

PAINESVILLE CITY LOCAL SCHOOL DISTRICT



Basic Financial Statements

June 30, 2012



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Painesville Local School District, Lake County, prepared by Plattenburg & Associates, Inc., for the audit period July 1, 2011 through June 30, 2012. 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. In conjunction with the work performed by the Independent Public Accountant, the Auditor of State is issuing the following:

Finding for Recovery

During the fiscal year ending June 30, 2012, Ms. Patricia Weindel purchased food service items in the amount of \$1,422 which appeared to be personal in nature and were paid for by the District. These purchases were made by Ms. Patricia Weindel at the Gordon Food Service Marketplace Store in Mentor, Ohio with no record of how the purchase was related to District operations or any reimbursement made by Ms. Patricia Weindel to the District. Also, while reviewing supporting information for these Gordon Food Service Marketplace purchases, two such purchases were determined to be related to District retirement parties. However, supporting documentation maintained for corresponding receipts from these retirement parties showed collections of \$1,835, including \$440 received in cash. The total amount included within the deposits by Ms. Patricia Weindel for these retirement parties was \$1,480, a shortage of \$355.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public money illegally expended and public money collected but unaccounted for is hereby issued against you in the amount of \$1,777 and in favor of Painesville City Local School District's General and Food Services funds in the amounts of \$355 and \$1,422 respectively.

Board of Education
Painesville Local School District
Page 2

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 Local School District is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

December 27, 2012

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Painesville City Local School District (the District) as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2012, and the respective changes in cash financial position, thereof and the respective budgetary comparisons for the General Fund and Classroom Facilities Maintenance Fund for the year then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2012, 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.

We conducted our audit to opine on the District's financial statements taken as a whole. Management's Discussion & Analysis includes tables of net cash assets, changes in net cash assets, governmental activities and outstanding debt. These tables provide additional information, but are not part of the basic financial statements. However, these tables are management's responsibility, and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. These tables were subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole. Other than the aforementioned procedures applied to the tables, we applied no procedures to any other information in Management's Discussion & Analysis and we express no opinion or any other assurance on it.

Plattenburg & Associates, Inc.

Plattenburg & Associates, Inc.
September 14, 2012

**Painesville City Local School District
Lake County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
(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, 2012, within the limitations of the District's cash basis of accounting. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the notes to the basic financial statements and cash basis financial statements to enhance their understanding of the District's performance.

Financial Highlights

Key financial highlights for 2012 are as follows:

- Net cash assets of governmental activities increased \$1,483,399 which represents a 23% increase from 2011.
- General receipts accounted for \$32,199,246 in receipts or 83% of all receipts. Program specific receipts in the form of charges for services and sales, grants and contributions accounted for \$6,670,932 or 17% of total receipts of \$38,870,178 .
- The District had \$37,386,779 in disbursements related to governmental activities; which were offset by program specific charges for services and sales, grants and contributions of \$6,670,932 .

OVERVIEW OF THE CASH BASIS FINANCIAL STATEMENTS

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

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

Government-wide Financial Statements – Cash Basis

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2012?" The Government-wide Financial Statements answer this question. These statements include only net assets using the cash basis of accounting, which is a basis of accounting other than accounting principals generally accepted in the United States of America. This basis of accounting takes into account only the current year's receipts and disbursements if the cash is actually received or paid.

Painesville City Local School District
Lake County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
(Unaudited)

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

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

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

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

Fund Financial Statements

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

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

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

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

Painesville City Local School District
Lake County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
(Unaudited)

The District as a Whole

As stated previously, the Statement of Net Assets – Cash Basis looks at the District as a whole. Table 1 provides a summary of the District's net cash assets for fiscal year 2012 compared to fiscal year 2011:

Table 1
Net Cash Assets

	Governmental Activities	
	2012	2011
Assets:		
Equity in Pooled Cash and Cash Equivalents	\$7,428,119	\$5,914,847
Restricted Cash and Cash Equivalents	538,690	568,563
Total Assets	<u>7,966,809</u>	<u>6,483,410</u>
Net Assets:		
Restricted	5,516,594	5,262,809
Unrestricted	<u>2,450,215</u>	<u>1,220,601</u>
Total Net Cash Assets	<u><u>\$7,966,809</u></u>	<u><u>\$6,483,410</u></u>

The total net cash assets of governmental activities increased \$1,483,399 which represents a 23% increase from 2011.

A portion of the District's net cash assets, \$5,516,594 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.

This space intentionally left blank

Painesville City Local School District
Lake County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
(Unaudited)

Table 2 shows the changes in net cash assets for fiscal year 2012 compared to fiscal year 2011.

Table 2
Changes in Net Cash Assets

	<u>Governmental Activities</u>	
	<u>2012</u>	<u>2011</u>
Cash Receipts:		
Program Cash Receipts:		
Charges for Services and Sales	\$1,978,810	\$2,291,282
Operating Grants and Contributions	4,613,534	5,474,221
Capital Grants and Contributions	78,588	210,219
General Receipts:		
Property Taxes	9,635,685	9,488,433
Grants and Entitlements	21,594,655	20,388,109
Other	968,906	648,467
Total Cash Receipts	<u>38,870,178</u>	<u>38,500,731</u>
Cash Disbursements:		
Instruction	20,434,199	21,595,310
Support Services:		
Pupil and Instructional Staff	3,942,573	4,537,453
School Administrative, General Administration, Fiscal and Business	3,786,467	3,814,914
Operations and Maintenance	3,180,991	3,143,439
Pupil Transportation	1,313,741	1,235,783
Central	240,979	254,748
Operation of Non-Instructional Services	1,451,933	1,291,970
Extracurricular Activities	702,961	520,637
Capital Outlay	136,806	1,895,714
Debt Service:		
Principal Retirement	892,434	845,298
Interest and Fiscal Charges	1,303,695	1,335,219
Total Cash Disbursements	<u>37,386,779</u>	<u>40,470,485</u>
Change in Net Cash Assets	1,483,399	(1,969,754)
Net Cash Assets Beginning of Year, Restated	<u>6,483,410</u>	<u>8,453,164</u>
Net Cash Assets End of Year	<u><u>\$7,966,809</u></u>	<u><u>\$6,483,410</u></u>

**Painesville City Local School District
 Lake County, Ohio
 Management's Discussion and Analysis
 For the Fiscal Year Ended June 30, 2012
 (Unaudited)**

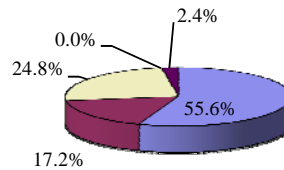
Governmental Activities

The District's receipts are mainly from two sources. Property taxes levied for general, special revenue, debt service and capital project purposes and grants and entitlements comprised 81% of the District's receipt for governmental activities.

