



**Auditor of State
Betty Montgomery**

**LORAIN COMMUNITY SCHOOL
LORAIN COUNTY
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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Board of Trustees
Lorain Community School
Lorain County
210 West Erie Street
Lorain, Ohio 44052

We have audited the accompanying financial statements of the Lorain Community School, Lorain County, Ohio, (the School) as of and for the year ended June 30, 2002, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lorain Community School, Lorain County, Ohio, as of June 30, 2002, and the results of its operations and the cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 2003 on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in cursive script that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

March 14, 2003

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**Lorain Community School
Lorain County
Balance Sheet
As of June 30, 2002**

Assets:

Current Assets:

Cash	\$158,802
Due from Other Governments	2,442
	161,244
<i>Total Current Assets</i>	<i>161,244</i>

Non-Current Assets:

Security Deposits	6,000
Fixed Assets (Net of Accumulated Depreciation)	44,933
	50,933
<i>Total Non-Current Assets</i>	<i>50,933</i>
<i>Total Assets</i>	<i><u><u>\$212,177</u></u></i>

Liabilities and Equity:

Current Liabilities:

Accounts Payable	\$22,405
Due Other Governments	5,906
Accrued Wages and Benefits	75
Deferred Revenue	13,093
Leases Payable	6,800
	48,279
<i>Total Current Liabilities</i>	<i>48,279</i>

Equity:

Retained Earnings	163,898
<i>Total Liabilities and Equity</i>	<i><u><u>\$212,177</u></u></i>

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

**Lorain Community School
Lorain County
Statement of Revenues, Expenses and
Changes in Retained Earnings
For the Year Ended June 30, 2002**

Operating Revenues:

Foundation Payments	\$499,941
Other Operating Revenues	<u>23,739</u>
<i>Total Operating Revenues</i>	<u>523,680</u>

Operating Expenses:

Salaries	220,349
Fringe Benefits	54,333
Purchased Services	219,859
Materials and Supplies	92,369
Depreciation	9,538
Other Operating Expenses	<u>1,853</u>
<i>Total Operating Expenses</i>	<u>598,301</u>
Operating Loss	<u>(74,621)</u>

Non-Operating Revenues:

Interest	403
Federal and State Grants	<u>163,319</u>
<i>Total Non-Operating Revenues</i>	<u>163,722</u>
Net Income	<u>89,101</u>
Retained Earnings at Beginning of the Year (See Note XIV)	<u>74,797</u>
Retained Earnings at End of Year	<u><u>\$163,898</u></u>

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

**Lorain Community School
Lorain County
Statement of Cash Flows
For the Year Ended June 30, 2002**

Increase (Decrease) in Cash and Cash Equivalents:

Cash Flows from Operating Activities:

Cash Received from State of Ohio	\$499,941
Cash Payments to Suppliers for Goods and Services	(305,455)
Cash Payments to Employees for Services	(268,701)
Other Operating Revenues	<u>36,382</u>
Net Cash Used for Operating Activities	<u>(37,833)</u>

Cash Flows from Noncapital Financing Activities:

Federal and State Grants	<u>160,878</u>
Net Cash Provided by Noncapital Financing Activities	<u>160,878</u>

Cash Flows from Capital and Related Financing Activities:

Payments for Capital Acquisitions	<u>(52,967)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(52,967)</u>

Cash Flows from Investing Activities:

Interest	<u>403</u>
Net Cash Provided by Investing Activities	<u>403</u>

Net Increase in Cash	70,481
Cash at Beginning of Year	<u>88,321</u>
Cash at End of Year	<u><u>\$158,802</u></u>

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

Lorain Community School
Lorain County
Statement of Cash Flows
For the Year Ended June 30, 2002
(Continued)

**Reconciliation of Operating Loss to Net
Cash Used for Operating Activities:**

Operating Loss	<u>(\$74,621)</u>
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**Adjustments to Reconcile Operating Loss to
Net Cash Used for Operating Activities:**

Depreciation	9,538
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Changes in Assets and Liabilities:

Increase in Accounts Payable	1,826
Increase in Due Other Governments	5,906
Increase in Accrued Wages and Benefits	75
Increase in Deferred Revenue	12,643
Increase in Leases Payable	<u>6,800</u>

Total Adjustments	<u>36,788</u>
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Net Cash Used for Operating Activities	<u><u>(\$37,833)</u></u>
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The accompanying notes to the financial statements are an integral part of this statement.

