\$1,198,660	\$2,258,046	\$31,475,805	\$21,454,976
Special	4,532,385	21,504	2,680,662	0	(1,830,219)
Vocational	530,875	0	87,631	0	(443,244)
Other	2,546,224	0	113,261	0	(2,432,963)
Support Services:					
Pupil	2,375,333	17,935	935,712	0	(1,421,686)
Instructional Staff	2,175,309	7,362	775,111	0	(1,392,836)
General Administration	145,596	0	0	0	(145,596)
School Administration	3,815,275	0	240,185	0	(3,575,090)
Fiscal	625,541	0	0	0	(625,541)
Business	84,624	0	0	0	(84,624)
Operations and Maintenance	2,815,045	13,408	94,683	0	(2,706,954)
Pupil Transportation	1,732,828	33,047	85,724	9,544	(1,604,513)
Central	307,216	0	0	0	(307,216)
Operation of Non-Instructional Services:	2,153,528	259,453	1,452,819	0	(441,256)
Extracurricular Activities	626,464	94,210	19,229	299,752	(213,273)
Interest and Fiscal Charges	1,441,310	0	0	0	(1,441,310)
Total Governmental Activities	\$39,385,088	\$1,645,579	\$8,743,063	\$31,785,101	\$2,788,655

General Revenues:	
Property Taxes Levied for:	
General Purposes	9,804,119
Debt Service Purposes	1,622,586
Capital Projects Purposes	165,787
Grants and Entitlements not Restricted to Specific Programs	15,328,526
Unrestricted Contributions	1,125
Investment Earnings	1,623,328
Refunds and Reimbursements	128,757
Other Revenues	78,499
Total General Revenues	28,752,727
 Change in Net Assets	 31,541,382
 Net Assets Beginning of Year	 31,753,093
 Net Assets End of Year	 \$63,294,475

See accompanying notes to the basic financial statements.

Painesville City Local School District
Balance Sheet
Governmental Funds
June 30, 2008

	General	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Assets:				
Equity in Pooled Cash and Investments	\$5,340,590	\$19,379,479	\$6,836,927	\$31,556,996
Restricted Cash and Investments	538,690	0	0	538,690
Receivables:				
Taxes	7,846,351	0	1,816,807	9,663,158
Accounts	68,053	0	513	68,566
Intergovernmental	249,524	256,592	598,286	1,104,402
Interfund	99,724	0	0	99,724
Inventory	0	0	17,138	17,138
Total Assets	14,142,932	19,636,071	9,269,671	43,048,674
Liabilities and Fund Balances:				
Liabilities:				
Accounts Payable	311,355	39,832	85,345	436,532
Accrued Wages and Benefits	3,195,673	0	941,445	4,137,118
Compensated Absences	240,486	0	0	240,486
Retainage Payable	0	865,836	0	865,836
Contracts Payable	7,106	3,281,790	349,875	3,638,771
Interfund Payable	0	0	99,724	99,724
Deferred Revenue	7,362,780	0	1,797,582	9,160,362
Other Liabilities	14,317	0	0	14,317
Total Liabilities	11,131,717	4,187,458	3,273,971	18,593,146
Fund Balances:				
Reserved for Encumbrances	626,216	2,590,921	257,052	3,474,189
Reserved for Inventory	0	0	17,138	17,138
Reserved for Property Tax Advances	483,571	0	106,735	590,306
Reserved for Budget Stabilization	105,468	0	0	105,468
Unreserved, Designated for Budget Stabilization	433,222	0	0	433,222
Unreserved, Undesignated, Reported in:				
General Fund	1,362,738	0	0	1,362,738
Special Revenue Funds	0	0	437,076	437,076
Debt Service Funds	0	0	1,261,709	1,261,709
Capital Projects Funds	0	12,857,692	3,915,990	16,773,682
Total Fund Balances	3,011,215	15,448,613	5,995,700	24,455,528
Total Liabilities and Fund Balances	\$14,142,932	\$19,636,071	\$9,269,671	\$43,048,674

See accompanying notes to the basic financial statements.

Painesville City Local School District
 Reconciliation of Total Governmental Fund Balance to
 Net Assets of Governmental Activities
 June 30, 2008

Total Governmental Fund Balance		\$24,455,528
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		70,815,529
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Delinquent Property Taxes	\$541,528	
Intergovernmental	<u>87,510</u>	
		629,038
In the statement of net assets interest payable is accrued when incurred, whereas in the governmental funds interest is reported as a liability only when it will require the use of current financial resources.		(115,565)
Some liabilities reported in the statement of net assets do not require the use of current financial resources and therefore are not reported as liabilities in governmental funds.		
Compensated Absences		(1,510,160)
Deferred bond issuance cost associated with long-term liabilities are not reported in the funds.		134,463
Long-term liabilities, are not due and payable in the current period and therefore are not reported in the funds.		<u>(31,114,358)</u>
Net Assets of Governmental Activities		<u>\$63,294,475</u>

See accompanying notes to the basic financial statements.

Painesville City Local School District
Statement of Revenues, Expenditures
and Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended June 30, 2008

	General	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$9,470,491	\$0	\$1,722,956	\$11,193,447
Tuition and Fees	1,251,816	0	40	1,251,856
Investment Earnings	405,899	825,041	392,388	1,623,328
Intergovernmental	16,246,463	31,732,397	7,921,305	55,900,165
Extracurricular Activities	7,820	0	117,322	125,142
Charges for Services	0	0	255,169	255,169
Other Revenues	414,833	1,100	55,072	471,005
Total Revenues	27,797,322	32,558,538	10,464,252	70,820,112
Expenditures:				
Current:				
Instruction:				
Regular	11,143,030	0	2,155,678	13,298,708
Special	3,370,392	0	1,425,523	4,795,915
Vocational	572,505	0	0	572,505
Other	2,487,239	0	58,985	2,546,224
Support Services:				
Pupil	1,439,914	0	978,018	2,417,932
Instructional Staff	1,336,306	0	812,067	2,148,373
General Administration	145,164	0	0	145,164
School Administration	3,633,499	0	328,179	3,961,678
Fiscal	597,490	0	26,712	624,202
Business	84,624	0	0	84,624
Operations and Maintenance	2,659,021	0	99,074	2,758,095
Pupil Transportation	1,619,304	0	21,359	1,640,663
Central	293,153	0	0	293,153
Operation of Non-Instructional Services	233,006	0	1,860,061	2,093,067
Extracurricular Activities	438,179	0	148,308	586,487
Capital Outlay	121,697	34,442,963	2,224,936	36,789,596
Debt Service:				
Principal Retirement	57,829	0	614,595	672,424
Interest and Fiscal Charges	3,049	0	1,396,180	1,399,229
Total Expenditures	30,235,401	34,442,963	12,149,675	76,828,039
Excess of Revenues Over (Under) Expenditures	(2,438,079)	(1,884,425)	(1,685,423)	(6,007,927)
Other Financing Sources (Uses):				
Proceeds from Sale of Capital Assets	7,710	0	0	7,710
Transfers In	0	0	208,576	208,576
Transfers (Out)	(84,647)	0	(123,929)	(208,576)
Total Other Financing Sources (Uses)	(76,937)	0	84,647	7,710
Net Change in Fund Balance	(2,515,016)	(1,884,425)	(1,600,776)	(6,000,217)
Fund Balance Beginning of Year, Restated	5,526,231	17,333,038	7,596,476	30,455,745
Fund Balance End of Year	\$3,011,215	\$15,448,613	\$5,995,700	\$24,455,528

See accompanying notes to the basic financial statements.