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

Thus Ohio districts dependent upon property taxes are hampered by a lack of receipt growth and must regularly return to the voters to maintain a constant level of service. Property taxes made up 25% of revenue for governmental activities for the District in fiscal year 2012.

<u>Receipt Sources</u>	<u>2012</u>	<u>Percent of Total</u>
General Grants	\$21,594,655	55.6%
Program Receipts	6,670,932	17.2%
General Tax Receipts	9,635,685	24.8%
Investment Earnings	7,533	0.0%
Other Receipts	961,373	2.4%
	<u>\$38,870,178</u>	<u>100.00%</u>



Grants and Entitlements increased mainly due to an increase in state foundation monies received in fiscal year 2012 as compared to fiscal year 2011. Instruction disbursements decreased from fiscal year 2011 to fiscal year 2012 mainly due to the District's ongoing effort to cut costs. Capital Outlay disbursements decreased mainly due to the District purchasing less capital items in fiscal year 2012 as compare to fiscal year 2011.

Instruction comprises 55% of governmental program disbursements. Support services disbursements were 33% of governmental program disbursements. All other disbursements including principal and interest charges were 12%. Interest and fiscal charges were attributable to the outstanding bond and borrowing for capital projects.

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

Painesville City Local School District
Lake County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
(Unaudited)

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2012	2011	2012	2011
Cash Disbursements:				
Instruction	\$20,434,199	\$21,595,310	(\$16,827,224)	(\$16,621,539)
Support Services:				
Pupil and Instructional Staff	3,942,573	4,537,453	(2,989,334)	(3,387,311)
School Administrative, General				
Administration, Fiscal and Business	3,786,467	3,814,914	(3,582,937)	(3,676,097)
Operations and Maintenance	3,180,991	3,143,439	(3,094,440)	(3,027,223)
Pupil Transportation	1,313,741	1,235,783	(1,233,084)	(1,176,374)
Central	240,979	254,748	(240,759)	(254,748)
Operation of Non-Instructional Services	1,451,933	1,291,970	96,783	70,939
Extracurricular Activities	702,961	520,637	(511,917)	(346,179)
Capital Outlay	136,806	1,895,714	(136,806)	(1,895,714)
Debt Service:				
Principal Retirement	892,434	1,335,219	(892,434)	(1,335,219)
Interest and Fiscal Charges	1,303,695	0	(1,303,695)	0
Total Cash Disbursements	<u>\$37,386,779</u>	<u>\$39,625,187</u>	<u>(\$30,715,847)</u>	<u>(\$31,649,465)</u>

The District's Funds

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

The District has five major governmental funds: the General Fund, the Debt Service Fund, the Building Fund, the Classroom Facilities Fund and the Classroom Facilities Maintenance Fund. Assets of these funds comprised \$7,056,597 (89%) of the total \$7,966,809 in governmental funds assets.

General Fund: Fund cash balance at June 30, 2012 was \$2,450,215. An increase from 2011 of \$1,199,741, which was mainly due to an increase in intergovernmental receipts.

Classroom Facilities Maintenance Fund: The net change in fund cash balance for fiscal year 2012 was \$135,569. The increase from 2011 was mainly due to a decrease in operations and maintenance expenses.

Debt Service Fund: The net change in fund cash balance for fiscal year 2012 was (\$26,634). The increase from 2011 was mainly due to proceeds from the sale of capital assets.

Building Fund: The net change in fund cash balance for fiscal year 2012 was (\$235,083).

Classroom Facilities Fund: The net change in fund cash balance for fiscal year 2012 was \$179,187.

**Painesville City Local School District
Lake County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
(Unaudited)**

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 year 2012, the District amended its General Fund budget numerous times, however none were significant. The District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management. During the course of the year, the District revised the Budget in an attempt to deal with unexpected changes in receipts and disbursements.

For the General Fund, final budget basis receipts were \$29,068,604, compared to original budget estimates of \$28,604,766. Of this \$463,838 difference, most was due to estimating for taxes and intergovernmental receipts.

The District's ending unobligated cash balance was \$1,963,818.

Capital Assets and Debt Administration

Capital Assets

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

Debt

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

At June 30, 2012, the District had \$29,446,053 in debt outstanding, \$859,698 due within one year. Table 4 summarizes total debt outstanding.

Painesville City Local School District
Lake County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
(Unaudited)

Table 4
Outstanding Debt, at Year End

	Governmental Activities	
	2012	2011
General Obligation Bonds:		
2004 School Improvement Bonds	\$8,525,000	\$17,430,000
Current Interest Bonds - 2005 School Improvement	9,995,007	10,240,007
Premium on 2005 School Improvement Bonds	413,420	433,587
Capital Appreciation Bonds - 2005 School Improvement	454,993	454,993
Accreted Interest	439,617	351,560
Stadium Project - Refinancing	20,000	145,000
Current Interest Bonds - 2012 Advance Refunding	8,345,000	0
Capital Appreciation Bonds - 2012 Advance Refunding	74,986	0
Premium on Refunding - 2012 Advance Refunding	1,096,232	0
Notes Payable:		
Project - National City	81,798	119,232
Total Outstanding Debt at Year End	<u>\$29,446,053</u>	<u>\$29,174,379</u>

See note 5 to the basic financial statements for further details on the District's debt.

For the Future

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

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

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

Painesville City Local School District
Lake County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
(Unaudited)

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 Sherri Samac, Treasurer at Painesville City Local School District, 58 Jefferson Street, Painesville, Ohio 44077. Or e-mail sherri.samac@pcls.net.