LORAIN COMMUNITY SCHOOL
— A Community School —
Lorain County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002

I. Description of the School and Reporting Entity

Lorain Community School (LCS) is a nonprofit corporation established on August 25, 2000 pursuant to Ohio Revised Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service that qualifies as an exempt organization under §501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect LCS' tax-exempt status. LCS, which is part of Ohio's education program, is independent of any school district. LCS may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of LCS.

LCS was approved for operation under a contract between the Governing Authority of LCS and the Ohio Department of Education (the Sponsor) for a period of five years commencing July 1, 2001 and terminating on June 30, 2006. The Governing Authority is responsible for carrying out the provisions of the community school contract. The Governing Authority formed an Ohio non-profit corporation on September 17, 1999 under the name Constellation Community Schools (management company). See Note XII for additional information regarding the management company. The Sponsor is responsible for evaluating the performance of the school and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to expiration. On November 28, 2001, LCS obtained tax-exempt status with the Internal Revenue Service under section 501(c)(3) of the Internal Revenue Code.

The Governing Authority controls LCS' one instructional facility staffed by two uncertified and seven certificated full time teaching personnel who provide services to 88 students

LCS operates under a three-member Board of Trustees. The Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualification of teachers. The Board, which governs LCS, also governs Old Brooklyn Montessori School, Parma Community School, Elyria Community School, Westpark Community School and the Constellation Community Schools.

LORAIN COMMUNITY SCHOOL
— A Community School —
Lorain County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002

II. Summary of Significant Accounting Policies

The financial statements of LCS have been prepared in conformity with generally accepted accounting principles as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (“GASB”) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. LCS also applies Financial Accounting Standards Board statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of LCS’ accounting policies are described below.

1. Basis of Presentation

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

2. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the balance sheet. Operating statements present increases (*e.g.*, revenues) and decreases (*e.g.*, expenses) in net total assets.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The accrual basis of accounting is used for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

LORAIN COMMUNITY SCHOOL
— A Community School —
Lorain County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002

II. Summary of Significant Accounting Policies (Continued)

3. Cash

All monies received by LCS are deposited in demand deposit accounts.

4. Budgetary Process

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided for in the school's contract with its sponsor. The contract between LCS and its Sponsor does not prescribe a budgeting process for LCS.

5. Due from Other Governments

Moneys due LCS for the year ended June 30, 2002 are recorded as Due from Other Governments. A current asset for the receivable amount is recorded at the time of the event causing the moneys to be due.

6. Fixed Assets and Depreciation

Fixed assets are capitalized at cost and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the dates received. LCS does not possess any infrastructure.

Leasehold improvements are also capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

Depreciation of leasehold improvements, computers and office equipment is computed using the straight-line method over their estimated useful lives. Improvements to fixed assets are depreciated over the remaining useful lives of the related fixed assets. All items with a useful life of one year or greater and a value of \$500 or more are capitalized. Estimated useful lives are as follows:

LORAIN COMMUNITY SCHOOL
— A Community School —
Lorain County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002

II. Summary of Significant Accounting Policies (Continued)

6. Fixed Assets and Depreciation (Continued)

Fixed Asset Classification	Years
Computers and Office Equipment	3
Leasehold Improvements	5

7. Intergovernmental Revenues

LCS currently participates in the State Foundation Program and the State Disadvantaged Pupil Impact Aid Program (“DPIA”) and the Federal Lunch Reimbursement Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the school must provide local resources to be used for a specified purpose, and the expenditure requirements, in which the resources are provided to the school on a reimbursement basis.

LCS also participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, LCS was awarded \$150,000 during the fiscal year to offset start-up costs of the School. Revenue received from this program is recognized as non-operating revenue on the accompanying financial statements.

Amounts awarded under the above named programs for the 2002 school year totaled \$663,260.

8. Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. The deferred revenue for LCS consists of material and fees received in the current year which pertain to the next school year.

LORAIN COMMUNITY SCHOOL
— A Community School —
Lorain County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002

II. Summary of Significant Accounting Policies (Continued)

9. Compensated Absences

Vacation is taken in a manner which corresponds with the school calendar, therefore, LCS does not accrue vacation time as a liability.

Sick leave benefits are earned at the rate of one day per month and cannot be carried into the subsequent year. No accrual for sick time is made since unused sick time is not paid to employees upon employment termination.