Painesville City Local School District
 Reconciliation of the Statement of Revenues, Expenditures, and Changes
 in Fund Balance of Governmental Funds to the Statement of Activities
 For the Fiscal Year Ended June 30, 2008

Net Change in Fund Balance - Total Governmental Funds (\$6,000,217)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital asset additions as expenditures.

However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of the difference between capital asset additions and depreciation in the current period.

Capital assets used in governmental activities	\$37,733,115	
Depreciation Expense	<u>(732,629)</u>	37,000,486

Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. The amount of the proceeds must be removed and the gain or loss on the disposal of capital assets must be recognized. This is the amount of the difference between the proceeds and the gain or loss. (256,919)

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

Delinquent Property Taxes	399,045	
Intergovernmental	<u>(343,230)</u>	55,815

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 672,424

In the statement of activities interest expense is accrued when incurred, whereas in governmental funds an interest expenditure is reported when due. 1,418

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Compensated Absences	111,874	
Amortization of Bond Issuance Cost	(5,488)	
Amortization of Bond Premium	20,167	
Bond Accretion	<u>(58,178)</u>	68,375

Change in Net Assets of Governmental Activities \$31,541,382

See accompanying notes to the basic financial statements.

Painesville City Local School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2008

	Private Purpose Trust	Agency
	<u> </u>	<u> </u>
Assets:		
Equity in Pooled Cash and Investments	\$13,683	\$38,996
	<u> </u>	<u> </u>
Total Assets	13,683	\$38,996
	<u> </u>	<u> </u>
Liabilities:		
Accounts Payable	0	2,434
Other Liabilities	0	36,562
	<u> </u>	<u> </u>
Total Liabilities	0	\$38,996
	<u> </u>	<u> </u>
Net Assets:		
Held in Trust	13,683	
	<u> </u>	
Total Net Assets	\$13,683	
	<u> </u>	

See accompanying notes to the basic financial statements.

Painesville City Local School District
Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Fiscal Year Ended June 30, 2008

	Private Purpose Trust
Additions:	
Donations	\$3,500
Investment Earnings	455
	<hr/>
Total Additions	3,955
	<hr/>
Deductions:	
Scholarships	2,311
	<hr/>
Total Deductions	2,311
	<hr/>
Change in Net Assets	1,644
	<hr/>
Net Assets Beginning of Year	12,039
	<hr/>
Net Assets End of Year	<u>\$13,683</u>

See accompanying notes to the basic financial statements.

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT
LAKE COUNTY, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2008**

1. DESCRIPTION OF THE DISTRICT

The Painesville City Local School District (the "District") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a local district as defined by Section 3311.03 of the Ohio Revised Code. The District operates under a five member elected Board of Education and is responsible for the provision of public education to residents of the District.

The District is located in Lake County.

Average daily membership (ADM) as of June 1, 2008 was 2,986. The District employed 255 certificated employees and 190 noncertificated employees. It currently operates seven instructional facilities.

REPORTING ENTITY

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The most significant of the District's accounting policies are described below.

FUND ACCOUNTING

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

Governmental Funds

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

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

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

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

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's only trust fund is a private purpose trust which accounts for scholarship programs for students. The District has a student managed activity agency fund which accounts for assets and liabilities generated by student managed activities.

MEASUREMENT FOCUS

Government-wide Financial Statements

The government-wide statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the District are included on the statement of net assets. Fiduciary Funds are not included in entity-wide statements.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Fiduciary Funds are reported using the economic resources measurement focus.

BASIS OF ACCOUNTING

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues – Exchange and Non-exchange Transactions

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, included property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year end: property taxes available for advance, grants and interest.

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2008, but which were levied to finance fiscal year 2009 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Expenses/Expenditures

On the accrual basis of accounting, expenditures are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

EQUITY IN POOLED CASH AND INVESTMENTS

Cash received by the District is pooled for investment purposes. Interest in the pool is presented as “Equity in Pooled Cash and Investments” on the financial statements.

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

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2008. 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, 2008.

Following Ohio statutes, the Board has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue during the fiscal year amounted to \$405,899 credited to the general fund, \$825,041 credited to the classroom facilities fund, and \$392,388 credited to other governmental funds.

For presentation on the financial statements, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

INVENTORY

Inventories are presented at cost on a first-in, first-out basis and are expensed/expensed when used. Inventory consists of food held for resale and consumable supplies.

CAPITAL ASSETS

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars (\$1,000). The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets are depreciated, except land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is allocated using the straight-line method over the following useful lives:

<u>Description</u>	Governmental Activities <u>Estimated Lives</u>
Buildings and Improvements	10 - 50 years
Equipment	5 - 10 years

COMPENSATED ABSENCES

The District reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means. The District records a liability for accumulated unused vacation time, when earned, for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, a liability is recorded only for the portion of unpaid compensated absences that have matured, for example, as a result of resignations and retirements.

The District's policies regarding compensated absences are determined by the state laws and/or negotiated agreements. In summary, the policies are as follows:

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

ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, compensated absences and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year. In general, liabilities that mature or come due for payment during the fiscal year are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements when due.

NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. Of the \$21,458,368 in restricted net assets, none was restricted by enabling legislation.

ESTIMATES

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

INTERFUND ACTIVITY

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

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

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

BUDGETARY PROCESS

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

Tax Budget

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates. By no later than January 20, the Board-adopted budget is filed with the Lake County Budget Commission for rate determination.

Estimated Resources

Prior to April 1, the Board accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the Commission's certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the amended certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2008.

Appropriations

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

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

Encumbrances

As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriations and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at fiscal year end are reported as a reservation of fund balance for subsequent year expenditures for governmental funds.