Painesville City Local School District
Statement of Net Assets - Cash Basis
June 30, 2012

	Governmental Activities
Assets:	
Equity in Pooled Cash and Cash Equivalents	\$7,428,119
Restricted Cash and Cash Equivalents	<u>538,690</u>
Total Assets	<u><u>7,966,809</u></u>
Net Assets:	
Restricted for:	
Debt Service	873,235
Capital Projects	2,878,158
Classroom Facilities Maintenance	1,128,954
State Funded Programs	45,024
Federally Funded Programs	165,784
Special Levy	280,750
Other Purposes	144,689
Unrestricted	<u>2,450,215</u>
Total Cash Net Assets	<u><u>\$7,966,809</u></u>

See accompanying notes to the basic financial statements.

Painesville City Local School District
Statement of Activities - Cash Basis
For the Fiscal Year Ended June 30, 2012

	Cash Disbursements	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Cash Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Total
Governmental Activities:					
Instruction:					
Regular	\$12,145,644	\$860,803	\$811,859	\$78,588	(\$10,394,394)
Special	5,610,275	433,832	1,265,556	0	(3,910,887)
Vocational	271,497	13,814	21,031	0	(236,652)
Other	2,406,783	0	121,492	0	(2,285,291)
Support Services:					
Pupil	1,692,854	290,045	138,856	0	(1,263,953)
Instructional Staff	2,249,719	11,410	512,928	0	(1,725,381)
General Administration	98,572	0	0	0	(98,572)
School Administration	3,156,177	2,921	200,609	0	(2,952,647)
Fiscal	504,699	0	0	0	(504,699)
Business	27,019	0	0	0	(27,019)
Operations and Maintenance	3,180,991	0	86,551	0	(3,094,440)
Pupil Transportation	1,313,741	80,657	0	0	(1,233,084)
Central	240,979	0	220	0	(240,759)
Operation of Non-Instructional Services	1,451,933	146,322	1,402,394	0	96,783
Extracurricular Activities	702,961	139,006	52,038	0	(511,917)
Capital Outlay	136,806	0	0	0	(136,806)
Debt Service:					
Principal Retirement	892,434	0	0	0	(892,434)
Interest and Fiscal Charges	1,303,695	0	0	0	(1,303,695)
Total Governmental Activities	\$37,386,779	\$1,978,810	\$4,613,534	\$78,588	(30,715,847)

General Receipts:	
Property Taxes Levied for:	
General Purposes	6,372,788
Special Revenue Purposes	1,529,749
Debt Service Purposes	1,589,358
Capital Projects Purposes	143,790
Grants and Entitlements not Restricted to Specific Programs	21,594,655
Investment Earnings	7,533
Other Receipts	961,373
Total General Receipts	32,199,246
Change in Net Cash Assets	1,483,399
Net Cash Assets Beginning of Year	6,483,410
Net Cash Assets End of Year	\$7,966,809

See accompanying notes to the basic financial statements.

Painesville City Local School District
Statement of Assets and Fund Balances - Cash Basis
Governmental Funds
June 30, 2012

	General	Classroom Facilities Maintenance	Debt Service	Building
Assets:				
Equity in Pooled Cash and Cash Equivalents	\$1,911,525	\$1,128,954	\$873,235	\$1,704,581
Restricted Cash and Cash Equivalents	538,690	0	0	0
Total Assets	<u>2,450,215</u>	<u>1,128,954</u>	<u>873,235</u>	<u>1,704,581</u>
Fund Balances:				
Restricted	0	1,128,954	873,235	1,704,581
Committed	433,222	0	0	0
Assigned	316,749	0	0	0
Unassigned	1,700,244	0	0	0
Total Fund Balances	<u>2,450,215</u>	<u>1,128,954</u>	<u>873,235</u>	<u>1,704,581</u>
Total Fund Balances	<u>\$2,450,215</u>	<u>\$1,128,954</u>	<u>\$873,235</u>	<u>\$1,704,581</u>

See accompanying notes to the basic financial statements.

Classroom Facilities	Other Governmental Funds	Total Governmental Funds
\$899,612	\$910,212	\$7,428,119
0	0	538,690
<u>899,612</u>	<u>910,212</u>	<u>7,966,809</u>
899,612	910,212	5,516,594
0	0	433,222
0	0	316,749
0	0	1,700,244
<u>899,612</u>	<u>910,212</u>	<u>7,966,809</u>
<u>\$899,612</u>	<u>\$910,212</u>	<u>\$7,966,809</u>

Painesville City Local School District
Statement of Cash Receipts, Cash Disbursements
and Changes in Fund Cash Balances - Cash Basis
Governmental Funds
For the Fiscal Year Ended June 30, 2012

	General	Classroom Facilities Maintenance	Debt Service	Building	Classroom Facilities
Receipts:					
Taxes	\$6,372,788	\$0	\$1,589,358	\$0	\$0
Tuition and Fees	910,312	0	0	0	0
Investment Earnings	1,771	456	546	3,102	1,502
Intergovernmental	21,289,342	86,551	342,603	0	12,534
Extracurricular Activities	96,323	0	0	0	0
Charges for Services	13,814	0	0	0	0
Other Revenue	615,504	0	0	0	0
Total Receipts	29,299,854	87,007	1,932,507	3,102	14,036
Cash Disbursements:					
Current:					
Instruction:					
Regular	10,016,880	0	0	0	0
Special	4,083,937	0	0	0	0
Vocational	254,562	0	0	0	0
Other	2,272,769	0	0	0	0
Support Services:					
Pupil	1,288,655	0	0	0	0
Instructional Staff	1,738,480	0	0	0	0
General Administration	98,572	0	0	0	0
School Administration	2,887,646	0	0	0	0
Fiscal	480,071	0	22,558	0	0
Business	27,019	0	0	0	0
Operations and Maintenance	3,086,073	75,367	0	0	0
Pupil Transportation	1,217,032	0	0	0	0
Central	240,770	0	0	0	0
Operation of Non-Instructional Services	10,468	0	0	0	0
Extracurricular Activities	415,048	0	0	0	0
Capital Outlay	47,891	0	0	1,418	71,616
Debt Service:					
Principal Retirement	0	0	892,434	0	0
Interest and Fiscal Charges	0	0	1,303,695	0	0
Bond Issuance Costs	0	0	175,962	0	0
Total Cash Disbursements	28,165,873	75,367	2,394,649	1,418	71,616
Excess of Receipts Over (Under) Cash Disbursements	1,133,981	11,640	(462,142)	1,684	(57,580)
Other Financing Sources (Uses):					
Proceeds from Sale of Capital Assets	0	0	214,899	0	0
Payments to Refunded Bond Escrow Agent	0	0	(9,366,993)	0	0
Sale of Refunding Bonds	0	0	8,419,986	0	0
Premium on Refunding	0	0	1,122,969	0	0
Advances In	352,126	0	0	0	0
Advances (Out)	(173,085)	0	0	0	0
Transfers In	0	123,929	44,647	0	236,767
Transfers (Out)	(113,281)	0	0	(236,767)	0
Total Other Financing Sources (Uses)	65,760	123,929	435,508	(236,767)	236,767
Net Change in Fund Cash Balance	1,199,741	135,569	(26,634)	(235,083)	179,187
Fund Cash Balance Beginning of Year	1,250,474	993,385	899,869	1,939,664	720,425
Fund Cash Balance End of Year	\$2,450,215	\$1,128,954	\$873,235	\$1,704,581	\$899,612

