

LORAIN CITY SCHOOL DISTRICT
PRIMARY GOVERNMENT FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 1999

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YEAR ENDED JUNE 30, 1999

LORAIN CITY SCHOOL DISTRICT

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STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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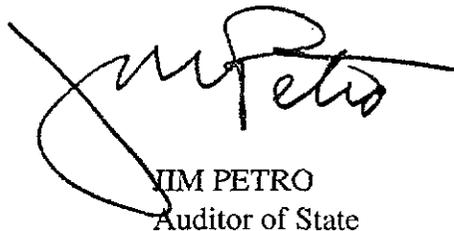
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Board of Education
Lorain City School District
Lorain, Ohio 44052

We have reviewed the Independent Auditor's Report of the Lorain City School District, Lorain County, prepared by Costin + Company, for the audit period July 1, 1998 through June 30, 1999. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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



JIM PETRO
Auditor of State

January 20, 2000



COSTIN + COMPANY

Certified Public Accountants

35945 Center Ridge Road

North Ridgeville, OH 44039

INDEPENDENT AUDITOR'S REPORT

Board of Education
Lorain City School District

We have audited the accompanying primary government financial statements of the Lorain City School District, as of and for the year ended June 30, 1999 as listed in the table of contents. These primary government financial statements are the responsibility of the Lorain City School District's management. Our responsibility is to express an opinion on these primary government financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and standards applicable to financial audits contained in "Government Auditing Standards," issued by the Comptroller General of the United States and the U.S. Office of Management and Budget (OMB) Circular A-133, "Audits of State and 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 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 opinion.

A primary government is a legal entity or body politic and includes all funds, organizations, institutions, agencies, departments, and offices that are not legally separate. Such legally separate entities are referred to as component units. In our opinion, the primary government financial statements present fairly, in all material respects, the financial position of the primary government of Lorain City School District, as of June 30, 1999, and the results of its operations and cash flows of its proprietary fund types for the year then ended in conformity with generally accepted accounting principles.

However, the primary government financial statements, because they do not include the financial data of the component unit of Lorain City School District, do not purport to, and do not, present the financial position of the Lorain City School District as of June 30, 1999, and the results of operations and cash flows of its proprietary fund types for the year then ended in conformity with generally accepted accounting principles.

In accordance with "Government Auditing Standards", we have also issued our report dated December 27, 1999 on our consideration of the Lorain City School District's internal control over financial reporting and our test of compliance with certain provisions of laws, regulations, contracts, and grants.

Our audit was performed for the purpose of forming an opinion on the primary government financial statements of the Lorain City School District, taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the 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 primary government financial statements. Such information has been subjected to auditing procedures applied in the audit of the primary government financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the primary government financial statements taken as a whole.

North Ridgeville, Ohio
December 27, 1999

LORAIN CITY SCHOOL DISTRICT
 COMBINED BALANCE SHEET
 ALL FUND TYPES AND ACCOUNT GROUPS
 JUNE 30, 1999

	Governmental Fund Types			Proprietary
	General	Special Revenue	Capital Projects	Enterprise
Assets and other debits				
Pooled cash and equivalents	\$ 10,299,525	\$ 2,344,485	\$ 435,785	\$ 358,875
Receivables,				
Taxes, current	24,105,663	-	-	-
Taxes, delinquent	559,020	-	-	-
Accounts and other	18,825	62,072	-	11,499
Due from other governments	-	514,602	-	366,147
Interfund receivable	1,573,272	6,000	-	-
Inventories and supplies	-	-	-	40,946
Contract receivable	100,000	-	-	-
Restricted cash	220,833	-	-	-
Fixed assets	-	-	-	904,268
Accumulated depreciation	-	-	-	(653,948)
Amount to be provided for debt service	-	-	-	-
Amount to be provided for benefits	-	-	-	-
Amount to be provided for capital leases	-	-	-	-
Total assets and other debits	\$ 36,877,138	\$ 2,927,159	\$ 435,785	\$ 1,027,787

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

LORAIN CITY SCHOOL DISTRICT
 COMBINED BALANCE SHEET
 ALL FUND TYPES AND ACCOUNT GROUPS
 JUNE 30, 1999

	Governmental Fund Types			Proprietary
	General	Special Revenue	Capital Projects	Enterprise
Liabilities, fund equity and other credits				
Liabilities				
Accounts and contracts payable	\$ 351,639	\$ 83,771	\$ 11,569	\$ 169,909
Accrued salaries and benefits	4,353,665	341,057	-	5,540
Undistributed monies	-	-	-	-
Due to students	-	-	-	-
Due to other governments	1,183,794	-	-	141,147
Interfund payable	-	158,620	931,000	355,949
Due to others	-	-	-	-
Deferred revenue	21,677,693	-	-	21,149
Notes payable	7,183,681	-	-	-
Bonds payable	-	-	-	-
Capital leases	-	-	-	-
Accrued leave benefits	137,180	8,710	-	1,096
Total liabilities	34,887,652	592,158	942,569	694,790
Fund equity and other credits				
Investment in general fixed assets	-	-	-	-
Retained earnings	-	-	-	-
Unreserved	-	-	-	332,997
Fund balances	-	-	-	-
Reserved for property taxes	3,086,990	-	-	-
Reserved for budget stabilization	220,833	-	-	-
Reserved for encumbrances	1,271,694	389,449	20,754	-
Unreserved	(2,590,031)	1,945,552	(527,538)	-
Total fund equity and other credits	1,989,486	2,335,001	(506,784)	332,997
Total liabilities, fund equity and other credits	\$ 36,877,138	\$ 2,927,159	\$ 435,785	\$ 1,027,787

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

Fund Types		Fiduciary Fund Types	Account Groups		Totals
Internal Service	Trust and Agency	General Fixed Assets	General Long-term Debt	(Memorandum Only)	
\$ 981,473	\$ 58,508	\$ -	\$ -	\$ 14,478,651	
-	-	-	-	24,105,663	
-	-	-	-	559,020	
-	-	-	-	92,396	
21,143	-	-	-	901,892	
-	-	-	-	1,579,272	
-	-	-	-	40,946	
-	-	-	-	100,000	
-	2,019,554	-	-	2,240,387	
-	-	54,446,859	-	55,351,127	
-	-	-	-	(653,948)	
-	-	-	2,329,969	2,329,969	
-	-	-	8,075,987	8,075,987	
-	-	-	43,621	43,621	
\$ 1,002,616	\$ 2,078,062	\$ 54,446,859	\$ 10,449,577	\$ 109,244,983	

LORAIN CITY SCHOOL DISTRICT
 COMBINED STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES
 FOR THE YEAR ENDED JUNE 30, 1999

	General	Special Revenue	Debt Service	Capital Projects
Revenues				
Taxes	\$ 23,372,058	\$ -	\$ -	\$ -
Tuition and fees	79,689	-	-	-
Interest	1,062,719	7,906	-	-
Intergovernmental	40,503,211	11,774,306	-	76,181
Extracurricular	-	419,958	-	-
Miscellaneous	313,480	379,265	-	-
Total revenues	<u>65,331,157</u>	<u>12,581,435</u>	<u>-</u>	<u>76,181</u>
Expenditures				
Current				
Instruction				
Regular	30,106,079	2,618,716	-	115,963
Special	6,327,634	3,733,802	-	1,020,454
Vocational education	4,295,994	352,639	-	7,596
Adult continuing	-	244,023	-	-
Other	374,352	-	-	-
Supporting services				
Pupil	2,029,467	292,355	-	-
Instructional	3,271,459	1,296,270	-	-
Board of education	266,159	-	-	-
Administration	4,898,026	484,251	-	-
Fiscal	934,667	4,308	-	-
Business	544,610	75,381	-	-
Operation and maintenance	6,465,595	59,857	-	40,714
Pupil transportation	1,616,619	2,612	-	-
Central services	271,095	1,006,755	-	-
Operation of non-instructional services				
Food service operations	-	4,276	-	-
Community services	-	1,564,687	-	-
Extracurricular				
Academic oriented	341,223	41,560	-	-
Occupation oriented	-	1,391	-	-
Sports oriented	561,057	209,780	-	-
Co-curricular	-	45,406	-	-
Capital outlay	-	39,058	-	-
Debt service				
Principal	33,854	-	607,023	-
Interest	539,692	-	151,827	-
Total expenditures	<u>62,877,582</u>	<u>12,077,127</u>	<u>758,850</u>	<u>1,184,727</u>
Excess (deficiency) of revenues over expenditures	<u>2,453,575</u>	<u>504,308</u>	<u>(758,850)</u>	<u>(1,108,546)</u>
Other financing sources (uses)				
Gain on sale of assets	9,842	-	-	-
Other sources	195,938	-	-	-
Operating transfers-in	147,854	830,926	758,850	42,365
Operating transfers-out	(1,166,208)	(612,286)	-	-
Total other financing sources (uses)	<u>(812,574)</u>	<u>218,640</u>	<u>758,850</u>	<u>42,365</u>
Excess (deficiency) of revenues over expenditures and other sources (uses)	<u>1,641,001</u>	<u>722,948</u>	<u>-</u>	<u>(1,066,181)</u>
Fund balances, beginning of year	348,485	1,612,053	-	559,397
Fund balances, end of year	<u>\$ 1,989,486</u>	<u>\$ 2,335,001</u>	<u>\$ -</u>	<u>\$ (506,784)</u>