Lapsing of Appropriations

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

FUND EQUITY

Reserved fund balances indicate a portion of fund equity which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for encumbrances, inventory, property taxes and budget stabilization. The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute. The unreserved portion of fund equity, reflected for the Governmental Funds, is available for use within the specific purpose of those funds.

3. EQUITY IN POOLED CASH AND INVESTMENTS

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

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

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

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

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

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

- (8) Under limited circumstances, corporate debt interests in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

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

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's policy for deposits is any balance not covered by depository insurance will be collateralized by the financial institutions with pledged securities. As of June 30, 2008 the carrying amount of the District's deposits was \$353,310 and \$565,608 of the District's bank balance of \$665,608 was exposed to custodial risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

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

Investments

Investments are reported at fair value. As of June 30, 2008, the District had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Years)
Money Market Funds	\$4,823,443	0.00
STAR Ohio	13,309,856	0.15
Federal Home Loan Bank	4,993,560	0.17
Federal Home Loan Mortgage	2,039,100	0.29
Federal Home Loan Mortgage - Discount Note	1,019,550	0.29
Federal National Mortgage Association	4,024,760	0.21
Ohio State Building Authority	761,137	0.25
Ohio State Department Administrative Services	823,649	2.17
Total Fair Value	\$31,795,055	
Portfolio Weighted Average Maturity		0.21

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

Credit Risk – It is the District’s policy to limit its investments that are not obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government to investments which have a credit quality rating of the top 2 ratings issued by nationally recognized statistical rating organizations. The District’s investments in Federal Home Loan Bank, Federal Home Loan Mortgage, Federal Home Loan Mortgage - Discount Note, Federal National Mortgage Association, Ohio State Building Authority, Ohio State Administration Services, and in the Money Market Funds were rated AAA by Standard & Poor’s and Fitch Ratings and Aaa by Moody’s Investors Service. Investments in STAR Ohio were rated AAAM by Standard& Poor’s.

Concentration of credit risk – The District’s investment policy allows investments in Federal Agencies or Instrumentalities. All investments were issued or guaranteed by the federal government. At year end, the District’s allocations of investments were as follows: Federal Home Loan Bank (16%), Federal Home Loan Mortgage (6%), Federal Home Loan Mortgage – Discount Note (3%), Federal National Mortgage Association (13%), Ohio State Building Authority (2%), Ohio State Department Administration Services (3%), Money Market Accounts (15%) and STAROhio (42%).

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

4. PROPERTY TAXES

Real property taxes collected in 2008 were levied in April on the assessed values as of January 1, 2007, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. A re-evaluation of real property is required to be completed no less than every six years, with a statistical update every third year. The most recent re-evaluation was completed in January, 2003.

Tangible personal property tax is assessed on equipment and inventory held by businesses. Tangible property is assessed at 25 percent of true value for capital assets and 23 percent of true value for inventory. Each business was eligible to receive a \$10,000 exemption in assessed value which was reimbursed by the State.

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

Real property taxes are payable annually or semi-annually. In 2008, if paid annually, payment was due by January 20th. If paid semi-annually, the first payment (at least 1/2 amount billed) was due January 20th with the remainder due on June 20th.

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

Accrued property taxes receivable represents delinquent taxes outstanding and real property, personal property and public utility taxes which became measurable at June 30, 2008. Delinquent property taxes collected within 60 days are included as a receivable and tax revenue as of June 30, 2008. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is available to finance current year operations. The receivable is, therefore, offset by a credit to deferred revenue for that portion not intended to finance current year operations.

The amount available as an advance at June 30, 2008, was \$483,571 for General Fund and \$106,735 for Other Nonmajor Governmental Funds, and is recognized as revenue, with a corresponding reserve to fund balance since the Board did not appropriate these receivables for fiscal year 2008 operations.

On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been deferred.

The assessed values upon which the fiscal year 2008 taxes were collected are:

	<u>First Half Amount</u>	<u>Second Half Amount</u>
Agricultural/Residential and Other Real Estate	\$232,400,660	\$213,326,930
Public Utility Personal	1,548,530	4,553,320
Tangible Personal Property	<u>13,994,648</u>	<u>25,567,322</u>
Total	<u><u>\$247,943,838</u></u>	<u><u>\$243,447,572</u></u>

5. RECEIVABLES

Receivables at June 30, 2008, consisted of taxes, accounts (rent and student fees), intergovernmental grants and interfund. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

6. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Governmental Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	\$7,097,736	\$0	\$25,866	\$7,071,870
Construction in Progress	<u>23,962,239</u>	<u>36,789,526</u>	<u>13,140,987</u>	<u>47,610,778</u>
Total Capital Assets, not being depreciated	<u>31,059,975</u>	<u>36,789,526</u>	<u>13,166,853</u>	<u>54,682,648</u>
<i>Capital Assets, being depreciated:</i>				
Buildings and Improvements	8,169,908	13,456,767	1,878,469	19,748,206
Equipment	<u>5,401,038</u>	<u>627,809</u>	<u>193,791</u>	<u>5,835,056</u>
<i>Total Capital Assets, being depreciated:</i>	<u>13,570,946</u>	<u>14,084,576</u>	<u>2,072,260</u>	<u>25,583,262</u>
Totals at Historical Cost	<u><u>\$44,630,921</u></u>	<u><u>\$50,874,102</u></u>	<u><u>\$15,239,113</u></u>	<u><u>\$80,265,910</u></u>
Less Accumulated Depreciation:				
Buildings and Improvements	6,169,480	382,508	1,653,102	4,898,886
Equipment	<u>4,389,479</u>	<u>350,121</u>	<u>188,105</u>	<u>4,551,495</u>
Total Accumulated Depreciation	<u>10,558,959</u>	<u>732,629</u>	<u>1,841,207</u>	<u>9,450,381</u>
Governmental Activities Capital Assets, Net	<u><u>\$34,071,962</u></u>	<u><u>\$50,141,473</u></u>	<u><u>\$13,397,906</u></u>	<u><u>\$70,815,529</u></u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$293,219
Special	15,312
Vocational	3,542
Support Services:	
Pupils	4,980
Instructional Staff	11,090
General Administration	432
School Administration	20,636
Fiscal	704
Operations and Maintenance	92,290
Pupil Transportation	137,259
Central	14,466
Operation of Non-Instructional Services	98,722
Extracurricular Activities	39,977
Total Depreciation Expense	<u><u>\$732,629</u></u>