See accompanying notes to the basic financial statements.

Other Governmental Funds	Total Governmental Funds
\$1,673,539	\$9,635,685
0	910,312
156	7,533
5,268,974	27,000,004
95,076	191,399
150,056	163,870
37,396	652,900
<u>7,225,197</u>	<u>38,561,703</u>
2,128,764	12,145,644
1,526,338	5,610,275
16,935	271,497
134,014	2,406,783
404,199	1,692,854
511,239	2,249,719
0	98,572
268,531	3,156,177
2,070	504,699
0	27,019
19,551	3,180,991
96,709	1,313,741
209	240,979
1,441,465	1,451,933
287,913	702,961
15,881	136,806
0	892,434
0	1,303,695
0	175,962
<u>6,853,818</u>	<u>37,562,741</u>
<u>371,379</u>	<u>998,962</u>
93,576	308,475
0	(9,366,993)
0	8,419,986
0	1,122,969
173,083	525,209
(352,124)	(525,209)
68,634	473,977
<u>(123,929)</u>	<u>(473,977)</u>
<u>(140,760)</u>	<u>484,437</u>
230,619	1,483,399
<u>679,593</u>	<u>6,483,410</u>
<u>\$910,212</u>	<u>\$7,966,809</u>

Painesville City Local School District
Statement of Receipts, Cash Disbursements and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2012

	General Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Budgetary Basis Receipts:				
Taxes	\$6,326,366	\$6,428,951	\$6,372,788	(\$56,163)
Tuition and Fees	685,276	696,388	690,304	(6,084)
Investment Earnings	1,744	1,772	1,757	(15)
Intergovernmental	21,134,263	21,476,964	21,289,342	(187,622)
Extracurricular Activities	39,903	40,550	40,196	(354)
Other Receipts	417,214	423,979	420,275	(3,704)
Total Budgetary Basis Receipts	28,604,766	29,068,604	28,814,662	(253,942)
Budgetary Basis Disbursements:				
Current:				
Instruction:				
Regular	9,876,123	10,796,839	9,947,121	849,718
Special	4,064,042	4,442,919	4,093,258	349,661
Vocational	103,815	113,493	104,561	8,932
Other	2,256,547	2,466,917	2,272,769	194,148
Support Services:				
Pupil	1,278,111	1,397,265	1,287,299	109,966
Instructional Staff	1,720,786	1,881,208	1,733,156	148,052
General Administration	97,868	106,992	98,572	8,420
School Administration	2,915,610	3,187,422	2,936,570	250,852
Fiscal	476,644	521,080	480,071	41,009
Business	27,497	30,061	27,695	2,366
Operations and Maintenance	3,004,616	3,284,726	3,026,216	258,510
Pupil Transportation	1,249,094	1,365,543	1,258,074	107,469
Central	241,339	263,838	243,074	20,764
Operation of Non-Instructional Services	7,004	7,657	7,054	603
Extracurricular Activities	360,373	393,970	362,964	31,006
Capital Outlay	50,502	55,210	50,865	4,345
Total Budgetary Basis Disbursements	27,729,971	30,315,140	27,929,319	2,385,821
Excess of Budgetary Basis Receipts Over (Under) Budgetary Basis Disbursements	874,795	(1,246,536)	885,343	2,131,879
Other Financing Sources (Uses):				
Advances In	349,561	355,229	352,126	(3,103)
Advances (Out)	(163,835)	(179,109)	(165,013)	14,096
Transfers (Out)	(108,467)	(118,579)	(109,247)	9,332
Total Other Financing Sources (Uses)	77,259	57,541	77,866	20,325
Net Change in Fund Balance	952,054	(1,188,995)	963,209	2,152,204
Fund Balance Beginning of Year (includes prior year encumbrances appropriated)	1,000,609	1,000,609	1,000,609	0
Fund Balance End of Year	\$1,952,663	(\$188,386)	\$1,963,818	\$2,152,204

See accompanying notes to the basic financial statements.

Painesville City Local School District
Statement of Receipts, Cash Disbursements and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2012

	Classroom Facilities Maintenance Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Budgetary Basis Receipts:				
Investment Earnings	\$456	\$453	\$456	\$3
Intergovernmental	86,577	85,892	86,551	659
Total Budgetary Basis Receipts	87,033	86,345	87,007	662
Budgetary Basis Disbursements:				
Current:				
Support Services:				
Operations and Maintenance	607,727	607,727	83,326	524,401
Total Budgetary Basis Disbursements	607,727	607,727	83,326	524,401
Excess of Budgetary Basis Receipts Over (Under) Budgetary Basis Disbursements	(520,694)	(521,382)	3,681	525,063
Other Financing Sources (Uses):				
Transfers In	123,967	122,985	123,929	944
Total Other Financing Sources (Uses)	123,967	122,985	123,929	944
Net Change in Fund Balance	(396,727)	(398,397)	127,610	526,007
Fund Balance Beginning of Year (includes prior year encumbrances appropriated)	993,385	993,385	993,385	0
Fund Balance End of Year	\$596,658	\$594,988	\$1,120,995	\$526,007

See accompanying notes to the basic financial statements.