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

Fund Types	Fiduciary	Account Groups			Totals (Memorandum Only)
	Fund Types	General	General Long-		
Internal Service	Trust and Agency	Fixed Assets	term Debt		
\$ 1,460	\$ 929	\$ -	\$ -	\$ -	\$ 619,277
8,250	-	-	-	-	4,708,512
-	24,374	-	-	-	24,374
-	33,198	-	-	-	33,198
121,393	-	-	518,944	-	1,965,278
133,696	7	-	-	-	1,579,272
-	2,019,554	-	-	-	2,019,554
-	-	-	-	-	21,698,842
-	-	-	-	-	7,183,681
-	-	-	2,329,969	-	2,329,969
-	-	-	43,621	-	43,621
-	-	-	7,557,043	-	7,704,029
264,799	2,078,062	-	10,449,577	-	49,909,607
-	-	54,446,859	-	-	54,446,859
737,817	-	-	-	-	1,070,814
-	-	-	-	-	3,086,990
-	-	-	-	-	220,833
-	-	-	-	-	1,681,897
-	-	-	-	-	(1,172,017)
737,817	-	54,446,859	-	-	59,335,376
\$ 1,002,616	\$ 2,078,062	\$ 54,446,859	\$ 10,449,577	\$ -	\$ 109,244,983

LORAIN CITY SCHOOL DISTRICT
 COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
 BUDGET AND ACTUAL (NON-GAAP BASIS) - ALL GOVERNMENTAL FUND TYPES
 FOR THE YEAR ENDED JUNE 30, 1999
 General

	Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Taxes	\$ 23,619,947	\$ 24,024,664	\$ 404,717
Tuition and fees	157,000	134,420	(22,580)
Interest	1,150,000	1,062,719	(87,281)
Intergovernmental	37,718,615	40,503,211	2,784,596
Extracurricular	-	-	-
Miscellaneous	243,000	362,095	119,095
Total revenues	62,888,562	66,087,109	3,198,547
Expenditures			
Current			
Instruction			
Regular	30,063,223	29,950,017	113,206
Special	6,498,586	6,322,136	176,450
Vocational education	4,519,181	4,364,540	154,641
Adult continuing	-	-	-
Other	830,518	484,208	346,310
Supporting services			
Pupil	2,005,016	1,988,279	16,737
Instructional	3,599,493	3,430,778	168,715
Board of education	384,715	299,390	85,325
Administration	5,416,138	5,379,792	36,346
Fiscal	1,144,679	986,579	158,100
Business	563,960	556,995	6,965
Operation and maintenance	7,130,867	6,833,720	297,147
Pupil transportation	1,685,145	1,683,285	1,860
Central services	352,483	295,408	57,075
Operation of non-instructional services			
Food service operations	-	-	-
Community services	-	-	-
Extracurricular			
Academic oriented	355,971	355,072	899
Occupation oriented	-	-	-
Sports oriented	603,984	565,952	38,032
Co-curricular	-	-	-
Capital outlay	-	-	-
Debt service			
Principal	768,706	768,706	-
Interest	532,315	532,315	-
Total expenditures	66,454,980	64,797,172	1,657,808
Excess (deficiency) of revenues over expenditures	(3,566,418)	1,289,937	4,856,355
Other financing sources (uses)			
Note proceeds	3,126,779	-	(3,126,779)
Other sources	-	197,432	197,432
Operating transfers-in	30,000	147,855	117,855
Advances in	-	300,834	300,834
Refund of prior year expenditures	1,000	12,983	11,983
Advances out	(1,285,863)	(447,285)	838,578
Refund of prior year receipts	-	-	-
Operating transfers-out	(1,352,992)	(1,172,144)	180,848
Total other financing sources (uses)	518,924	(960,325)	(1,479,249)
Excess (deficiency) of revenues over expenditures and other sources (uses)	(3,047,494)	329,612	3,377,106
Prior year encumbrances	1,466,648	1,466,648	-
Fund balances, beginning of year	7,100,765	7,100,765	-
Fund balances, end of year	\$ 5,519,919	\$ 8,897,025	\$ 3,377,106

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

Totals
(Memorandum Only)

\$ 23,372,058
79,689
1,070,625
52,353,698
419,958
692,745

77,988,773

32,840,758
11,081,890
4,656,229
244,023
374,352

2,321,822
4,567,729
266,159
5,382,277
938,975
619,991
6,566,166
1,619,231
1,277,850

4,276
1,564,687

382,783
1,391
770,837
45,406
39,058

640,877
691,519

76,898,286

1,090,487

9,842
195,938
1,779,995
(1,778,494)

207,281

1,297,768

2,519,935

\$ 3,817,703

LORAIN CITY SCHOOL DISTRICT
 COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
 BUDGET AND ACTUAL (NON-GAAP BASIS) - ALL GOVERNMENTAL FUND TYPES
 FOR THE YEAR ENDED JUNE 30, 1999
 Capital Projects

	Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Taxes	\$ -	\$ -	\$ -
Tuition and fees	-	-	-
Interest	-	-	-
Intergovernmental	84,341	84,341	-
Extracurricular	-	-	-
Miscellaneous	-	-	-
Total revenues	84,341	84,341	-
Expenditures			
Current			
Instruction			
Regular	1,487,190	1,142,141	345,049
Special	-	-	-
Vocational education	40,549	11,642	28,907
Adult continuing	-	-	-
Other	-	-	-
Supporting services			
Pupil	-	-	-
Instructional	-	-	-
Board of education	-	-	-
Administration	-	-	-
Fiscal	-	-	-
Business	-	-	-
Operation and maintenance	65,525	65,525	-
Pupil transportation	-	-	-
Central services	-	-	-
Operation of non-instructional services			
Food service operations	-	-	-
Community services	-	-	-
Extracurricular activities			
Academic oriented	-	-	-
Occupation oriented	-	-	-
Sports oriented	-	-	-
Co-curricular	-	-	-
Capital outlay	-	-	-
Debt service			
Principal	-	-	-
Interest	-	-	-
Total expenditures	1,593,264	1,219,308	373,956
Excess (deficiency) of revenues over expenditures	(1,508,923)	(1,134,967)	373,956
Other financing sources (uses)			
Note proceeds	-	-	-
Other sources	-	-	-
Operating transfers-in	42,365	42,365	-
Advances in	15,000	15,000	-
Refund of prior year expenditures	-	-	-
Advances out	-	-	-
Refund of prior year receipts	-	-	-
Operating transfers-out	(29,506)	-	29,506
Total other financing sources (uses)	27,859	57,365	29,506
Excess (deficiency) of revenues over expenditures and other sources (uses)	(1,481,064)	(1,077,602)	403,462
Prior year encumbrances	46,818	46,818	-
Fund balances, beginning of year	1,434,246	1,434,246	-
Fund balances, end of year	\$ -	\$ 403,462	\$ 403,462

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

Special Revenue			Debt Service		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
7,906	7,906	-	-	-	-
11,281,691	11,283,517	1,826	-	-	-
469,217	419,397	(49,820)	-	-	-
433,845	346,118	(87,727)	-	-	-
12,192,659	12,056,938	(135,721)	-	-	-
2,885,891	2,798,238	87,653	-	-	-
4,051,124	3,753,627	297,497	-	-	-
442,729	431,343	11,386	-	-	-
284,823	246,356	38,467	-	-	-
-	-	-	-	-	-
343,227	317,441	25,786	-	-	-
1,558,168	1,337,197	220,971	-	-	-
-	-	-	-	-	-
736,022	488,443	247,579	-	-	-
5,742	4,308	1,434	-	-	-
75,754	75,481	273	-	-	-
80,710	64,587	16,123	-	-	-
6,912	2,798	4,114	-	-	-
1,046,383	1,035,871	10,512	-	-	-
5,076	4,276	800	-	-	-
1,704,641	1,699,924	4,717	-	-	-
86,885	41,779	45,106	-	-	-
1,824	1,391	433	-	-	-
249,591	214,047	35,544	-	-	-
54,907	47,109	7,798	-	-	-
70,278	39,058	31,220	-	-	-
-	-	-	607,023	607,023	-
-	-	-	151,827	151,827	-
13,690,687	12,603,274	1,087,413	758,850	758,850	-
(1,498,028)	(546,336)	951,692	(758,850)	(758,850)	-
-	-	-	-	-	-
-	-	-	-	-	-
677,751	830,926	153,175	758,850	758,850	-
286,899	302,534	15,635	-	-	-
505	417	(88)	-	-	-
(300,835)	(300,835)	-	-	-	-
(512,756)	(23,018)	489,738	-	-	-
(616,935)	(612,286)	4,649	-	-	-
(465,371)	197,738	663,109	758,850	758,850	-
(1,963,399)	(348,598)	1,614,801	-	-	-
494,631	494,631	-	-	-	-
1,725,229	1,725,229	-	-	-	-
\$ 256,461	\$ 1,871,262	\$ 1,614,801	\$ -	\$ -	\$ -