10. Use of Estimates

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

III. Deposits

At fiscal year end June 30, 2002, the carrying amount of LCS' deposits totaled \$158,802 and its bank balance was \$159,684. Of the bank balance \$100,000 was covered by the Federal Depository Insurance Corporation and \$59,684 was covered by Firststar Bank pledged pooled collateral securities. The Ohio Depository Act stipulates that Firststar Bank N.A. pledge collateral for the deposits of the Lorain Community School in a pool of securities under Section 135.181 of the Ohio Revised Code.

IV. Fixed Assets

A summary of LCS' fixed assets at June 30, 2002 follows:

Leasehold Improvements	\$34,358
Computers and Office Equipment	20,113
Less Accumulated Depreciation	<u>(9,538)</u>
Net Fixed Assets	\$ <u>44,933</u>

LORAIN COMMUNITY SCHOOL
— A Community School —
Lorain County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002

V. Purchased Services

Purchased Services include the following:

Occupancy Costs	\$103,069
Pupil Support Services	36,635
Instruction	9,163
Administrative	67,876
Staff Development	<u>3,116</u>
Total	<u>\$219,859</u>

VI. Operating Leases

LCS leases its facilities from Genco Development, Inc. under a five-year lease agreement. This lease was effective July 1, 2001 and expires June 30, 2006. The lease provides LCS with an option to renew for an additional five year term. The rent payable in the option periods will be negotiated at the time of renewal.

LCS recognizes these non-cancelable lease costs on the straight line basis. A comparison of scheduled lease costs and payments due is as follows:

Lease Year	Straight Line Expense	Rental Payments Due
2003	\$ 78,800	\$ 72,000
2004	78,800	80,000
2005	78,800	85,000
2006	<u>78,800</u>	<u>85,000</u>
	<u>\$315,200</u>	<u>\$322,000</u>

LCS has recorded \$6,800 as leases payable on the balance sheet. This amount represents the difference between rental payments made and the amounts due, based on the straight line basis over the life of the lease.

On August 15, 2002, LCS and Genco Development, Inc. amended the lease to include an additional area of the building. The amendment is to run concurrently with the remainder of the original lease. The monthly rent for this additional space is \$500.

LORAIN COMMUNITY SCHOOL
— A Community School —
Lorain County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002

VII. Risk Management

1. Property and Liability Insurance

LCS 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. For fiscal year 2002, LCS contracted with Cincinnati Insurance Company for all of its' insurance.

General liability is covered at \$1,000,000 single occurrence limit and \$2,000,000 aggregated. Hired and Non-Owned Vehicles are covered at \$1,000,000 combined single limit of liability. Other coverage includes Directors and Officers, Employee Crime, Sexual Abuse and Misconduct, Electronic Data Processing and Business Interruption.

2. Workers' Compensation

LCS makes premium payments to the Ohio Worker's Compensation System for employee injury coverage. As of June 30, 2002 there have been no claims filed by LCS employees with the Ohio Worker's Compensation System.

3. Employee Medical, Dental, and Vision Benefits

LCS provides medical insurance benefits to all full time employees. Up to \$3,500 in premiums are paid by LCS for each employee that elects to have coverage. Those employees whose coverage exceeds the \$3,500 limit reimburse LCS through payroll deductions. For the fiscal year the cost to LCS for medical insurance benefits was \$15,946.

LORAIN COMMUNITY SCHOOL
— A Community School —
Lorain County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002

VIII. Defined Benefit Pension Plans

1. Employees Retirement System

LCS 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, annual cost of living adjustments, 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 N. 4th St., Columbus, Ohio 43215-3746 or by calling (614)222.5853.

Plan members are required to contribute 9 percent of their annual covered salary and LCS is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of LCS’ contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2002, 5.46 percent of annual covered salary was the portion to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS’ Retirement Board. LCS’ required contribution to SERS for the fiscal year ended June 30, 2002 was \$1,694. For fiscal year 2002, LCS contributions totaling \$387 were payable at year end and are reflected as Due to Other Governments in the accompanying financial statements. All other required contributions were paid.

2. State Teachers Retirement System

LCS 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.