7. LONG-TERM LIABILITIES

	<u>Maturity Dates</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due In One Year</u>
Governmental Activities:						
General Obligation Bonds:						
School Improvement Bonds						
2004 4.62%	12/1/32	\$19,230,000	\$0	\$430,000	\$18,800,000	\$445,000
Stadium Project - Refinancing						
2002 1.60-3.55%	6/1/14	590,000	0	105,000	485,000	110,000
Current Interest Bonds -						
School Improvement 2005						
4.87%	12/1/33	10,545,007	0	50,000	10,495,007	15,000
Premium on 2005 School						
Improvement Bonds	12/1/33	514,255	0	20,167	494,088	0
Capital Appreciation Bonds -						
School Improvement 2005						
Accreted Interest	12/1/15	454,993	0	0	454,993	0
		77,888	58,178	0	136,066	0
Notes Payable	6/1/14	248,795	0	29,595	219,200	31,386
Capital Lease	6/1/09	87,833	0	57,829	30,004	30,004
Total Long Term Debt		31,748,771	58,178	692,591	31,114,358	631,390
Compensated Absences		1,846,694	258,270	354,318	1,750,646	374,571
Total Governmental Activities		<u><u>\$33,595,465</u></u>	<u><u>\$316,448</u></u>	<u><u>\$1,046,909</u></u>	<u><u>\$32,865,004</u></u>	<u><u>\$1,005,961</u></u>

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

Fiscal Year Ending June 30	<u>Current Interest Bonds</u>			<u>Capital Appreciation Bonds</u>		
	Principal	Interest	Total	Principal	Interest	Total
2009	\$601,386	\$1,378,744	\$1,980,130	\$0	\$0	\$0
2010	618,284	1,359,914	1,978,198	0	0	0
2011	845,298	1,335,221	2,180,519	0	0	0
2012	892,434	1,303,697	2,196,131	0	0	0
2013	814,698	1,376,974	2,191,672	0	0	0
2014-2018	3,652,100	5,238,826	8,890,926	454,993	700,007	1,155,000
2019-2023	5,890,000	4,740,995	10,630,995	0	0	0
2024-2028	7,425,000	3,164,035	10,589,035	0	0	0
2029-2033	9,260,007	1,127,648	10,387,655	0	0	0
Total	<u>\$29,999,207</u>	<u>\$21,026,054</u>	<u>\$51,025,261</u>	<u>\$454,993</u>	<u>\$700,007</u>	<u>\$1,155,000</u>

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

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

School Improvement Bonds

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

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

The capital appreciation bonds will mature in fiscal years 2013 through 2015. The final maturity amount of the bonds is \$1,155,000. For fiscal year 2008, \$58,178 of accretion was recorded for the capital appreciation bonds.

Notes Payable

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

8. LEASES

CAPITAL LEASES

The District has a capital lease for June 30, 2008 for a phone system.

The lease for the phone system meets the criteria of capital lease as defined by statement of Financial Accounting Standards No. 13 “Accounting for Leases”, which defines a capital lease generally as one that transfers benefits and risks of ownership to the lessee. Capital lease payments for phone system will be made from the Permanent Improvement Fund.

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

Fiscal Year Ending June 30,	Long-Term Debt
2009	\$30,439
Total Minimum Lease Payments	30,439
Less: Amount Representing Interest	(435)
Present Value of Minimum Lease Payments	\$30,004

9. PENSION PLANS

SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

Plan Description

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

Funding Policy

Plan members are required to contribute 10% of their annual covered salary and District is required to contribute at an actuarially determined rate. The current rate is 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS’ Retirement Board. The District’s contributions to SERS for the years ended June 30, 2008, 2007, and 2006 were \$814,656, \$779,676, and \$763,800, respectively; 45% has been contributed for fiscal year 2008 and 100% for fiscal years 2007 and 2006.

STATE TEACHERS RETIREMENT SYSTEM OF OHIO

Plan Description

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

Plan Options

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

DB Plan Benefits

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

DC Plan Benefits

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

Combined Plan Benefits

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

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

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

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

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

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

Funding Policy

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

Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2007, were 10% of covered payroll for members and 14% for employers. The District's contributions to STRS for the years ended June 30, 2008, 2007, and 2006 were \$2,164,080, \$2,197,620, and \$2,128,056, respectively; 96% has been contributed for fiscal year 2008 and 100% for fiscal years 2007 and 2006.

10. POST EMPLOYMENT BENEFITS

SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

Plan Description

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

Medicare Part B Plan

The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2007 (the latest information available) was \$93.50; SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2007 (the latest information available), the actuarially required allocation was .68%. District contributions for the year ended June 30, 2008 were \$39,569, which equaled the required contributions for the year.

Health Care Plan

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

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

The Health Care Fund was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. At June 30, 2007, (the latest information available) the health care allocation was 3.32%. The actuarially required contribution (ARC), as of the December 31, 2006 annual valuation, was 11.50% of covered payroll. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities of the plan over a period not to exceed thirty years. The District contributions for the years ended June 30, 2008, 2007, and 2006 were \$307,295, \$294,555, and \$263,074, respectively; 45% has been contributed for fiscal year 2008 and 100% for fiscal years 2007 and 2006.

An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2007, (the latest information available), the minimum compensation level was established at \$35,800.

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

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

STATE TEACHERS RETIREMENT SYSTEM OF OHIO

Plan Description

STRS Ohio administers a pension plan that is comprised of: a defined benefit plan; a self-directed defined contribution plan and a combined plan which is a hybrid of the defined benefit and defined contribution plan.

Ohio law authorized STRS Ohio to offer a cost-sharing, multi-employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the defined benefit or combined plans. Coverage under the current programs includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums.

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

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

Funding Policy

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14% employer contributions rate, 1% of covered payroll was allocated to post-employment health care for the year ended June 30, 2008, 2007 and 2006. The 14% employer contribution rate is the maximum rate established under Ohio law. The District contributions for the years ended June 30, 2008, 2007, and 2006 were \$154,577, \$156,973, and \$152,004, respectively; 96% has been contributed for fiscal year 2008 and 100% for fiscal years 2007 and 2006.

11. CONTINGENT LIABILITIES

GRANTS

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

However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District as of June 30, 2008.

LITIGATION

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

12. LAKE COUNTY SCHOOL FINANCING DISTRICT

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

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

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

13. JOINTLY GOVERNED ORGANIZATIONS

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

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

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

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

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

14. CLAIMS SERVICING POOL

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

15. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2008, the District contracted with Indiana Insurance for property and general liability insurance. There is a \$3,000,000 limit of liability.