Painesville City Local School District
Statement of Fiduciary Net Assets - Cash Basis
Fiduciary Funds
June 30, 2012

	Private Purpose Trust	Agency
	<u> </u>	<u> </u>
Assets:		
Equity in Pooled Cash and Cash Equivalents	<u>\$9,883</u>	<u>\$22,761</u>
Total Assets	<u>9,883</u>	<u>22,761</u>
Net Assets:		
Unrestricted	<u>9,883</u>	<u>22,761</u>
Total Net Assets	<u>\$9,883</u>	<u>\$22,761</u>

See accompanying notes to the basic financial statements.

Painesville City Local School District
Statement of Changes in Fiduciary Net Assets - Cash Basis
Fiduciary Fund
For the Fiscal Year Ended June 30, 2012

	Private Purpose Trust
Additions:	
Donations	\$1,500
Investment Earnings	4
Total Additions	<u>1,504</u>
Deductions:	
Scholarships	<u>1,261</u>
Total Deductions	<u>1,261</u>
Change in Net Cash Assets	243
Net Cash Assets Beginning of Year	<u>9,640</u>
Net Cash Assets End of Year	<u><u>\$9,883</u></u>

See accompanying notes to the basic financial statements.

Painesville City Local School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 1 - Description of the District

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

The District is located in Lake County.

Average daily membership (ADM) as of June 1, 2012 was 2,928. The District employed 207 certificated employees and 151 non-certificated employees. It currently operates six instructional facilities.

Reporting Entity

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

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

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

Note 2 – Summary of Significant Accounting Policies

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

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

Painesville City Local School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Fund Accounting

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

Governmental Funds

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

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

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

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

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

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

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

Fiduciary Funds

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

Painesville City Local School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

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

Basis of Presentation

Government-wide Financial Statements

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

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

Fund Financial Statements

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

Equity in Pooled Cash and Investments

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

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

Painesville City Local School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2012. 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, 2012.

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 \$1,771 credited to the general fund, \$456 credited to the classroom facilities maintenance fund, \$546 credited to the debt service fund, \$3,102 credited to the building fund, \$1,502 credited to the classroom facilities fund, and \$156 credited to other governmental funds.

Inventory and Prepaid Items

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

Capital Assets

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

Unpaid Vacation and Sick Leave

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

Interfund Activity

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

Employer Contributions to Cost-Sharing Plans

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

Painesville City Local School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

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 2012.

Painesville City Local School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Appropriations

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

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

Lapsing of Appropriations

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

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

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

Painesville City Local School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Net Change in Fund Cash Balance:

	General Fund	Classroom Facilities Maintenance
	<u> </u>	<u> </u>
Cash Basis	\$1,199,741	\$135,569
Adjustment for Encumbrances	(284,370)	(7,959)
Funds Budgeted Elsewhere	<u>47,838</u>	<u>0</u>
Budget Basis	<u><u>\$963,209</u></u>	<u><u>\$127,610</u></u>

Long-Term Debt

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

Fund Cash Balance

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

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

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

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

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

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

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

Painesville City Local School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Net Cash Assets

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

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

Note 3 - Equity in Pooled Cash and Investments

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

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

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

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

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

- (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.

Painesville City Local School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

- (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, 2012, none of the District's bank balance of \$3,790,625 exposed to custodial risk because it was all FDIC insured.

Painesville City Local School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

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, 2012, the District had the following investments (there were no long-term investments; for financial statement reporting purposes the investments below are considered cash equivalents):

Investment Type	Fair Value	Weighted Average Maturity (Years)
Money Market Funds	\$1,216,545	0.00
STAR Ohio	3,103,268	0.14
Total Fair Value	\$4,319,813	
Portfolio Weighted Average Maturity		0.10

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

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

Concentration of Credit Risk – The District’s investment policy allows investments in Federal Agencies or Instrumentalities. All investments were issued or guaranteed by the federal government. At year end, the District’s allocations of investments (cash equivalents) were as follows: Money Market Accounts (28%) and STAROhio (72%).

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.

Painesville City Local School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 4 - Property Taxes

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

Tangible personal property tax revenue received during calendar year 2012 (other than public utility property tax) represents the collection of 2012 taxes levied against local and interexchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, and furniture and fixtures is no longer levied and collected. The October 2008 tangible personal property tax settlement was the last property tax settlement for general personal property taxes. Tangible personal property taxes received from telephone companies in calendar year 2012 were levied after April 1, 2011, on the value as of December 31, 2011. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. The District receives property taxes from Lake County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2012, are available to finance fiscal year 2013 operations. The amount available for advance can vary based on the date the tax bills are sent.

The assessed values upon which the fiscal year 2012 taxes were collected are:

	<u>Second Half</u> <u>2011 Amount</u>	<u>First Half</u> <u>2012 Amount</u>
Agricultural/Residential and Other Real Estate	\$211,859,520	\$211,508,080
Public Utility Personal	1,561,640	1,621,300
Total	<u>\$213,421,160</u>	<u>\$213,129,380</u>

Painesville City Local School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 5 - Long-Term Debt

	<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	\$17,430,000	\$0	\$8,905,000 *	\$8,525,000	\$500,000
Stadium Project - Refinancing						
2002 1.60-3.55%	6/1/14	145,000	0	125,000	20,000	20,000
Current Interest Bonds -						
School Improvement 2005						
4.87%	12/1/33	10,240,007	0	245,000	9,995,007	255,000
Premium on 2005 School						
Improvement Bonds						
	12/1/33	433,587	0	20,167	413,420	0
Capital Appreciation Bonds -						
School Improvement 2005						
	12/1/15	454,993	0	0	454,993	0
Accreted Interest						
		351,560	88,057	0	439,617	0
2012 Advance Refunding of 2004 OSFC						
Current Interest Bonds - 0.75% - 3.55%						
	12/1/32	0	8,345,000	0	8,345,000	45,000
Capital Appreciation Bonds						
		0	74,986	0	74,986	0
Premium on Refunding						
		0	1,122,969	26,737	1,096,232	0
Notes Payable	6/1/14	119,232	0	37,434	81,798	39,698
Total Long Term Debt		<u>\$29,174,379</u>	<u>\$9,631,012</u>	<u>\$9,359,338</u>	<u>\$29,446,053</u>	<u>\$859,698</u>

*- Bonds were partially refunded during the fiscal year. The refunded amount for the 2004 bonds was \$8,420,000, \$485,000 was the principal payment.