Totals
(Memorandum Only)

Budget	Actual	Variance Favorable (Unfavorable)
\$ 23,619,947	\$ 24,024,664	\$ 404,717
157,000	134,420	(22,580)
1,157,906	1,070,625	(87,281)
49,084,647	51,871,069	2,786,422
469,217	419,397	(49,820)
676,845	708,213	31,368
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75,165,562	78,228,388	3,062,826
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34,436,304	33,890,396	545,908
10,549,710	10,075,763	473,947
5,002,459	4,807,525	194,934
284,823	246,356	38,467
830,518	484,208	346,310
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2,348,243	2,305,720	42,523
5,157,661	4,767,975	389,686
384,715	299,390	85,325
6,152,160	5,868,235	283,925
1,150,421	990,887	159,534
639,714	632,476	7,238
7,277,102	6,963,832	313,270
1,692,057	1,686,083	5,974
1,398,866	1,331,279	67,587
<hr/>	<hr/>	<hr/>
5,076	4,276	800
1,704,641	1,699,924	4,717
<hr/>	<hr/>	<hr/>
442,856	396,851	46,005
1,824	1,391	433
853,575	779,999	73,576
54,907	47,109	7,798
70,278	39,058	31,220
<hr/>	<hr/>	<hr/>
1,375,729	1,375,729	-
684,142	684,142	-
<hr/>	<hr/>	<hr/>
82,497,781	79,378,604	3,119,177
<hr/>	<hr/>	<hr/>
(7,332,219)	(1,150,216)	6,182,003
<hr/>	<hr/>	<hr/>
3,126,779	-	(3,126,779)
-	197,432	197,432
1,508,966	1,779,996	271,030
301,899	618,368	316,469
1,505	13,400	11,895
(1,586,698)	(748,120)	838,578
(512,756)	(23,018)	489,738
(1,999,433)	(1,784,430)	215,003
<hr/>	<hr/>	<hr/>
840,262	53,628	(789,634)
<hr/>	<hr/>	<hr/>
(6,491,957)	(1,096,588)	5,395,369
2,008,097	2,008,097	-
10,260,240	10,260,240	-
<hr/>	<hr/>	<hr/>
\$ 5,776,380	\$ 11,171,749	\$ 5,395,369

LORAIN CITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS -
ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 1999

	Enterprise	Internal Service	Totals (Memorandum Only)
Operating revenues			
Tuition and fees	\$ 32,513	\$ -	\$ 32,513
Extracurricular	19,431	-	19,431
Miscellaneous	72,150	197,803	269,953
Charges for services	1,024,490	-	1,024,490
Total operating revenues	<u>1,148,584</u>	<u>197,803</u>	<u>1,346,387</u>
Operating expenses			
Salaries and wages	101,184	195,716	296,900
Fringe benefits	13,635	522,576	536,211
Contractual services	3,150,981	14,574	3,165,555
Materials and supplies	220,803	1,061	221,864
Depreciation	39,790	-	39,790
Total operating expenses	<u>3,526,393</u>	<u>733,927</u>	<u>4,260,320</u>
Operating (loss)	<u>(2,377,809)</u>	<u>(536,124)</u>	<u>(2,913,933)</u>
Nonoperating revenues			
Interest	3,254	-	3,254
Intergovernmental	2,480,252	128,712	2,608,964
Total nonoperating revenues	<u>2,483,506</u>	<u>128,712</u>	<u>2,612,218</u>
Income (loss) before operating transfers	<u>105,697</u>	<u>(407,412)</u>	<u>(301,715)</u>
Operating transfers			
Operating transfers-in	571	144,132	144,703
Operating transfers-out	(146,204)	-	(146,204)
Total operating transfers	<u>(145,633)</u>	<u>144,132</u>	<u>(1,501)</u>
Net (loss)	<u>(39,936)</u>	<u>(263,280)</u>	<u>(303,216)</u>
Retained earnings, beginning of year	372,933	1,001,097	1,374,030
Retained earnings, at end of year	<u>\$ 332,997</u>	<u>\$ 737,817</u>	<u>\$ 1,070,814</u>

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

LORAIN CITY SCHOOL DISTRICT
 COMBINED STATEMENT OF CASH FLOWS -
 ALL PROPRIETARY FUND TYPES
 FOR THE YEAR ENDED JUNE 30, 1999

	Enterprise	Internal Service	Totals (Memorandum Only)
Cash flows from operating activities:			
Operating (loss)	\$ (2,377,809)	\$ (536,124)	\$ (2,913,933)
Adjustments to reconcile operating (loss) to net cash provided by operating activities:			
Donated commodities, used	152,071	-	152,071
Depreciation	39,790	-	39,790
Changes in net assets (increase) decrease and liabilities increase (decrease)			
Receivables, accounts and other	(10,218)	-	(10,218)
Due from other governments	(271,414)	(871)	(272,285)
Inventories and supplies	14,755	-	14,755
Accounts and contracts payable	14,609	-	14,609
Accrued salaries and benefits	2,539	1,460	3,999
Due to other governments	291	(15,659)	(15,368)
Interfund payable	129,745	(80,401)	49,344
Deferred revenue	(4,109)	-	(4,109)
Accrued leave benefits	564	-	564
Total adjustments	68,623	(95,471)	(26,848)
Net cash (used in) operating activities	(2,309,186)	(631,595)	(2,940,781)
Cash flows from non-capital financing activities:			
Intergovernmental revenue	2,328,181	128,712	2,456,893
Operating transfers-in	571	144,132	144,703
Operating transfers-out	(146,204)	-	(146,204)
Net cash provided by non-capital financing activities	2,182,548	272,844	2,455,392
Cash flows from capital and related financing activities:			
Acquisition of fixed assets	(102,405)	-	(102,405)
Net cash (used in) capital and related financing activities	(102,405)	-	(102,405)
Cash flows provided by investing activities:			
Interest income	3,254	-	3,254
Net cash provided by investing activities	3,254	-	3,254
Net decrease in cash and cash equivalents	(225,789)	(358,751)	(584,540)
Equity in pooled cash and equivalents, beginning of year	584,664	1,340,224	1,924,888
Equity in pooled cash and equivalents, end of year	\$ 358,875	\$ 981,473	\$ 1,340,348

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

LORAIN CITY SCHOOL DISTRICT
NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS
JUNE 30, 1999

NOTE 1 NATURE OF BASIC OPERATIONS AND DESCRIPTION OF THE ENTITY

The Lorain City School District (the District) was 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 city school district as defined by Section 3311.02 of the Ohio Revised Code. The District operates under an elected Board of Education, consisting of five members, and is responsible for providing public education to residents of the District. Average daily membership on, or as of, October 1, 1998 was 10,308. The District employs 799 certificated and 311 non-certificated employees.

The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For Lorain City School District, this includes general operations, food service and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organizations' governing board and 1) the District is able to significantly influence the programs or services performed or provided by the organization; or 2) the District is legally entitled to or can otherwise access the organizations' resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of or provided financial support to the organization; or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes.

Blended component units, although legally separate entities, are, in substance, part of the District's operations and so data from these units are combined with data of the District. The District's blended component unit is described below:

Jointly Administered Trust Fund for the Benefit of Lorain City School District Employees (the Trust) - Although the Trust is legally separate from the District, it should be reported as if it were part of the primary government because its sole purpose is to provide benefits for hospitalization, medical, dental, vision and prescription drugs as provided for in the collective bargaining agreement. The District's participation is disclosed in Note 14 to the financial statements.

The Trust is subject to an annual audit. Financial information for the Trust's year ended December 31, 1998 is not presented in these financial statements. Thus, these financial statements of the District do not include financial information of the component unit necessary for reporting in conformity with generally accepted accounting principles.