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

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

16. OSBA INSURANCE PURCHASING POOL

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

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

17. FUND BALANCE RESERVES FOR SET-ASIDES

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

For fiscal year ended June 30, 2008, the District was no longer required to set aside funds in the budget reserve set-aside, with the exception of refund monies received from the Bureau of Workers' Compensation, which must be spent for specified purposes.

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

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set Aside Reserve Balance as of June 30, 2007	(\$62,183)	\$0	\$105,468
Current Year Set Aside Requirements	471,298	471,298	0
Qualified Disbursements	<u>(924,727)</u>	<u>(37,386,273)</u>	<u>0</u>
Total	<u><u>(\$515,612)</u></u>	<u><u>(\$36,914,975)</u></u>	<u><u>\$105,468</u></u>
Set Aside Reserve Balance			
Carried Forward to Future Years	(\$515,612)	\$0	\$0
Set Aside Balance as of June 30, 2008	0	0	105,468
Designation Balance as of June 30, 2008	0	0	<u>433,222</u>
Restricted Cash as of June 30, 2008			<u><u>\$538,690</u></u>

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

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

18. INTERFUND TRANSACTIONS

Interfund transactions at June 30, 2008, consisted of the following interfund receivables and interfund payables, transfers in and transfers out:

	Interfund		Transfers	
	<u>Receivable</u>	<u>Payable</u>	<u>In</u>	<u>Out</u>
General Fund	\$99,724	\$0	\$0	\$84,647
Other Governmental Funds	<u>0</u>	<u>99,724</u>	<u>208,576</u>	<u>123,929</u>
Total All Funds	<u><u>\$99,724</u></u>	<u><u>\$99,724</u></u>	<u><u>\$208,576</u></u>	<u><u>\$208,576</u></u>

Transfers out of the General Fund were made to provide resources to other governmental funds. The transfers out of Other Governmental Funds cover the required maintenance fee for the Ohio School Facilities Commission. The monies were transferred from the Permanent Improvement Fund to the Classroom Facilities Fund in accordance with the Ohio Revised Code Section 5705.21.

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

19. ACCOUNTABILITY AND COMPLIANCE

Accountability

The following funds had a deficit in fund balance:

Special Revenue Funds:	
Ohio Reads (459)	\$10,561
Poverty Based Assistance (494)	352,269
Title VI-B (516)	18,906
Title III (551)	12,811
Community Development (557)	7,998
Title I (572)	7,074
Preschool (587)	10,048

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

Compliance

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

Special Revenue Funds:

Food Services	\$3,070
Rotary Services	8,886
Other Grants	34,344
Auxiliary Services	324,005
Management Information Services	19,582
Ohio Reads Grant	3,969
Miscellaneous State Grants	42,353
Adult Basic Education	83,757
Migrant Education	336,845
Title VI-B	820,912
Limited English Proficiency	129,883
Title I	1,307,078
Title VI	5,355
Title IV - Safe and Drug Fee	24,305
IDEA Preschool Grant for the Handicapped	34,058
Improving Teacher Quality	258,468
Miscellaneous Federal Grants	15,393

20. CONSTRUCTION AND OTHER COMMITMENTS

At June 30, 2008, construction contracts that were encumbered are as follows:

School Construction:	Remaining Contract Including Retainage
Chestnut Elementary	
Imperial Heating and Cooling	\$16,750
Cedarbrook Elementary	
Edgell Plumbing, Inc.	15,148
Elm Elementary	
AJ Goulder Electric Company - 0487C	103,314
CT Taylor Company - 0487C	233,535
MAC Mechanical - 0487C	7,060
Mr Excavator - 0487C	230,433
RJ Martin Electrical - 0487C	11,707
Sievers Security Inc.	8,548
Stone Creek Interior Systems - 0487C	8,789
United Mechanical Contractors - 0487C	45,954
Heritage Middle School	
AJ Goulder Electric Company - 0487B	56,438
Blaze Building Corp.	756,704
John F Gallagher - 0487B	39,999
MAC Mechanical - 0487B	7,781
Reliance Mechanical - 0487B	71,054
Sievers Security Inc.	16,392
Harvey High School	
Conti Corporation - 0487A	2,140,364
CT Taylor Company - 0487A	8,639,128
MAC Mechanical - 0487A	353,640
Mr Excavator - 0487A	898,196
Soehnlén Piping Company - 0487A	865,740
VIP Electric - 0487A	1,757,214
Maple Elementary	
CT Taylor Company - 0487E	316,366
Doan Pyramid	83,246
Great Lakes Crushing - 0487E	275,538
John F Gallagher - 0487B	28,923
Price and James Htg. & Refrig. - 0487E	55,542
RJ Martin Electrical - 0487E	30,150
VIP Electric - 0487E	51,707
Construction Management	
RP Carbone	897,217
Multiple Schools	
MKC Associates	4,659
Sports Equipment Specialists	15,965
Continental Educational Environments	562,838
Martin Public Seating	333,707
Service Supply Ltd - 04870	28,455
MKC Associates	340,586
	\$19,308,787

21. PRIOR PERIOD ADJUSTMENT

A prior period adjustment was required to reclassify part of the fund balance from the Classroom Facilities Fund to Other Governmental Funds.

These adjustments had the following effect on fund balances at June 30, 2007:

	Classroom Facilities Fund	Other Governmental Funds
Ending Fund Balances, June 30, 2007	\$17,848,617	\$7,080,897
Adjustment of Fund Balances	(515,579)	515,579
Restated Beginning Fund Balance, July 1, 2007	<u>\$17,333,038</u>	<u>\$7,596,476</u>

22. CHANGE IN ACCOUNTING PRINCIPLE

For the year ended June 30, 2008, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEB)*, GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, and GASB Statement No. 50, *Pension Disclosures*.

GASB Statement No. 45 improves the relevance and usefulness of financial reporting by requiring systematic, accrual-basis measurement and recognition of OPEB costs over a period that approximates employees’ years of service and providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan. The District has determined that the adoption of this statement did not have an impact on the District’s financial statements; however, note disclosures related to post-employment benefits have been modified. An OPEB liability at transition was determined in accordance with this Statement for both the SERS and STRS Postemployment healthcare plans in the amount of \$167,634 and \$5,641, respectively, which are the same as the previously reported liabilities.

GASB Statement No. 48 establishes criteria that governments will use to ascertain whether certain transactions should be regarded as sales or collateralized borrowings. The statement also includes disclosure requirements for future revenues that are pledged and sold. The implementation this Statement did not affect the presentation of the financial statements of the District.