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

Fiscal Year Ending June 30	<u>Current Interest Bonds and Notes Payable</u>			<u>Capital Appreciation Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$859,698	\$1,014,895	\$1,874,593	\$0	\$0	\$0
2014	682,100	868,647	1,550,747	167,621	217,379	385,000
2015	665,000	828,966	1,493,966	151,124	233,876	385,000
2016	685,000	792,465	1,477,465	136,248	248,752	385,000
2017	1,095,000	1,001,486	2,096,486	0	0	0
2018-2022	6,275,000	4,189,055	10,464,055	0	0	0
2023-2027	5,710,000	3,471,541	9,181,541	74,986	1,995,014	2,070,000
2028-2032	9,130,000	1,239,838	10,369,838	0	0	0
2033	1,865,007	35,256	1,900,263	0	0	0
Total	<u>\$26,966,805</u>	<u>\$13,442,149</u>	<u>\$40,408,954</u>	<u>\$529,979</u>	<u>\$2,695,021</u>	<u>\$3,225,000</u>

Painesville City Local School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 6 - Advanced Refunding

On June 14, 2012 the District issued \$8,345,000 in current interest bonds with an average interest rate of 3.18% and \$74,986 in capital appreciation bonds of which \$8,420,000 was used to partially advance refund \$16,945,000 of outstanding Ohio Schools Facilities Commission School Improvement Bonds with average interest rates of 4.87%. The net proceeds of \$9,542,955 (after payment of underwriting fees, insurance and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited into an irrevocable trust with an escrow agent to provide all future debt service payments on the bond issue.

The District partially advance refunded their Ohio Schools Facilities Commission School Improvement Bonds to reduce its total debt service payments by \$1,007,141 and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$748,155.

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

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

School Improvement Bonds

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

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

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

Notes Payable

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

Painesville City Local School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 7 – Leases

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

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

Total rental expense for the year was \$173,159. Future minimum payments for leases with remaining lease terms in excess of one year for the years ended June 30, are as follows:

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

Fiscal Year Ending June 30,	ComDoc
2013	\$173,159
2014	14,430
Total Minimum Lease Payments	<u>\$187,589</u>

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

Copiers	\$707,065
---------	-----------

Lessor

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

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

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

Rental payments received for FY 2012 were \$140,809.

Painesville City Local School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 8 - Pension Plans

School Employees Retirement System of Ohio

Plan Description

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

Funding Policy

Plan members are required to contribute 10% of their annual covered salary and District is required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care fund) of the System. For fiscal year ending June 30, 2012, the allocation to pension and death benefits is 11.81%. The remaining 2.19% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. The District's contributions to SERS for the years ended June 30, 2012, 2011, and 2010 were \$733,104, \$890,352, and \$843,624, respectively; 66% has been contributed for fiscal year 2012 and 100% for fiscal years 2011 and 2010.

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.

Painesville City Local School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Plan Options

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

DB Plan Benefits

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

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.

Painesville City Local School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

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, 2012, were 10% of covered payroll for members and 14% for employers. The District's contributions to STRS for the years ended June 30, 2012, 2011, and 2010 were \$1,965,576, \$2,278,224, and \$2,379,792, respectively; 85% has been contributed for fiscal year 2012 and 100% for fiscal years 2011 and 2010.

Painesville City Local School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 9 - Post Employment Benefits

School Employees Retirement System of Ohio

Plan Description

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

Medicare Part B Plan

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

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2012, the actuarially required allocation was .76%. District contributions for the year ended June 30, 2012, 2011 and 2010 were \$39,797, \$48,333 and \$45,797, respectively, which equaled the required contributions each year.

Health Care Plan

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

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.

Painesville City Local School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

The Health Care Fund was established under, and is administered in accordance with, Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. At June 30, 2012, the health care allocation was 1.43%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2012, the minimum compensation level was established at \$35,800. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The District contributions assigned to health care for the years ended June 30, 2012, 2011, and 2010 were \$74,881, \$90,943, and \$27,719, respectively; 51% has been contributed for fiscal year 2012 and 100% for fiscal years 2011 and 2010.

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

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

State Teachers Retirement System of Ohio

Plan Description

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

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

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

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.

Painesville City Local School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

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, 2012, 2011 and 2010. The 14% employer contribution rate is the maximum rate established under Ohio law. The District contributions for the years ended June 30, 2012, 2011, and 2010 were \$140,398, \$162,730, and \$169,985, respectively; 83% has been contributed for fiscal year 2012 and 100% for fiscal years 2011 and 2010.

Note 10 – Contingent Liabilities

Grants

The Auditor of State is currently performing a statewide review of supporting documentation for student attendance data reported to the Ohio Department of Education. The results of this review are still pending and will be reported separately to the Ohio Department of Education at a later date.

The District received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are 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. This also encompasses the Auditor of State's ongoing review of student attendance data. However, the effect of any such disallowed claims on the overall financial position of the District at June 30, 2012, if applicable, cannot be determined at this time.

Litigation

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

Note 11 – Lake County School Financing District

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

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

Painesville City Local School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

is a fraction, the numerator being Member District's total pupil population and the denominator being the aggregate pupil population of all Member Districts as of that date.

Note 12 – Jointly Governed Organizations

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

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

Ohio Schools Council Association - The Ohio Schools Council Association (the Council) is a jointly governed organization among eighty-two school districts. The jointly governed organization was formed to bring quality products and services at the lowest possible cost to the member districts. The Council's Board consists of seven superintendents of the participating districts whose term rotates every year. The degree of control exercised by any school district is limited to its representation on the Board. 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.