LORAIN CITY SCHOOL DISTRICT
NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS
JUNE 30, 1999

NOTE 1 NATURE OF BASIC OPERATIONS AND DESCRIPTION OF THE ENTITY (continued)

The following entities which perform activities within the District's boundaries for the benefit of its residents are excluded from the accompanying financial statements because the District is not financially accountable for these entities nor are they fiscally dependent on the District.

Lake Erie Educational Computer Association - The Lorain City School District participates in the Lake Erie Educational Computer Association (LEECA). LEECA provides data services needed by the participating school districts. This is a jointly governed organization. The District's participation is disclosed in Note 18 to the financial statements.

Lake Erie Regional Council - The Lake Erie Regional Council (LERC) promotes cooperative agreements to its members in dealing with problems of mutual concern. This is a jointly governed organization. The District's participation is disclosed in Note 18 to the financial statements.

Lorain Public Library - The library is a distinct political subdivision of the State of Ohio governed by a board of trustees. Although the Board of Education appoints new members to the board of trustees, the appointment is based upon the recommendation of the board of trustees. The board of trustees possesses its own contracting and budgeting authority, hires and fires personnel, and does not depend on the District for operational subsidies. The District does serve as the taxing authority for the library, but is not considered part of the District and its operations are not included within the accompanying financial statements.

Management believes the financial statements included in this report represent all of the funds of the District over which the District has the ability to exercise direct operating control.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND BASIS OF PRESENTATION

The accounts of the Lorain City School District are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds. The Lorain City School District has the following fund types and account groups:

LORAIN CITY SCHOOL DISTRICT
NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS
JUNE 30, 1999

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND BASIS OF PRESENTATION (continued)

Governmental Fund Types

Governmental fund types are used to account for the District's general government activities. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay obligations of the current period, which is considered to be sixty days. Generally property taxes, although measurable, are not available soon enough after the current period to finance current period obligations, and accordingly, property taxes receivable are reflected as deferred revenue until available. Reimbursements due for federally funded programs are recognized when the corresponding expenditures are made.

Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, since the measurement focus of governmental funds is on decreases in financial resources. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service funds for payments to be made early in the following year. Compensated absences are reported as a fund liability when payment will require the use of current available financial resources. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds. Governmental funds include the following fund types:

General Fund - used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - used to account for the proceeds of specific revenue sources, other than expendable trusts or major capital projects, that are legally restricted to expenditure for specified purposes.

Debt Service Fund - used to account for the accumulation of resources for the payment of interest and principal on long-term general obligation debt other than those payable from Enterprise Funds.

Capital Projects Funds - used to account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by proprietary or trust funds.

LORAIN CITY SCHOOL DISTRICT
NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS
JUNE 30, 1999

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND BASIS OF PRESENTATION (continued)

Proprietary Fund Types

Proprietary fund types are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred. Allocations of costs, such as depreciation, are recognized in the proprietary funds. As permitted, the board of education has elected to apply only applicable FASB Statements and Interpretations issued before November 30, 1989 in its accounting and reporting practices for its proprietary operations. Proprietary funds include the following fund types:

Enterprise Funds - used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs, including depreciation where applicable, of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Internal Service Fund - used to account for the financing of goods or services provided by one department or agency to governmental units, on a cost-reimbursement basis.

Fiduciary Fund Types

Fiduciary fund types account for assets held by the government in a trustee capacity or as an agent on behalf of others. Fiduciary fund types are as follows:

Expendable Trust Fund - accounted for in essentially the same manner as the governmental fund types, using the same measurement focus and basis of accounting.

Agency Funds - custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. These funds are used to account for assets that the government holds for others in an agency capacity.

LORAIN CITY SCHOOL DISTRICT
NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS
JUNE 30, 1999

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND BASIS OF PRESENTATION (continued)

Account Groups

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

General Fixed Assets Account Group - used to account for fixed assets acquired principally for general purposes other than those accounted for in proprietary or trust funds.

General Long-term Debt Account Group - used to account for the outstanding principal balances of general obligation bonds and other long-term debt not reported in proprietary funds.

B. DEPOSITS AND INVESTMENTS

For purposes of the statement of cash flows, the District considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. The District pools its cash for investment and administration purposes. Deposit and investment procedures are restricted by the provisions of the Ohio Revised Code. Purchased investments and other cash equivalents are neither charged when purchased nor credited at the time of redemption to their respective fund balances.

Except for investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase, investments are reported at fair value which is based on quoted market prices. Investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase are reported at cost or amortized cost.

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) during fiscal year 1999. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio 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 STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 1999.

LORAIN CITY SCHOOL DISTRICT
NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS
JUNE 30, 1999

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. RESTRICTED CASH

Restricted cash in the general fund represents cash and cash equivalents set aside to establish a budget stabilization reserve. This reserve is required by State statute and can be used only after receiving approval from the State. A fund balance reserve has also been established.

Restricted cash in the trust and agency funds consists of deposits and investments held on behalf of the Jointly Administered Trust Fund for the Benefit of Lorain City School District Employees.

D. RECEIVABLES

Receivables are reflected at their gross value reduced by the estimated amount that is expected to be uncollectible.

E. INVENTORIES AND SUPPLIES

The costs of inventory items are recognized as expenditures when purchased in the governmental funds and recognized as expenses when used in the enterprise funds. Inventories are valued at cost using the first-in, first-out method.

F. FIXED ASSETS AND DEPRECIATION

Fixed assets used in governmental fund types of the District are reported in the general fixed assets account group. Purchased or constructed fixed assets are recorded at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of donation. Assets in the general fixed assets account group are not depreciated. Interest incurred during construction is not capitalized on general fixed assets. The District does not possess any infrastructure.

Fixed assets which are used in proprietary fund type activities are capitalized in the respective funds. Fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at estimated fair market value when received. Depreciation is computed for proprietary fund fixed assets using the straight-line method based on estimated useful lives of the assets.

G. LONG-TERM LIABILITIES

Unmatured general long-term liabilities, which are related to governmental fund type operations, are reflected in the general long-term debt account group.

LORAIN CITY SCHOOL DISTRICT
NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS
JUNE 30, 1999

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. ACCRUED LEAVE BENEFITS

Compensated absences are absences for which employees will be paid, such as vacation, severance, and sick leave. A liability for compensated absences that are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the government and its employees is accrued as employees earn the rights to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the government and its employees are accounted for in the period in which such services are rendered or such events take place.

In governmental and similar trust funds, compensated absences that are expected to be liquidated with expendable available financial resources are reported as an expenditure and fund liability in the fund that will pay for them. The remainder of the compensated absences liability is reported in the General Long-term Debt Account Group.

In the proprietary funds, compensated absences are recorded as an expense and liability of the fund that will pay for them.

I. FUND EQUITY

The District records reservations for portions of fund equity which are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriations for expenditures. Undesignated fund balance indicates that portion of fund equity which is available for appropriation in future periods. The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute.

J. TOTAL COLUMNS

Total columns on the primary government financial statements are captioned (Memorandum Only) because they do not represent consolidated financial information and are presented only to facilitate financial analysis. The columns do not present information that reflects financial position, results of operations or cash flows in accordance with generally accepted accounting principles. Interfund eliminations have not been made in the aggregation of this data.

K. USE OF ESTIMATES

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

LORAIN CITY SCHOOL DISTRICT
NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS
JUNE 30, 1999

NOTE 3 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. 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 required to be budgeted and appropriated. The primary level of budgetary control is at the object code function level within each fund. Budgetary modifications may only be made by resolution of the Board of Education.

Tax Budget

A budget of estimated revenue and expenditures is submitted to the County Auditor, as Secretary of the County Budget Commission, by January 20 of each year for the ensuing July 1 to June 30 fiscal year.

Estimated Resources

The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the District by March 1. As part of the certification, the District receives the official certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. On or about July 1, the certificate of estimated resources is amended to include any unencumbered balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. Budget receipts, as shown in the accompanying "Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (Non-GAAP Basis) - All Governmental Fund Types" do not include July 1, 1998 unencumbered fund balances. However, those fund balances are available for appropriations.

LORAIN CITY SCHOOL DISTRICT
NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS
JUNE 30, 1999

NOTE 3 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued)

A. BUDGETARY PROCESS (continued)

Appropriations

A temporary appropriation measure to control expenditures may be passed on or about July 1 of each year for the period July 1 to September 30. An annual appropriation resolution must be passed by October 1 of each year for the period July 1 to June 30. The appropriation resolution fixes spending authority at the fund, function level and may be amended during the year as new information becomes available provided that total fund appropriations do not exceed current estimated resources, as certified.

The allocation of appropriations among functions within a fund may be modified during the year by a resolution of the Board of Education. Several supplemental appropriation resolutions were legally enacted by the Board of Education during the year. The budget figures, as shown in the accompanying "Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (Non-GAAP Basis) - All Governmental Fund Types" represent the final appropriation amounts including all amendments and modifications.