GASB Statement No. 50 requires employers contributing to defined benefit pension plans to include the legal or contractual maximum contribution rates in the notes to the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

Painesville City Local School District
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2008

	General Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Revenues:				
Taxes	\$10,431,481	\$10,559,060	\$9,732,452	(\$826,608)
Tuition and Fees	1,337,437	1,353,794	1,247,813	(105,981)
Investment Earnings	435,053	440,373	405,899	(34,474)
Intergovernmental	17,152,674	17,362,455	16,003,248	(1,359,207)
Extracurricular Activities	8,382	8,484	7,820	(664)
Other Revenues	418,431	423,548	390,391	(33,157)
Total Revenues	29,783,458	30,147,714	27,787,623	(2,360,091)
Expenditures:				
Current:				
Instruction:				
Regular	13,096,885	13,186,546	11,669,077	1,517,469
Special	3,730,998	3,756,541	3,324,249	432,292
Vocational	580,301	584,273	517,037	67,236
Other	2,772,676	2,791,658	2,470,402	321,256
Support Services:				
Pupil	1,605,233	1,616,222	1,430,232	185,990
Instructional Staff	1,505,817	1,516,125	1,341,654	174,471
General Administration	164,009	165,132	146,129	19,003
School Administration	4,121,893	4,150,112	3,672,529	477,583
Fiscal	680,165	684,821	606,014	78,807
Business	96,653	97,315	86,116	11,199
Operations and Maintenance	3,222,657	3,244,719	2,871,326	373,393
Pupil Transportation	1,792,773	1,805,046	1,597,327	207,719
Central	335,801	338,100	299,192	38,908
Operation of Non-Instructional Services	395,044	397,404	307,117	90,287
Extracurricular Activities	493,856	497,237	440,016	57,221
Capital Outlay	161,730	162,837	144,096	18,741
Total Expenditures	34,756,491	34,994,088	30,922,513	4,071,575
Excess of Revenues Over (Under) Expenditures	(4,973,033)	(4,846,374)	(3,134,890)	1,711,484
Other financing sources (uses):				
Proceeds from Sale of Capital Assets	8,264	8,365	7,710	(655)
Advances In	41,917	42,430	39,108	(3,322)
Advances (Out)	(76,374)	(76,897)	(68,048)	8,849
Transfers (Out)	(95,004)	(95,655)	(84,647)	11,008
Total Other Financing Sources (Uses)	(121,197)	(121,757)	(105,877)	15,880
Net Change in Fund Balance	(5,094,230)	(4,968,131)	(3,240,767)	1,727,364
Fund Balance Beginning of Year (includes prior year encumbrances appropriated)	8,238,338	8,238,338	8,238,338	0
Fund Balance End of Year	\$3,144,108	\$3,270,207	\$4,997,571	\$1,727,364

See accompanying notes to the required supplementary information.

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT
LAKE COUNTY, OHIO
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For The Year Ended June 30, 2008**

1. BUDGETARY PROCESS

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriations resolution and the certificate of estimated resources which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The legal level of control has been established by the Board at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the final amended certificate of estimated resources issued during the fiscal year 2008.

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by Board during the year.

While the District is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Combined Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are as follows:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).

3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types and expendable trust funds (GAAP basis).
4. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions.

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund.

Net Change in Fund Balance

	General
GAAP Basis	(\$2,515,016)
Net Adjustment for Revenue Accruals	(9,699)
Net Adjustment for Expenditure Accruals	194,597
Transfers (Out)	(68,048)
Advances In	39,108
Encumbrances	(881,709)
Budget Basis	(\$3,240,767)

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

Board of Education
Painesville City Local School District
Painesville, Ohio

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Painesville City Local School District (the “District”), as of and for the year ended June 30, 2008, which collectively comprise the District’s basic financial statements and have issued our report thereon dated December 19, 2008, wherein we noted the District implemented GASB Statement No’s. 45, 48, and 50, as disclosed in Note 22. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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

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

We consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting: 2008-2.

Board of Education
Painesville City Local School District

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe finding number 2008-2 is also a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2008-1.

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

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

Cini & Paricki, Inc.

Cleveland, Ohio
December 19, 2008

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

Board of Education
Painesville City Local School District
Painesville, Ohio

Compliance

We have audited the compliance of the Painesville City Local School District (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 each of its major federal programs for the year ended June 30, 2008. The District’s major federal programs are identified in the summary of auditors’ results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District’s management. Our responsibility is to express an opinion on the District’s compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2008.

Internal Control over Compliance

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

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

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

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of and for the year ended June 30, 2008, and have issued our report there on dated December 19, 2008, wherein we noted the District implemented GASB Statement No's. 45, 48, and 50, as disclosed in Note 22.

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

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

Cini & Parichi, Inc.

Cleveland, Ohio
December 19, 2008

Painesville City Local School District

Schedule of Expenditures of Federal Awards

For the year ended June 30, 2008

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Number	Receipts	Non-cash Receipts	Disbursements	Non-Cash Disbursements
U.S. Department of Agriculture:						
Passed-Through Ohio Department of Education:						
Food Distribution	10.550	N/A	\$ -	\$ 123,617	\$ -	\$ 125,187
Nutrition Cluster:						
School Breakfast Program	10.553	05PU-2007/2008	257,136	-	257,136	-
School Lunch Program	10.555	LLP4-2007/2008	824,776	-	824,776	-
Summer Food Service Program	10.559	24PU-2007/2008	22,646	-	22,646	-
Total Nutrition Cluster			1,104,558	-	1,104,558	-
Total U.S. Department of Agriculture			1,104,558	123,617	1,104,558	125,187
U.S. Department of Defense:						
Passed-Through Ohio Department of Public Safety:						
Emergency Operations Flood Response and Post Flood Response	12.103	N/A	-	-	23,550	-
Total U.S. Department of Defense			-	-	23,550	-
U.S. Department of Education:						
Passed-Through Ohio Department of Education:						
Special Education Cluster:						
Preschool Grant	84.173	044628-PGS1-2007	3,650	-	2,168	-
Preschool Grant	84.173	044628-PGS1-2008	30,807	-	30,807	-
Subtotal Preschool Grant			34,457	-	32,975	-
Title VI-B	84.027	044628-6BSF-2007	22,817	-	78,684	-
Title VI-B	84.027	044628-6BSF-2008	722,072	-	703,044	-
Subtotal Title VI-B			900,819	-	781,728	-
Total Special Education Cluster			935,276	-	814,703	-
Title I	84.010	044628-C1S1-2007	102,147	-	149,012	-
Title I	84.010	044628-C1S1-2008	988,675	-	968,774	-
Title I	84.010	044628-C1SD-2008	21,076	-	21,076	-
Title I	84.010	044628-C1SN-2007	-	-	185	-
Total Title I			1,111,898	-	1,139,047	-
Innovative Education Program Strategy	84.298	044628-C2S1-2007	-	-	397	-
Innovative Education Program Strategy	84.298	044628-C2S1-2008	8,628	-	9,025	-
Total Innovative Education Program Strategy			8,628	-	9,422	-
Adult Education	84.002	044628-ABS1-2007	1,243	-	216	-
Adult Education	84.002	044628-ABS1-2008	55,527	-	57,522	-
Adult Education	84.002	044628-ABS2-2007	-	-	305	-
Adult Education	84.002	044628-ABS2-2008	26,986	-	26,791	-
Total Adult Education			83,756	-	84,834	-

The accompanying notes are an integral part of this schedule.