LORAIN COMMUNITY SCHOOL
— A Community School —
Lorain County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002

VIII. Defined Benefit Pension Plans (Continued)

2. State Teachers Retirement System (Continued)

For the fiscal year ended June 30, 2002, plan members were required to contribute 9.3 percent of their annual covered salary and LCS is required to contribute 14 percent, 9.5 percent was the portion used to fund pension obligation. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. LCS' required contribution to STRS for the fiscal year ended June 30, 2002 was \$17,985. For fiscal year 2002, LCS contributions totaling \$144 were payable at year end and are reflected in Due to Other Governments in the accompanying financial statements. All other required contributions were paid.

IX. Post-Employment Benefits

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

For SERS, coverage is made available to service retirees with ten or more fiscal 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 percent of the premium. After the allocation for the basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For this fiscal year, employer contributions used to fund health care benefits were 8.54 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2002, the minimum pay was established at \$12,400. For LCS, the amount to fund health care benefits, including surcharge, equaled \$2,650 for fiscal 2002.

LORAIN COMMUNITY SCHOOL
— A Community School —
Lorain County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002

IX. Post-Employment Benefits (Continued)

The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio Law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. As of June 30, 2002, the Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund, from which payments for health care benefits are paid. For LCS, this amount equaled \$8,519 during fiscal 2002.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2001, (the latest information available) the balance in the Fund was \$3.256 billion. For the year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000 and STRS had 102,132 eligible benefit recipients.

The surcharge added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level of the health care fund. The target level of the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2001 (the latest information available), were \$161,439,934 and the target level was \$242.2 million dollars. At June 30, 2001, SERS had net assets available for health care benefits of \$315.7 million. SERS has approximately 50,000 participants currently receiving health care benefits.

X. State School Funding Decision

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...". LCS is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

LORAIN COMMUNITY SCHOOL
— A Community School —
Lorain County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002

XI. Contingencies

1. Grants

LCS received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of LCS. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of LCS at June 30, 2002.

2. Litigation

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e. Charter) Schools program violates the State Constitution and State law. The effect of this suit, if any, on LCS is not presently determinable.

3. Enrollment FTE

The Ohio Department of Education conducts reviews of enrollment and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The conclusions of this review could result in state funding being adjusted. Based on ODE's review there are no adjustments to the state funding received during fiscal year 2002.

XII. Management Agreement

LCS entered into an agreement with Constellation Community Schools (CCS) to provide legal, financial, and business management services for fiscal year 2002. The agreement was for a period of one year, effective July 1, 2001 with a cost of \$500 per enrolled student. The total amount due from LCS for the fiscal year ending June 30, 2002 was \$44,000 and was fully paid.

LORAIN COMMUNITY SCHOOL
— A Community School —
Lorain County

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002

XIII. Related Parties

Two members of the LCS Board of Trustees are also members of the Constellation Community Schools (CCS), Old Brooklyn Montessori School, Parma Community School, Elyria Community School and Westpark Community School governing boards. LCS contracts with CCS for legal, financial and business management services.

One member of the LCS Board of Trustees has been hired by Parma Community School (PCS) to provide Treasurer services for all of the schools and has received compensation totaling \$4,541 for the fiscal year ended June 30, 2002. Each school has been billed by PCS for their portion of the costs for these services, including employer taxes. The total amount due PCS from LCS for the fiscal year ending June 30, 2002 is \$414, all of which is included in Accounts Payable as of June 30, 2002.

XIV. Retained Earnings

As of the fiscal year ended June 30, 2001, LCS had retained earnings in the total amount of \$74,797. The retained earnings were comprised of the following:

Federal and State Grant Funds	\$100,000
Less total start up expenses incurred for the period ending June 30, 2001	<u>(25,203)</u>
Retained Earnings as of June 30, 2001	<u>\$ 74,797</u>



Auditor of State Betty Montgomery

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

Board of Trustees
Lorain Community School
Lorain County
210 West Erie Street
Lorain, Ohio 44052

We have audited the financial statements of the Lorain Community School, Lorain County, Ohio, (the School) as of and for the year ended June 30, 2002, and have issued our report thereon dated March 14, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the School'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 School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the School in a separate letter dated March 14, 2003.

Lorain Community School
Lorain County
Independent Accountants' Report on Compliance and
on Internal Control Required by *Government Auditing Standards*
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This report is intended for the information and use of management and the Board of Trustees, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

March 14, 2003



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

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800-282-0370

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LORAIN COMMUNITY SCHOOL

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.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 8, 2003**