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 appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated.

Encumbrances

As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. The Ohio Revised Code prohibits expenditures plus encumbrances from exceeding appropriations. On the GAAP basis, encumbrances outstanding at year-end for governmental funds are reported as reservations of fund balances for subsequent-year expenditures.

LORAIN CITY SCHOOL DISTRICT
 NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS
 JUNE 30, 1999

NOTE 3 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued)

A. BUDGETARY PROCESS (continued)

Budgetary Reporting

While reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP basis), the budgetary basis, as provided by law, is based upon accounting for transactions on a basis of cash receipts, disbursements, and encumbrances. Accordingly, the "Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (Non-GAAP Basis) - All Governmental Fund Types" is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget and to demonstrate compliance with state statute. The major differences between the budget basis and the modified accrual basis of generally accepted accounting principles (GAAP basis) are that:

- 1.) Revenues are recorded when received (budget basis) rather than when susceptible to accrual (GAAP basis).
- 2.) Expenditures are recorded when paid or encumbered (budget basis) rather than when the liability is incurred (GAAP basis).

The adjustments necessary to convert the results of operations for the year from the budget basis to the GAAP basis for the governmental funds follow:

Excess (deficiency) of revenues over
 expenditures and other sources (uses) -
 reconciliation of budget basis to GAAP basis

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Debt Service Fund</u>	<u>Capital Projects Funds</u>
Budget basis	\$ 329,612	\$ (348,598)	\$ -	\$(1,077,602)
Adjustments, increase (decrease)				
Revenue accruals	(1,061,422)	221,546	-	(23,160)
Expenditure accruals	<u>2,372,811</u>	<u>850,000</u>	<u>-</u>	<u>34,581</u>
GAAP basis	<u>\$ 1,641,001</u>	<u>\$ 722,948</u>	<u>\$ -</u>	<u>\$(1,066,181)</u>

LORAIN CITY SCHOOL DISTRICT
 NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS
 JUNE 30, 1999

NOTE 3 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued)

B. FUND EQUITY DEFICITS

Not apparent in the financial statements are fund equity deficits of \$ 85,213 in the Disadvantaged Pupil Impact Aid (DPIA) Fund, \$ 2,624 in the Jobs Training and Partnership Act (JTPA) Fund, \$ 886,494 in the Building Fund, and \$ 120,324 in the Rotary Fund. These fund equity deficits at year-end result from reflecting expenditures in accordance with the modified accrual and accrual bases which are substantially larger than the amounts recognized on the budget basis. The District, in accordance with its budget basis, will appropriate such expenditures from resources of the subsequent year.

NOTE 4 STATUTORY RESERVES

The District is required by state law to set aside certain general fund revenue amounts, as defined, into various reserves. During the fiscal year ended June 30, 1999, the reserve activity was as follows:

	<u>Textbook</u>	<u>Capital Maintenance</u>	<u>Budget Stabilization</u>	<u>Total</u>
Balance, 7/1/98	\$ -	\$ -	\$ 220,833	\$ 220,833
Required set-aside	910,806	910,806	-	1,821,612
Offset credits	(145,262)	-	-	(145,262)
Qualifying expenditures	<u>(765,544)</u>	<u>(910,806)</u>	<u>-</u>	<u>(1,676,350)</u>
Balance, 6/30/99	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 220,833</u>	<u>\$ 220,833</u>

Expenditures for textbooks and capital activity during the year were \$1,132,421 and \$ 918,415, respectively, which exceeded the required set-aside and reserve balances.

LORAIN CITY SCHOOL DISTRICT
NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS
JUNE 30, 1999

NOTE 5 DEPOSITS AND INVESTMENTS

A. LEGAL REQUIREMENTS

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

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

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

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

- 1.) United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
- 2.) Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

LORAIN CITY SCHOOL DISTRICT
NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS
JUNE 30, 1999

NOTE 5 DEPOSITS AND INVESTMENTS (continued)

A. LEGAL REQUIREMENTS (continued)

- 3.) Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to daily, and that the term of the agreement must not exceed thirty days;
- 4.) Bonds and other obligations of the State of Ohio;
- 5.) No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
- 6.) The State Treasurer's investment pool (STAROhio); and
- 7.) Certain bankers' acceptance and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.

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

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

LORAIN CITY SCHOOL DISTRICT
 NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS
 JUNE 30, 1999

NOTE 5 DEPOSITS AND INVESTMENTS (continued)

A. LEGAL REQUIREMENTS (continued)

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

The District maintains a cash and investment pool used by various funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Pooled cash and equivalents."

B. DEPOSITS

At year-end, the carrying amount of the District's deposits was \$ 3,410,112 and the bank balance was \$ 4,934,497, all of which was covered by federal depository insurance or by collateral held by a qualified third party trustee in the name of the Lorain City School District.

C. INVESTMENTS

The District's investments are categorized below to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the District. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer or by its trust department but not in the District's name. Investment in STAR Ohio, the State Treasurer's Investment Pool, is not classified by degree of credit risk since it is not evidenced by securities that exist in physical or book entry form.

	Category			Carrying value	Market value
	1	2	3		
U.S. Government securities	\$ -	\$ -	\$ 954,220	\$ 954,220	\$ 950,241
Investment in State Treasurer's investment pool				<u>12,354,706</u>	<u>12,354,706</u>
				<u>\$13,308,926</u>	<u>\$13,304,947</u>

LORAIN CITY SCHOOL DISTRICT
 NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS
 JUNE 30, 1999

NOTE 6 FIXED ASSETS AND ACCUMULATED DEPRECIATION

A. GENERAL FIXED ASSETS ACCOUNT GROUP

The changes in general fixed assets during the year consisted of:

	Balance, <u>July 1, 1998</u>	<u>Additions</u>	<u>Disposals</u>	Balance, <u>June 30, 1999</u>
Land	\$ 1,787,370	\$ -	\$ -	\$ 1,787,370
Buildings and improvements	35,486,448	67,510	-	35,553,958
Furniture and equipment	14,906,199	1,825,752	-	16,731,951
Vehicles	<u>373,580</u>	<u>-</u>	<u>-</u>	<u>373,580</u>
	<u>\$ 52,553,597</u>	<u>\$ 1,893,262</u>	<u>\$ -</u>	<u>\$ 54,446,859</u>

B. PROPRIETARY FUND TYPE FIXED ASSETS

Proprietary fund type fixed assets and accumulated depreciation at year-end consisted of:

<u>Enterprise</u>	Balance, <u>June 30, 1999</u>
Machinery and equipment	\$ 878,675
Vehicles	<u>25,593</u>
	904,268
Accumulated depreciation	<u>(653,948)</u>
Net fixed assets	<u>\$ 250,320</u>

NOTE 7 DEFERRED REVENUE

Deferred revenue at year-end, consisted of:

Property taxes receivable	\$ 21,577,693
Contract receivable	100,000
Federal commodities, unused	<u>21,149</u>
	<u>\$ 21,698,842</u>

LORAIN CITY SCHOOL DISTRICT
 NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS
 JUNE 30, 1999

NOTE 8 NOTES PAYABLE

Notes payable outstanding at year-end consisted of the following revenue anticipation notes:

<u>General Fund</u>	<u>Rate of Interest</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Balance, June 30, 1999</u>
State loan	7.00%	03-28-96	06-15-06	\$ 3,591,839
State loan	7.00%	03-28-96	06-15-06	1,795,921
State loan	7.00%	03-28-96	06-15-06	<u>1,795,921</u>
				<u>\$ 7,183,681</u>

Debt service requirements to retire notes payable at June 30, 1999, consisted of:

<u>Year ending June 30.</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2000	\$ 824,276	\$ 476,745	\$ 1,301,021
2001	883,863	417,158	1,301,021
2002	947,758	353,264	1,301,022
2003	1,016,271	284,750	1,301,021
2004	1,089,738	211,284	1,301,022
2005-2006	<u>2,421,775</u>	<u>180,270</u>	<u>2,602,045</u>
Total	<u>\$ 7,183,681</u>	<u>\$ 1,923,471</u>	<u>\$ 9,107,152</u>

NOTE 9 BONDS PAYABLE

	<u>Outstanding, June 30, 1998</u>	<u>Additions</u>	<u>Deductions</u>	<u>Outstanding, June 30, 1999</u>
Energy conservation improvement bonds (1993) 5.95% through 2002	\$ 1,500,000	\$ -	\$ 300,000	\$ 1,200,000
Energy conservation refunding bonds, (1993) 5.70% through 2000	570,000	-	230,000	340,000
Energy conservation improvement bonds, (1996) 5.50% through 2007	<u>866,992</u>	<u>-</u>	<u>77,023</u>	<u>789,969</u>
Total general obligation bonds	<u>\$ 2,936,992</u>	<u>\$ -</u>	<u>\$ 607,023</u>	<u>\$ 2,329,969</u>