Painesville City Local School District

Schedule of Expenditures of Federal Awards – continued

For the year ended June 30, 2008

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Number	Receipts	Non-cash Receipts	Disbursements	Non-Cash Disbursements
Migrant Education	84.011	044628-MGS1-2007	126,530	-	139,700	-
Migrant Education	84.011	044628-MGS1-2008	140,376	-	126,390	-
Total Migrant Education			<u>266,906</u>	<u>-</u>	<u>266,090</u>	<u>-</u>
Drug Free Schools	84.186	044628-DRS1-2007	1,899	-	1,327	-
Drug Free Schools	84.186	044628-DRS1-2008	21,075	-	18,834	-
Total Drug Free Schools			<u>22,974</u>	<u>-</u>	<u>20,161</u>	<u>-</u>
Assistive Technology Grant	84.332	044628-RFCC-2007	-	-	31,013	-
Title II-D	84.318	044628-TJS1-2008	-	-	231	-
Title II-D	84.318	044628-TJS1-2008	12,164	-	11,134	-
Total Title II-D			<u>12,164</u>	<u>-</u>	<u>11,365</u>	<u>-</u>
Title III	84.365	044628-T3S1-2007	12,723	-	17,347	-
Title III	84.365	044628-T3S1-2008	152,888	-	149,027	-
Total Title III			<u>165,611</u>	<u>-</u>	<u>166,374</u>	<u>-</u>
Title II-A	84.367	044628-TRS1-2007	23,096	-	30,429	-
Title II-A	84.367	044628-TRS1-2008	183,543	-	175,263	-
Total Title II-A			<u>206,639</u>	<u>-</u>	<u>205,692</u>	<u>-</u>
Total U.S. Department of Education			<u>2,813,852</u>	<u>-</u>	<u>2,784,701</u>	<u>-</u>
Corporation for National and Community Service						
Learn and Serve America	94.004	N/A	1,809	-	837	-
U.S. Department of Homeland Security:						
Disaster Grant – Public Assistance	97.036	N/A	3,956	-	3,956	-
Total Expenditures of Federal Awards			\$ <u>3,924,175</u>	\$ <u>123,617</u>	\$ <u>3,881,602</u>	\$ <u>125,187</u>

The accompanying notes are an integral part of this schedule.

Painesville City Local School District

Notes to the Schedule of Expenditures of Federal Awards

June 30, 2008

Note 1: Significant Accounting Policies

Basis of Presentation

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

Non-Cash Support

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

CFDA – Catalog of Federal Domestic Assistance

Painesville City Local School District

Schedule of Findings
OMB Circular A-133 Section .505

June 30, 2008

1. Summary of Auditors' Results

(d)(I)(i)	Type of Financial Statement Opinion	Unqualified
(d)(I)(ii)	Was there any significant deficiencies reported at the financial statement level (GAGAS)?	Yes
(d)(I)(ii)	Were there any other material weaknesses reported at the financial statement level (GAGAS)?	Yes
(d)(I)(iii)	Was there any material noncompliance reported at the financial statement level (GAGAS)?	Yes
(d)(I)(iv)	Was there any material weaknesses reported for major federal programs?	No
(d)(I)(iv)	Were there any significant control deficiencies reported for major federal programs?	No
(d)(I)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(I)(vi)	Are there any reportable findings under Section .501?	No
(d)(I)(vii)	Major Programs	Title I CFDA 84.010
	Dollar Threshold: Type A/B Programs	Type A: >\$300,000 Type B: All Others
(d)(I)(ix)	Low Risk Auditee?	Yes