Painesville City Local School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 13 – Claims Servicing Pool

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

Note 14 – Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2012, the District contracted with Ohio Casualty Insurance for property and general liability insurance. There is a \$3,000,000 limit of liability.

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

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

Note 15 – OSBA Insurance Purchasing Pool

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

Painesville City Local School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

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

Note 16 – Fund Balance Reserves for Set-Asides

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

For fiscal year ended June 30, 2012, 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, 2011	\$29,873	\$0	\$105,468
Elimination per House Bill 30	(29,873)	0	0
Current Year Set Aside Requirements	0	459,056	0
Current Year Offsets	0	(20,560,272)	0
Total	<u>\$0</u>	<u>(\$20,101,216)</u>	<u>\$105,468</u>
Set Aside Reserve Balance			
Carried Forward to Future Years	\$0	\$0	\$0
Set Aside Balance as of June 30, 2012	0	0	105,468
Committed Balance as of June 30, 2012	<u>0</u>	<u>0</u>	<u>433,222</u>
Restricted Cash as of June 30, 2012	<u>\$0</u>	<u>\$0</u>	<u>\$538,690</u>

Painesville City Local School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

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

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

Note 17 – Interfund Transactions

Interfund transactions at June 30, 2012, consisted of the following transfers in and transfers out, advances in and advances out:

	Transfers		Advances	
	In	Out	In	Out
General Fund	\$0	\$113,281	\$352,126	\$173,085
Classroom Facilities Maintenance Fund	123,929	0	0	0
Debt Service Fund	44,647	0	0	0
Building	0	236,767	0	0
Classroom Facilities	236,767	0	0	0
Other Governmental Funds	68,634	123,929	173,083	352,124
Total All Funds	<u>\$473,977</u>	<u>\$473,977</u>	<u>\$525,209</u>	<u>\$525,209</u>

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

The transfer from the Building Fund to the Classroom Facilities Fund is to return the money back into the Classroom Facilities Fund that had paid for incidental costs that should have been split between the two funds. These funds are both related to the completion of the OSFC school projects. The transfers out of Other Governmental Funds into the Classroom Facilities Maintenance Fund is to cover the required maintenance fee for the Ohio School Facilities Commission.

Painesville City Local School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 18 – Fund Balances

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

Fund Balances	General	Classroom Facilities Maintenance	Debt Service	Building	Classroom Facilities	Other Governmental Funds	Total
Restricted for:							
Other Grants	\$0	\$0	\$0	\$0	\$0	\$100,611	\$100,611
Special Levy	0	0	0	0	0	280,750	280,750
District Managed							
Student Activity	0	0	0	0	0	44,078	44,078
Auxiliary Services	0	0	0	0	0	26,499	26,499
Management Information							
System	0	0	0	0	0	7,315	7,315
High Schools That Work	0	0	0	0	0	2,050	2,050
Miscellaneous State							
Grants	0	0	0	0	0	5,741	5,741
Adult Basic Education	0	0	0	0	0	3,845	3,845
Race To The Top	0	0	0	0	0	21,014	21,014
Title VI B	0	0	0	0	0	22,033	22,033
Title II D Technology	0	0	0	0	0	328	328
Title III	0	0	0	0	0	12,111	12,111
Title I	0	0	0	0	0	101,802	101,802
Preschool	0	0	0	0	0	274	274
Improving Teacher							
Grants	0	0	0	0	0	4,377	4,377
Public Preschool	0	0	0	0	0	3,419	3,419
Classroom Facilities							
Maintenance	0	1,128,954	0	0	0	0	1,128,954
Debt Service Payments	0	0	873,235	0	0	0	873,235
Capital Improvements	0	0	0	1,704,581	899,612	273,965	2,878,158
Total Restricted	0	1,128,954	873,235	1,704,581	899,612	910,212	5,516,594
Committed to:							
Fund Deficit/Emergency	433,222	0	0	0	0	0	433,222
Total Committed	433,222	0	0	0	0	0	433,222
Assigned to:							
Encumbrances	316,749	0	0	0	0	0	316,749
Total Assigned	316,749	0	0	0	0	0	316,749
Unassigned (Deficit)	1,700,244	0	0	0	0	0	1,700,244
Total Fund Balance	\$2,450,215	\$1,128,954	\$873,235	\$1,704,581	\$899,612	\$910,212	\$7,966,809

Painesville City Local School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 19 – Compliance

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

Ohio Revised Code Section 5705.39 states appropriations should not exceed estimated available resources. Appropriations exceeded estimated available resources in the following funds: General Fund \$188,386.

PAINESVILLE CITY LOCAL SCHOOL DISTRICT



Single Audit Reports

June 30, 2012

PAINESVILLE CITY LOCAL SCHOOL DISTRICT

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2012**

Federal Grant/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE						
Passed Through Ohio Department of Education:						
Nutrition Cluster:						
School Breakfast Program	3L70	10.553	\$318,963	\$0	\$318,963	\$0
National School Lunch Program	3L60	10.555	917,791	17,401	917,791	17,401
Total Nutrition Cluster			<u>1,236,754</u>	<u>17,401</u>	<u>1,236,754</u>	<u>17,401</u>
Total U.S. Department of Agriculture			<u>1,236,754</u>	<u>17,401</u>	<u>1,236,754</u>	<u>17,401</u>
U.S. DEPARTMENT OF EDUCATION						
Passed Through Ohio Department of Education:						
Special Education Cluster:						
Special Education-Grants to States	3M20	84.027	713,228	0	669,814	0
Special Education-Grants to States - ARRA	3DJ0	84.391	0	0	3,426	0
Special Education-Preschool Grants	3C50	84.173	20,821	0	20,549	0
Special Education-Preschool Grants - ARRA	3DL0	84.392	645	0	7,886	0
Total Special Education Cluster			<u>734,694</u>	<u>0</u>	<u>701,675</u>	<u>0</u>
Title I Cluster:						
Title I Grants to Local Educational Agencies	3M00	84.010	1,382,114	0	1,281,609	0
Title I Grants to Local Educational Agencies - ARRA	3DK0	84.389	177,028	0	183,472	0
Total Title I Cluster			<u>1,559,142</u>	<u>0</u>	<u>1,465,081</u>	<u>0</u>
Drug Free Schools	ME12	84.186	60,223	0	61,896	0
Education Technology State Grants	3S20	84.318	0	0	328	0
Improving Teacher Quality	3Y60	84.367	170,224	0	172,853	0
English Language Acquisition Grants	3Y70	84.365	206,671	0	196,450	0
Education Jobs	3ET0	84.410	608,405	0	613,138	0
Race to the Top - ARRA	3FD0	84.395	98,308	0	91,635	0
Passed through the University System of Ohio Board of Regents:						
ABLE Grant (Adult Education)	ABLE	84.002	141,267	0	162,688	0
Total Department of Education			<u>3,578,934</u>	<u>0</u>	<u>3,465,744</u>	<u>0</u>
Total Federal Assistance			<u>\$4,815,688</u>	<u>\$17,401</u>	<u>\$4,702,498</u>	<u>\$17,401</u>

NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES

NOTE A -- SIGNIFICANT ACCOUNTING POLICIES

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

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Painesville City Local School District (the District), as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated September 14, 2012, wherein we noted the District presented financial statements on the cash basis of accounting rather than in accordance with accounting principles generally accepted in the United States of America, as disclosed in Note 2. 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

Management of the District is responsible for establishing and maintaining effective 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as Finding 2012-1 to be 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 are required to be reported under *Government Auditing Standards* and is described in the accompanying schedule of findings and questioned costs as item 2012-2.

We noted certain matters that we reported to management of the District in a separate letter dated September 14, 2012.

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

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

Plattensburg & Associates, Inc.

Plattensburg & Associates, Inc.
September 14, 2012

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

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

Compliance

We have audited the Painesville City Local School District's (the District) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2012. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the District as of and for the year ended June 30, 2012, and have issued our report thereon dated September 14, 2012, which contained unqualified opinions on those financial statements wherein we noted the District presented financial statements on the cash basis of accounting rather than in accordance with accounting principles generally accepted in the United States of America, as disclosed in Note 2. Our audit was performed for the purpose of forming opinions on the financial statements as a whole. The schedule of expenditures of federal awards provides additional information as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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

Plattenburg & Associates, Inc.

Plattenburg & Associates, Inc.
September 14, 2012

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012**

Section I – Summary of Auditor’s Results

<i>(d)(1)(i) Type of Financial Statement Opinion</i>	Unqualified
<i>(d)(1)(ii) Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</i>	Yes
<i>(d)(1)(ii) Were there any other significant control deficiencies reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(iii) Was there any material reported non-compliance at the financial statement level (GAGAS)?</i>	Yes
<i>(d)(1)(iv) Were there any material internal control weakness conditions reported for major federal programs?</i>	No
<i>(d)(1)(iv) Were there any other significant control deficiencies reported for major federal programs?</i>	No
<i>(d)(1)(v) Type of Major Programs' Compliance Opinion</i>	Unqualified
<i>(d)(1)(vi) Are there any reportable findings under Section .510?</i>	No
<i>(d)(1)(vii) Major Programs (list):</i>	Special Education Cluster: Grants to States - CFDA# 84.027 Grants to States - ARRA - CFDA#84.391 Preschool Grants - CFDA# 84.173 Preschool Grants - ARRA - CFDA# 84.392 Education Jobs CFDA# 84.410
<i>(d)(1)(viii) Dollar Threshold: Type A/B Programs</i>	Type A: > \$300,000 Type B: all others
<i>(d)(1)(ix) Low Risk Auditee?</i>	Yes

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

Finding 2012-1 – Material Weaknesses – Internal Controls Relating to Food Service

During the course of our audit we identified material weaknesses in Internal Control relating to the Food Service Department. The material weaknesses identified were the result of improper operations related to:

1. Food Purchases and Purchasing Card Usage – The District lacked appropriate supervisory and approval of purchases made at GFS Marketplace Store and when using purchasing cards.
2. A la Carte Sales – A la Carte Sales at Harvey High School and Heritage Middle School are not put in the register at the time of sale. Also, money is not always counted at each location before it is sent over to the administration building.

The effect of the above issues is the existence of a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis.

Recommendation:

The District should limit the number of individuals authorized to make purchases at GFS Marketplace Store and for all such purchases to include proper supervisory review and approval, including a description and purpose for the purchase.

All a la carte sales should be performed using a point of sale system. An accounting policy that involves procedures and internal controls should be placed in operation. The District can contact other School Districts, Treasurers, ASBO and the Auditor of State as resources.

Officials' Response:

The District will implement proper supervisory and approval procedures on all activity related to food service purchases.

The District will implement internal control procedures relating to food service and a la carte sales. Beginning with the fiscal year 2012-2013 school year, the District will begin using Nutrikids computer system to make procedures more automated and more efficient.

Finding 2012 – 2 – Noncompliance – GAAP Reporting

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

Ohio Administrative Code Section 117-2-03(B) requires the District to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP). For fiscal year 2012, the District prepared financial statements that, although formatted similar to financial statements prescribed by Governmental Accounting Standards Board Statement No. 34, report on the basis of cash receipts and cash disbursements, rather than GAAP. The accompanying financial statements and notes omit certain assets, liabilities, fund equities, and disclosures, that while material, cannot be determined at this time. Pursuant to Ohio Rev. Code Section 117.38 the District may be fined and subject to various other administrative remedies for its failure to file the required financial report. Failure to report on a GAAP basis compromises the District's ability to evaluate and monitor the overall financial condition of the District.

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

Officials' Response:

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

Section III – Federal Award Findings and Questioned Costs

None

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT
JUNE 30, 2012**

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

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Finding Corrected</u>	<u>Explanation</u>
2011-1	Ohio Code Section 117-2-03(B) requires the District to prepare its annual financial report in accordance with GAAP.	No	The District did not do a GAAP Conversion at year end. The District prepared GASB #34 Look-Alike Statements.



Dave Yost • Auditor of State

PAINESVILLE 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 15, 2013**