LORAIN CITY SCHOOL DISTRICT
 NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS
 JUNE 30, 1999

NOTE 9 BONDS PAYABLE (continued)

Debt service requirements to retire bonds payable outstanding at June 30, 1999, consisted of:

Year ending June 30.	Principal	Interest	Total
2000	\$ 611,259	\$ 116,514	\$ 727,773
2001	495,729	84,381	580,110
2002	390,444	58,552	448,996
2003	395,418	35,591	431,009
2004	100,666	21,273	121,939
2005-2007	<u>336,453</u>	<u>28,418</u>	<u>364,871</u>
Total	<u>\$ 2,329,969</u>	<u>\$ 344,729</u>	<u>\$ 2,674,698</u>

NOTE 10 GENERAL LONG-TERM DEBT

	Outstanding, June 30, 1998	Additions	Deductions	Outstanding, June 30, 1999
Due to other governments	\$ 428,948	\$ 518,944	\$ 428,948	\$ 518,944
Bonds payable	2,936,992	-	607,023	2,329,969
Capital leases	77,475	-	33,854	43,621
Accrued leave benefits	<u>7,226,077</u>	<u>330,966</u>	<u>-</u>	<u>7,557,043</u>
	<u>\$ 10,669,492</u>	<u>\$ 849,910</u>	<u>\$ 1,069,825</u>	<u>\$ 10,449,577</u>

NOTE 11 CAPITAL LEASES

The Lorain City School District is obligated under certain leases accounted for as capital leases. The leased assets and related obligations are accounted for in the General Fixed Assets Account Group and the General Long-term Debt Account Group, respectively. Assets under capital leases totaled \$ 163,026 at June 30, 1999.

The following is a schedule of future minimum lease payments under capital leases, together with the net present value of the minimum lease payments as of June 30, 1999:

Year Ending June 30.	Amount
2000	\$ 33,471
2001	<u>15,413</u>
Total minimum capital lease payments	48,884
Amount representing interest	<u>(5,263)</u>
Present value of minimum lease payments	<u>\$ 43,621</u>

LORAIN CITY SCHOOL DISTRICT

NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS

JUNE 30, 1999

NOTE 12 OPERATING LEASES

The Lorain City School District is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore, the results of the lease agreements are not reflected in the District's account groups. During 1999 expenditures for operating leases totalled \$ 172,044.

The following is a schedule of future minimum rental payments required under the operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 1999:

<u>Year Ending</u> <u>June 30.</u>	<u>Amount</u>
2000	\$ 162,730
2001	136,436
2002	136,436
2003	<u>119,103</u>
Total minimum payments required	<u>\$ 554,705</u>

NOTE 13 PROPERTY TAXES

Property taxes include amounts levied against all real, public utility and tangible personal property located in the District. Taxes collected on real property, other than public utility, in one calendar year are levied in the preceding calendar year on assessed values as of January 1 of the preceding year, the lien date. Assessed values are established by the County Auditor at 35% of appraised market value. All property is required to be revalued every six years. Real property taxes are payable annually or semi-annually. The first payment is due January 20, with the remainder payable by June 20.

Taxes collected from tangible personal property, other than public utility, in one calendar year are levied in the prior calendar year on assessed values during and at the close of the most recent fiscal year of the taxpayer that ended on or before March 31 of that calendar year, and at the tax rates determined in the preceding year. Tangible personal property used in business, except for public utilities, is currently assessed for ad valorem taxation purposes at 25% of its true value. Amounts 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.

LORAIN CITY SCHOOL DISTRICT
NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS
JUNE 30, 1999

NOTE 13 PROPERTY TAXES (continued)

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Certain public utility tangible personal property currently is assessed at 88% of its true value. Public utility property taxes are payable on the same dates as real property taxes described previously. The County Treasurer collects property taxes on behalf of all taxing districts in the County. The County Auditor periodically remits to the District its portion of the taxes collected.

The tax applied to real property collected in 1999 before certain homestead and rollback reductions, which reductions are reimbursed to the District by the State of Ohio, amounted to \$ 55.49 per \$ 1,000 of valuation. After adjustment of the rate for inflationary increases in property values, the effective tax rate was \$ 32.63 per \$ 1,000 of assessed valuation for real property classified as residential/agricultural and \$ 46.03 per \$ 1,000 of assessed valuation for all other real property. The tax rate applied to tangible personal property for the current year ended June 30, 1999, was \$ 55.49 per \$ 1,000 of valuation.

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes which became measurable at June 30, 1999. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30, 1999 was \$ 3,086,990 and is recognized as revenue and fund balance reserved for property taxes.

The property valuation consisted of:

Real Property - 1998	
Residential/Agricultural	\$ 369,441,180
Commercial/Industrial	108,476,680
Public Utilities	1,080,340
Tangible Personal Property - 1999	
General	126,151,769
Public Utilities	<u>40,769,870</u>
Total valuation	<u>\$ 645,919,839</u>

LORAIN CITY SCHOOL DISTRICT
NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS
JUNE 30, 1999

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. These risks are covered by commercial insurance purchased from independent third parties. For the past several years, settled claims from these risks have not exceeded commercial coverage.

In order to minimize the annual cost of medical insurance, the Lorain City School District Board of Education and unions that represent its employees have entered into a Jointly Administered Trust Fund for the Benefit of Lorain City School District Employees (The Trust). The Trust provides health care benefits, dental benefits, vision benefits and prescription drug benefits for full time employees, their spouses and dependents, and for other persons who, according to Board of Education policy, are eligible for them. Health care expenses are paid by The Trust until certain coverage limits are reached. At that point, expenses are paid through "stop-loss" insurance coverage. The Trust has hired Medical Mutual of Ohio to process claims for benefits. The Trust purchases its stop-loss insurance coverage from Medical Mutual of Ohio. Additionally, the Trust purchases or pays for benefit coverage for dental care, vision care and prescription drugs expenses through other companies. Dental care is provided through Connecticut General Life Insurance Company; vision care is provided through Vision Services, Inc. and prescription drugs are provided through Pharmacy-Card, Inc.

Contributions by the Lorain City School District Board of Education to fund benefits are limited by provisions in the union contracts with its employees. Those union contracts require the Plan Trustees to devise cost containment measures in the event that benefit expenditures exceed money contributions that the Board of Education is required to make. Thus, in future years, contributions from employees may be required, or other cost containing measures may be implemented.

NOTE 15 PENSION PLANS

A. SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS)

The Lorain City School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. That report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

LORAIN CITY SCHOOL DISTRICT
NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS
JUNE 30, 1999

NOTE 15 PENSION PLANS (continued)

A. SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) (continued)

Plan members are required to contribute 9 percent of their annual covered salary and the Lorain City School District is required to contribute 14 percent. The contribution rates are not determined actuarially, but are established by SERS's Retirement Board within the rates allowed by State statute. The adequacy of the contribution rates is determined annually. The Lorain City School District's contributions to SERS for the years ended June 30, 1999, 1998, and 1997 were \$ 884,000, \$ 832,100, and \$ 1,184,500, respectively. The full amount has been contributed for 1998 and 1997. For 1999, 35% has been contributed with the remainder being reported as a fund liability within the respective funds and the general long-term debt account group.

B. STATE TEACHERS RETIREMENT SYSTEM (STRS)

The Lorain City School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

Plan members are required to contribute 9.3 percent of their annual covered salary and the Lorain City School District is required to contribute 14 percent. Contribution rates are established by STRS, upon recommendation of it's consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Lorain City School District's contribution to STRS for the years ended June 30, 1999, 1998, and 1997 were \$ 5,759,700, \$ 5,593,500, and \$ 5,279,600, respectively. The full amount has been contributed for 1998 and 1997. For 1999, 83% has been contributed with the remainder being reported as a liability within the respective funds.

LORAIN CITY SCHOOL DISTRICT
NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS
JUNE 30, 1999

NOTE 16 POSTEMPLOYMENT BENEFITS

A. SCHOOL EMPLOYEES RETIREMENT SYSTEM

The Ohio Revised Code gives the School Employees Retirement System (SERS) the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989 with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75% of the premium.

After the allocation for basic benefits, the remainder of the employer's contribution is allocated to providing health care benefits. At June 30, 1998 (the latest information available) the allocation rate is 4.98%. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal 1998, the minimum pay has been established as \$ 12,400.

The surcharge rate added to the unallocated portion of the 14% employer contribution rate provides for maintenance of the asset target level for the health care fund.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 125% of annual health care expenses. Expenses for health care at June 30, 1998 were \$ 111,900,575 and the target level was \$ 139.9 million. At June 30, 1998, the Retirement System's net assets available for payment of health care benefits was \$ 160.3 million.