Painesville City Local School District

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

June 30, 2008

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

Findings	Findings Summary																																																																												
2008-1	<p data-bbox="305 552 863 583"><i>Budgetary Control – Material Noncompliance</i></p> <p data-bbox="305 615 1455 709">Per ORC Section 5705.39, total appropriations from each fund shall not exceed the total estimated revenue. The following funds had original appropriations plus carryover encumbrances in excess estimated resources:</p> <table data-bbox="305 741 1455 1455"> <thead> <tr> <th></th> <th style="text-align: right;">Certificate Of Estimated <u>Original</u></th> <th style="text-align: right;">Original <u>Appropriations</u></th> <th style="text-align: right;"><u>Excess</u></th> </tr> </thead> <tbody> <tr> <td>Special Revenue Funds:</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Food Services</td> <td style="text-align: right;">\$ 1,446,930</td> <td style="text-align: right;">\$ 1,450,000</td> <td style="text-align: right;">\$ 3,070</td> </tr> <tr> <td>Rotary Services</td> <td style="text-align: right;">28,730</td> <td style="text-align: right;">37,616</td> <td style="text-align: right;">8,886</td> </tr> <tr> <td>Other Grants</td> <td style="text-align: right;">36,993</td> <td style="text-align: right;">68,337</td> <td style="text-align: right;">34,344</td> </tr> <tr> <td>Auxiliary Services</td> <td style="text-align: right;">43,932</td> <td style="text-align: right;">367,937</td> <td style="text-align: right;">324,005</td> </tr> <tr> <td>Management Information Services</td> <td style="text-align: right;">41,035</td> <td style="text-align: right;">60,617</td> <td style="text-align: right;">19,582</td> </tr> <tr> <td>Ohio Reads Grant</td> <td style="text-align: right;">(3,699)</td> <td style="text-align: right;">270</td> <td style="text-align: right;">3,969</td> </tr> <tr> <td>Miscellaneous State Grants</td> <td style="text-align: right;">21,633</td> <td style="text-align: right;">63,986</td> <td style="text-align: right;">42,353</td> </tr> <tr> <td>Adult Basic Education</td> <td style="text-align: right;">(1,487)</td> <td style="text-align: right;">82,270</td> <td style="text-align: right;">83,757</td> </tr> <tr> <td>Migrant Education</td> <td style="text-align: right;">2,952</td> <td style="text-align: right;">339,797</td> <td style="text-align: right;">336,845</td> </tr> <tr> <td>Title VI-B</td> <td style="text-align: right;">28,018</td> <td style="text-align: right;">848,930</td> <td style="text-align: right;">820,912</td> </tr> <tr> <td>Limited English Proficiency</td> <td style="text-align: right;">2,518</td> <td style="text-align: right;">132,401</td> <td style="text-align: right;">129,883</td> </tr> <tr> <td>Title I</td> <td style="text-align: right;">53,373</td> <td style="text-align: right;">1,360,451</td> <td style="text-align: right;">1,307,078</td> </tr> <tr> <td>Title VI</td> <td style="text-align: right;">397</td> <td style="text-align: right;">5,752</td> <td style="text-align: right;">5,355</td> </tr> <tr> <td>Title IV – Safe and Drug Fee</td> <td style="text-align: right;">(572)</td> <td style="text-align: right;">23,733</td> <td style="text-align: right;">24,305</td> </tr> <tr> <td>IDEA Preschool Grant for the Handicapped</td> <td style="text-align: right;">(1,482)</td> <td style="text-align: right;">32,576</td> <td style="text-align: right;">34,058</td> </tr> <tr> <td>Improving Teacher Quality</td> <td style="text-align: right;">6,362</td> <td style="text-align: right;">264,830</td> <td style="text-align: right;">258,468</td> </tr> <tr> <td>Miscellaneous Federal Grants</td> <td style="text-align: right;">23,916</td> <td style="text-align: right;">39,309</td> <td style="text-align: right;">15,393</td> </tr> </tbody> </table> <p data-bbox="305 1486 1455 1564">Official’s Response: The District reviews the Original Certificate of Estimated Resources periodically through the year and forwards all changes in appropriations to the County Fiscal Officers for review at the county level.</p>		Certificate Of Estimated <u>Original</u>	Original <u>Appropriations</u>	<u>Excess</u>	Special Revenue Funds:				Food Services	\$ 1,446,930	\$ 1,450,000	\$ 3,070	Rotary Services	28,730	37,616	8,886	Other Grants	36,993	68,337	34,344	Auxiliary Services	43,932	367,937	324,005	Management Information Services	41,035	60,617	19,582	Ohio Reads Grant	(3,699)	270	3,969	Miscellaneous State Grants	21,633	63,986	42,353	Adult Basic Education	(1,487)	82,270	83,757	Migrant Education	2,952	339,797	336,845	Title VI-B	28,018	848,930	820,912	Limited English Proficiency	2,518	132,401	129,883	Title I	53,373	1,360,451	1,307,078	Title VI	397	5,752	5,355	Title IV – Safe and Drug Fee	(572)	23,733	24,305	IDEA Preschool Grant for the Handicapped	(1,482)	32,576	34,058	Improving Teacher Quality	6,362	264,830	258,468	Miscellaneous Federal Grants	23,916	39,309	15,393
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Painesville City Local School District

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

June 30, 2008

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

Findings	Findings Summary
2008-2	<p><i>Financial Reporting – Significant Deficiency / Material Weakness</i></p> <p>Sound financial reporting is the responsibility of the Treasurer and the Board of Education and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.</p> <p>The following audit adjustments were made to the financial statements, and where applicable, to the District’s accounting records:</p> <ol style="list-style-type: none"> 1. Adjusted contracts payable by \$801,318 for amounts that were not originally recorded. 2. Adjusted accounts payable by \$153,564 for amounts that were not originally recorded. 3. Adjusted intergovernmental receivable by \$506,116 for amounts that were not originally recorded related to Ohio Schools Facility Commission monies and various grants. 4. Adjusted taxes receivable by \$427,793 for amounts that were originally reducing the total receivable for homestead and rollback in amounts in excess to what was actually reducing the monies received. 5. Decreased construction in progress by \$1,211,573 for the amounts of payables listed above that had not been originally recorded and to properly remove all items related to the new buildings in service. 6. Decreased land by \$1,255,605 as land was added in the current year which was recorded as additions in previous years. 7. Adjusted buildings and improvements by \$2,049,723 for amounts that were originally not reclassified out of construction in progress at completion of the project. 8. Adjusted accumulated depreciation on buildings and improvements by \$134,753 as no depreciation was originally recorded on the new building addition for the year. 9. Decreased reserve for encumbrances by \$72,379 for amounts there were included that should not be as they are being recorded in payables. 10. Adjusted intergovernmental revenue and operation of non-instructional services by \$81,038 to properly reflect the amount of federal donated commodities. 11. Restated Building Fund by \$515,579 for expenditures that should have been paid out of Classroom Facilities Fund, which was also restated decreasing its beginning balance by \$515,579. <p>The lack of controls over the posting of year-end financial transactions and financial reporting can result in errors and irregularities that may go undetected and decreases the reliability of financial data at year-end.</p> <p>We recommend the District adopts policies and procedures for controls over recording of year-end financial transactions and over financial report to help ensure the information accurately reflects the activity of the District and thereby increasing the reliability of the financial data at year-end. Although the District has contracted a third party to perform their GAAP Conversion, the District’s management needs to review the statements to be sure that all items are being properly recorded. As a significant portion of the adjustments related to the construction projects with the Ohio Schools Facilities Commission, it is also recommended that a person is designated to monitor these expenses regularly and be sure that all contractors’ payments are up to date.</p>

Painesville City Local School District

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

June 30, 2008

2008-2	<i>Financial Reporting – Significant Deficiency / Material Weakness (Continued)</i> Officials Response: Management will develop a process to oversee the GAAP conversion process more closely and have better communication with them.
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3. Findings for Federal Awards

There were no findings for federal awards to report in 2008.

Painesville City Local School District

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

June 30, 2008

Finding Number	Finding Summary	Corrected	Responsible Contact Person; Not Corrected, Partially Corrected
2007-1	Ohio Rev. Code Section 5705.39, total appropriations from each fund should not exceed the total estimated revenue	No	Rick Taylor, Treasurer; Not corrected, reissued as 2008-1.
2007-2	Financial Reporting – insufficient management oversight on the compilation of financial statements, therefore, requiring significant adjustments by the auditor.	No	Rick Taylor, Treasurer; Not corrected, reissued as 2008-2.

Painesville City Local School District

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

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

June 30, 2008

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2008-1	Ohio Rev. Code Section 5705.39, total appropriations from each fund should not exceed the total estimated revenue	Fiscal Year 2009	Rick Taylor, Treasurer;



Mary Taylor, CPA
Auditor of State

PAINESVILLE CITY LOCAL SCHOOL DISTRICT
LAKE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JANUARY 27, 2009