The number of participants receiving health care benefits is approximately 50,000. The portion of the District's contributions that were used to fund postemployment benefits amounted to \$ 595,890.

B. STATE TEACHERS RETIREMENT SYSTEM

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

All benefit recipients are required to pay a portion of health care cost in the form of a monthly premium. By Ohio Law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. The board currently allocates employer contributions equal to 2 percent of covered payroll to the Health Care Reserve Fund from which payments for health care are paid. The balance in the Health Care Reserve Fund was \$ 2,156 million at June 30, 1998 (the latest information available). For the year ended June 30, 1998, net health care costs paid by STRS were \$ 219,224,000. There were 91,999 eligible benefit recipients.

LOBAIN CITY SCHOOL DISTRICT
 NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS
 JUNE 30, 1999

NOTE 17 SEGMENT INFORMATION - ENTERPRISE FUNDS

The District maintains enterprise funds to account for the operation of school food service, uniform school supplies, rotary, and adult education. Segment information related to these follow:

	<u>Food Service</u>	<u>Uniform School Supplies</u>	<u>Rotary</u>	<u>Adult Education</u>	<u>Total</u>
Operating revenues	\$ 1,024,490	\$ 3,426	\$ 103,913	\$ 16,755	\$ 1,148,584
Operating expenses					
Salaries and wages	53,054	-	19,118	29,012	101,184
Fringe benefits	818	-	2,166	10,651	13,635
Contractual services	3,132,798	-	17,631	552	3,150,981
Materials and supplies	171,315	7,566	41,655	267	220,803
Depreciation	38,931	-	859	-	39,790
Total operating expenses	<u>3,396,916</u>	<u>7,566</u>	<u>81,429</u>	<u>40,482</u>	<u>3,526,393</u>
Operating income (loss)	<u>(2,372,426)</u>	<u>(4,140)</u>	<u>22,484</u>	<u>(23,727)</u>	<u>(2,377,809)</u>
Nonoperating revenue	<u>2,473,506</u>	<u>-</u>	<u>10,000</u>	<u>-</u>	<u>2,483,506</u>
Income (loss) before operating transfers	101,080	(4,140)	32,484	(23,727)	105,697
Operating transfers-in	-	-	-	571	571
Operating transfers-out	<u>(146,204)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(146,204)</u>
Net income (loss)	<u>\$ (45,124)</u>	<u>\$ (4,140)</u>	<u>\$ 32,484</u>	<u>\$ (23,156)</u>	<u>\$ (39,936)</u>
Other information					
Net working capital	<u>\$ (85,909)</u>	<u>\$ 35,139</u>	<u>\$ 86,981</u>	<u>\$ 46,466</u>	<u>\$ 82,677</u>
Fixed assets additions	<u>\$ 96,781</u>	<u>\$ -</u>	<u>\$ 5,624</u>	<u>\$ -</u>	<u>\$ 102,405</u>
Total assets	<u>\$ 847,950</u>	<u>\$ 35,139</u>	<u>\$ 94,185</u>	<u>\$ 50,513</u>	<u>\$ 1,027,787</u>
Total equity	<u>\$ 158,310</u>	<u>\$ 35,139</u>	<u>\$ 93,082</u>	<u>\$ 46,466</u>	<u>\$ 332,997</u>

LORAIN CITY SCHOOL DISTRICT
NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS
JUNE 30, 1999

NOTE 18 JOINTLY GOVERNED ORGANIZATIONS

A. LAKE ERIE EDUCATION COMPUTER ASSOCIATION (LEECA)

The Lake Erie Educational Computer Association (LEECA) is a jointly governed organization comprised of thirty school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions for member districts. Each of the governments of these districts supports LEECA based upon a per pupil charge dependent upon the software package utilized. The LEECA assembly consists of a superintendent or designated representative from each participating district and a representative from the fiscal agent. LEECA is governed by a board of directors chosen from the general membership of the LEECA assembly. The board of directors consists of a representative from the fiscal agent, the chairman of each operating committee, and at least one assembly member from each county from which participating districts are located. Financial information can be obtained by contacting the Treasurer at the Educational Service Center of Lorain County, which serves as fiscal agent, located at 1885 Lake Avenue, Elyria, Ohio 44035. During the year ended June 30, 1999, the District paid \$ 203,500 to LEECA for basic service charges.

B. LAKE ERIE REGIONAL COUNCIL (LERC)

The Lake Erie Regional Council (LERC) is a jointly governed organization among thirteen districts. The jointly governed organization was formed for the purpose of promoting cooperative agreements and activities among its members in dealing with problems of mutual concern such as a media center, gas consumption, driver education, food service and insurance. Each member provided operating resources to LERC on a per pupil or actual usage charge except for insurance.

The LERC assembly consists of a superintendent or designated representative from each participating district and the fiscal agent. LERC is governed by a board of directors chosen from the general membership. The degree of control exercised by any participating district is limited to its representation on the board. Financial information can be obtained by contacting the Treasurer at the Educational Service Center of Lorain County located at 1885 Lake Avenue, Elyria, Ohio 44035. During the year ended June 30, 1999 the District paid \$ 305,300 to LERC.

LORAIN CITY SCHOOL DISTRICT
NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS
JUNE 30, 1999

NOTE 19 PENDING LITIGATION

The Lorain City School District is a defendant in certain litigation, the outcome of which cannot be determined. It is the opinion of the District's management that any judgement against the District would not have a material adverse effect on the District's financial position.

NOTE 20 OTHER MATTERS - SCHOOL FUNDING

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the Ohio General Assembly to design a plan to remedy the perceived defects in the system. Declared unconstitutional was the State's "school foundation program", which provides significant amounts of monetary support to the District. During the fiscal year ended June 30, 1999, the District received \$ 35,447,057 of school foundation support for its general fund.

The Court also declared the emergency school loan assistance program unconstitutional. The emergency school loan program allowed the District to borrow money from commercial financial institutions, with repayment going directly to the lender from the State through withholding a portion of the District's future school foundation payments. In prior fiscal years, the District had borrowed \$ 9,337,816 under this program; the final payment of this note will be made in fiscal year 2006. The terms of this debt are further described in Note 8 to these financial statements.

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

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

LORAIN CITY SCHOOL DISTRICT
NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS
JUNE 30, 1999

NOTE 21 Year 2000 Issue

The year 2000 issue is the result of shortcomings in many electronic data processing systems and other equipment that may adversely affect Lorain City School District's operations.

The District has completed an inventory of computer systems and other equipment necessary to conduct District operations and has identified such systems as being financial reporting, payroll and employee benefits, and educational statistics reporting (through the State's Education Management and Information Systems (EMIS)). The District has eighteen buildings with power systems which have extensive efficiency utilization measures within the systems.

The District uses the State of Ohio Uniform School Accounting Systems software for its financial reporting, and the State of Ohio Uniform Staff Payroll System software for its payroll and employee benefits. The State is responsible for remediating these systems.

Lorain County collects property taxes for distributing to the District. Lorain County is responsible for remediating its tax collection system.

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

Remediation of the power systems is the responsibility of an outside vendor. Validation and testing of portions of these systems has been completed.

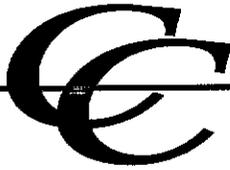
Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the District is year 2000 ready, that the District's remediation efforts will be successful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

LORAIN CITY SCHOOL DISTRICT
SUPPLEMENTAL AUDITOR'S REPORTS
JUNE 30, 1999

LORAIN CITY SCHOOL DISTRICT

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

YEAR ENDED JUNE 30, 1999



COSTIN + COMPANY

Certified Public Accountants

35945 Center Ridge Road

North Ridgeville, OH 44039

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

Board of Education
Lorain City School District

We have audited the financial statements of the Lorain City School District as of and for the year ended June 30, 1999, and have issued our report thereon dated December 27, 1999, which was modified because the financial statements of the Jointly Administered Trust Fund for the Benefit of Lorain City School District Employees, a component unit, are omitted. Accordingly, our audit report is on the primary government only. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in "Government Auditing Standards", issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Lorain City School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the

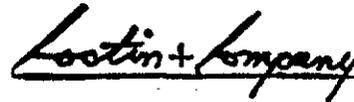
Board of Education
Lorain City School District
- continued -

Report on Compliance and on Internal Control over Financial
Reporting Based on an Audit of Financial Statements Performed in
Accordance with "Government Auditing Standards" (continued)

normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Lorain City School District in a separate letter dated December 27, 1999.

This report is intended for the information of management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

North Ridgeville, Ohio
December 27, 1999

A handwritten signature in cursive script that reads "Lottin + Company". The signature is written in black ink and is positioned to the right of the typed address.

LORAIN CITY SCHOOL DISTRICT

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

YEAR ENDED JUNE 30, 1999



COSTIN + COMPANY

Certified Public Accountants
35945 Center Ridge Road
North Ridgeville, OH 44039

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

Board of Education
Lorain City School District

Compliance

We have audited the compliance of the Lorain City School District with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" that are applicable to each of its major federal programs for the year ended June 30, 1999. The Lorain City School 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 Lorain City School District's management. Our responsibility is to express an opinion on the Lorain City School District's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in "Government Auditing Standards" issued by the Comptroller General of the United States; and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations". Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance 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 Lorain City School District's compliance with those requirements and performing such other procedures we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Lorain City School District's compliance with those requirements.

In our opinion, the Lorain City School District complied in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 1999.

Internal Control Over Compliance

The management of the Lorain City School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Lorain City School District's internal control over compliance with requirements that could have a

Board of Education
Lorain City School District
- continued -

Report on Compliance With Requirements Applicable to Each Major
Program and Internal Control Over Compliance in Accordance With
OMB Circular A-133 (continued)

direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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

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

North Ridgeville, Ohio
December 27, 1999

Lootin + Company

LORAIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 §.505
YEAR ENDED JUNE 30, 1999

LORAIN CITY SCHOOL DISTRICT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 OMB CIRCULAR A-133 §.505
 YEAR ENDED JUNE 30, 1999

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under §.510?	No
(d)(1)(vii)	Major Programs	<u>Nutrition Cluster:</u> #10.550 - Food Distribution Program #10.553 - School Breakfast Program #10.555 - National School Lunch Program #10.556 - Special Milk Program for Children #10.559 - Summer Food Service Program <u>Special Education Cluster:</u> #84.027 - Title VI-B #84.173 - Preschool Grants <u>#84.010 - Title 1</u> <u>#84.XXX - Telecommunications Act Grant</u> <u>#93.575 - Hunger Task Force</u>

- continued -

LORAIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 §.505
YEAR ENDED JUNE 30, 1999
- continued -

1. SUMMARY OF AUDITOR'S RESULTS - continued -

(d)(1)(viii) Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix) Low Risk Auditee?	Yes

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

LORAIN CITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 1999

LORAIN CITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 1999

	<u>CFDA Number</u>	<u>Pass Through Number</u>	<u>Revenue Recognized</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Agriculture</u>				
Passed through State Department of Education:				
Nutrition Cluster:				
Food Distribution Program	10.550	N/A	\$ 148,195	\$ 152,071
School Breakfast Program	10.553	05-PU98	67,920	67,920
School Breakfast Program	10.553	05-PU97	288,315	288,315
Total School Breakfast Program			<u>356,235</u>	<u>356,235</u>
National School Lunch Program	10.555	03-PU98	34,296	34,296
National School Lunch Program	10.555	03-PU99	141,064	141,064
National School Lunch Program	10.555	04-PU98	253,635	253,635
National School Lunch Program	10.555	04-PU99	1,041,653	1,041,653
Total National School Lunch Program			<u>1,470,648</u>	<u>1,470,648</u>
Special Milk Program for Children	10.556	02-PU98	597	597
Special Milk Program for Children	10.556	02-PU99	3,094	3,094
Total Special Milk Program for Children			<u>3,691</u>	<u>3,691</u>
Summer Food Service Program	10.559	23-ML98	35,454	35,454
Summer Food Service Program	10.559	23-ML99	38,595	38,595
Summer Food Service Program	10.559	24-AD98	542	542
Summer Food Service Program	10.559	24-AD99	2,640	2,640
Total Summer Food Service Program			<u>77,231</u>	<u>77,231</u>
Total Department of Agriculture - Nutrition Cluster			<u>2,056,000</u>	<u>2,059,876</u>
<u>U.S. Department of Education</u>				
Impact Aid	84.041	N/A	28,732	28,732
Passed through State Department of Education:				
Adult and Community Education	84.002	AB-S198	4,887	4,887
Adult and Community Education	84.002	AB-S198C	44,739	44,739
Adult and Community Education	84.002	AB-S199	65,138	65,138
Total Adult and Community Education			<u>114,764</u>	<u>114,764</u>

- continued -

LORAIN CITY SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 1999
 - continued -

	<u>CFDA Number</u>	<u>Pass Through Number</u>	<u>Revenue Recognized</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Education - continued</u>				
Passed through State Department of Education - continued				
Title 1	84.010	C1-S198	\$ 179,540	\$ 292,187
Title 1	84.010	C1-S199	<u>3,214,550</u>	<u>3,057,591</u>
Total Title 1			<u>3,394,090</u>	<u>3,349,778</u>
Special Education Cluster:				
Title VI-B	84.027	6B-SF97P	38,424	78,622
Title VI-B	84.027	6B-SF98P	<u>524,674</u>	<u>486,867</u>
Total Title VI-B			<u>563,098</u>	<u>565,489</u>
Preschool Grants	84.173	PG-S198P	<u>41,067</u>	<u>37,720</u>
Total Special Education Cluster			<u>604,165</u>	<u>603,209</u>
Vocational Education Basic Grant	84.048	20-C198	41,882	41,882
Vocational Education Basic Grant	84.048	20-C199	<u>245,329</u>	<u>245,329</u>
Total Vocational Education Basic Grant			<u>287,211</u>	<u>287,211</u>
Drug-Free Schools	84.186	DR-S198	5,989	8,123
Drug-Free Schools	84.186	DR-S199	<u>123,374</u>	<u>78,635</u>
Total Drug-Free Schools			<u>129,363</u>	<u>86,758</u>
Goals 2000	84.276	G2-S198	76,500	9,045
Goals 2000	84.276	G2-A299	4,682	4,682
Goals 2000	84.276	G2-S498	3,000	3,000
Goals 2000	84.276	G2-S699	<u>26,250</u>	<u>-</u>
Total Goals 2000			<u>110,432</u>	<u>16,727</u>
Eisenhower Professional State Grants	84.281	MS-S197	6,906	17,033
Eisenhower Professional State Grants	84.281	MS-S198	31,236	5,306
Eisenhower Professional State Grants	84.281	MS-S199	<u>71,527</u>	<u>46,590</u>
Total Eisenhower Professional State Grants			<u>109,669</u>	<u>68,929</u>

- continued -

LORAIN CITY SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 1999
 - continued -

	<u>CFDA Number</u>	<u>Pass Through Number</u>	<u>Revenue Recognized</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Education - continued</u>				
Passed through State Department of Education - continued				
Innovative Education Program Strategies	84.298	C2-S198	\$ 36,743	\$ 34,808
Innovative Education Program Strategies	84.298	C2-S198C	12,248	16,593
Innovative Education Program Strategies	84.298	C2-S199	<u>65,148</u>	<u>52,262</u>
Total Innovative Education Program Strategies			<u>114,139</u>	<u>103,663</u>
Technology Literacy Challenge Fund Grant	84.318	TF-S198	150,000	-
Technology Literacy Challenge Fund Grant	84.318	TF-S198P	<u>162,500</u>	<u>157,177</u>
Total Technology Literacy Challenge Fund Grant			<u>312,500</u>	<u>157,177</u>
Learning Center	84.287	N/A	<u>14,216</u>	<u>14,216</u>
School-to-Work	17.249	WK-BE98	<u>2,000</u>	<u>2,000</u>
Learn and Serve America	94.004	SV-S299	<u>3,000</u>	<u>989</u>
Subtotal - Passed through State Department of Education			<u>5,195,549</u>	<u>4,805,421</u>
Total U.S. Department of Education			<u>5,224,281</u>	<u>4,834,153</u>
<u>Other Federal Assistance</u>				
<u>U.S. Department of Health and Human Services</u>				
Urban School Initiative	93.037	N/A	<u>520,383</u>	<u>536,130</u>
<u>Federal Communications Commission</u>				
Telecommunications Act Grant	N/A	N/A	<u>917,929</u>	<u>917,929</u>
<u>U.S. Department of Defense</u>				
Reserve Officers Training Corp (ROTC)	N/A	N/A	<u>127,841</u>	<u>127,841</u>
Total Federal Financial Assistance			<u>\$ 8,846,434</u>	<u>\$ 8,475,929</u>

The accompanying schedule of expenditures of federal awards is a summary of the cash activity of the District's federal award programs and does not present transactions that would be included in financial statements of the District presented on the accrual basis of accounting, as contemplated by generally accepted accounting principles.

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



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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800-282-0370
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LORAIN CITY SCHOOL DISTRICT

LORAIN COUNTY

CLERK'S CERTIFICATION

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

By: *Susan Babbitt*

Date: FEBRUARY 3, 2000