

LORAIN CITY SCHOOL DISTRICT
GENERAL PURPOSE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2002



**Auditor of State
Betty Montgomery**

Board of Education
Lorain City School District

We have reviewed the Independent Auditor's Report of the Lorain City School District, Lorain County, prepared by Rea & Associates, Inc. for the audit period July 1, 2001 through June 30, 2002. 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.

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

BETTY MONTGOMERY
Auditor of State

May 13, 2003

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LORAIN CITY SCHOOL DISTRICT

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Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

January 23, 2003

The Board of Education
Lorain City School District
Lorain, Ohio 44052

INDEPENDENT AUDITOR'S REPORT

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

We conducted our audit in accordance with 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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Lorain City School District as of June 30, 2002, and the results of its operations and the cash flows of its proprietary fund types 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 a report dated January 23, 2003, on our consideration of Lorain City School District'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.

Rea & Associates, Inc.

LORAIN CITY SCHOOL DISTRICT
 COMBINED BALANCE SHEET – ALL FUND TYPES AND ACCOUNT GROUPS
 JUNE 30, 2002

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
<u>Assets and other debits</u>				
Pooled cash and equivalents	\$ 3,086,889	\$ 2,763,194	\$ 1,173,595	\$ 11,671,770
Restricted cash	1,542,197	-	-	-
Receivables, net				
Taxes, current	27,219,039	-	-	-
Taxes, delinquent	7,234,086	-	-	-
Accounts and other	187,584	24,826	-	-
Due from other governments	16,855	1,393,341	-	173,930,134
Interfund receivable	1,651,863	6,000	-	-
Inventories and supplies	-	-	-	-
Prepaid and deferred expenses	-	-	-	-
Fixed assets	-	-	-	-
Accumulated depreciation	-	-	-	-
Deposits and other	-	-	-	-
Amount available for debt service	-	-	-	-
Amount to be provided for debt service	-	-	-	-
Amount to be provided for benefits	-	-	-	-
Total assets and other debits	<u>\$ 40,938,513</u>	<u>\$ 4,187,361</u>	<u>\$ 1,173,595</u>	<u>\$ 185,601,904</u>
 <u>Liabilities, fund equity and other credits</u>				
<u>Liabilities</u>				
Accounts and contracts payable	\$ 66,607	\$ 35,353	\$ -	\$ -
Claims payable	-	-	-	-
Accrued salaries and benefits	4,388,537	597,062	-	-
Due to students	-	-	-	-
Due to other governments	1,317,076	125,310	-	799
Interfund payable	-	120,504	-	916,000
Due to others	-	-	-	-
Deferred revenue	31,390,025	1,213,341	-	173,928,137
Notes payable	4,527,784	-	-	-
Bonds payable	-	-	-	-
Accrued leave benefits	245,566	7,513	-	-
Total liabilities	<u>41,935,595</u>	<u>2,099,083</u>	<u>-</u>	<u>174,844,936</u>
 <u>Fund equity and other credits</u>				
Investment in general fixed assets	-	-	-	-
Retained earnings				
Reserved	-	-	-	-
Unreserved	-	-	-	-
Fund balances				
Reserved	6,458,650	798,981	1,173,595	292,545
Unreserved	(7,455,732)	1,289,297	-	10,464,423
Total fund equity and other credits	<u>(997,082)</u>	<u>2,088,278</u>	<u>1,173,595</u>	<u>10,756,968</u>
Total liabilities, fund equity and other credits	<u>\$ 40,938,513</u>	<u>\$ 4,187,361</u>	<u>\$ 1,173,595</u>	<u>\$ 185,601,904</u>

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

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Totals
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long Term Debt	(Memorandum Only)
\$ 376,854	\$ 2,305,633	\$ 774,508	\$ -	\$ -	\$ 22,152,443
-	-	-	-	-	1,542,197
-	-	-	-	-	27,219,039
-	-	-	-	-	7,234,086
30,116	-	-	-	-	242,526
65,210	-	-	-	-	175,405,540
-	-	-	-	-	1,657,863
39,608	-	-	-	-	39,608
-	176	-	-	-	176
1,022,207	-	-	56,686,177	-	57,708,384
(734,439)	-	-	-	-	(734,439)
-	65,000	-	-	-	65,000
-	-	-	-	1,173,595	1,173,595
-	-	-	-	9,658,942	9,658,942
-	-	-	-	8,397,276	8,397,276
\$ 799,556	\$ 2,370,809	\$ 774,508	\$ 56,686,177	\$ 19,229,813	\$ 311,762,236

\$ 226,196	\$ 68,086	\$ -	\$ -	\$ -	\$ 396,242
-	1,011,247	-	-	-	1,011,247
1,040	37,568	-	-	-	5,024,207
-	-	26,459	-	-	26,459
114,939	136,937	-	-	561,107	2,256,168
487,663	133,696	-	-	-	1,657,863
-	-	743,049	-	-	743,049
11,938	-	-	-	-	206,543,441
-	-	-	-	10,000,000	14,527,784
-	-	-	-	832,537	832,537
542	-	-	-	7,836,169	8,089,790
842,318	1,387,534	769,508	-	19,229,813	241,108,787

-	-	-	56,686,177	-	56,686,177
-	345,640	-	-	-	345,640
(42,762)	637,635	-	-	-	594,873
-	-	-	-	-	8,723,771
-	-	5,000	-	-	4,302,988
(42,762)	983,275	5,000	56,686,177	-	70,653,449
\$ 799,556	\$ 2,370,809	\$ 774,508	\$ 56,686,177	\$ 19,229,813	\$ 311,762,236

LORAIN CITY SCHOOL DISTRICT
 COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
 ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND
 FOR THE YEAR ENDED JUNE 30, 2002

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Revenues				
Taxes	\$ 20,024,016	\$ 132,807	\$ 1,054,488	\$ -
Tuition and fees	171,881	-	-	-
Interest	435,751	4,597	-	105,766
Intergovernmental	48,309,971	15,900,572	138,706	1,722,907
Extracurricular	-	488,219	-	-
Miscellaneous	209,435	500,990	-	-
Total revenues	69,151,054	17,027,185	1,193,194	1,828,673
Expenditures				
Current				
Instruction				
Regular	32,383,343	6,323,210	-	468,192
Special	7,211,115	5,021,324	-	-
Vocational education	5,137,417	339,340	-	48,458
Adult continuing	-	331,003	-	-
Other	1,934,619	810	-	-
Supporting services				
Pupil	2,313,277	522,358	-	-
Instructional	3,737,121	2,168,998	-	13,043
Board of education	463,271	-	-	-
Administration	6,319,328	546,036	-	-
Fiscal	893,765	2,468	19,598	-
Business	539,378	54,526	-	-
Operation and maintenance	7,154,657	58,827	-	-
Pupil transportation	2,094,232	29,141	-	-
Central services	474,213	135,824	-	11,458
Operation of non-instructional services				
Community services	-	882,893	-	-
Extracurricular				
Academic oriented	476,713	17,634	-	-
Occupation oriented	-	5,799	-	-
Sports oriented	720,756	295,155	-	-
Co-curricular	-	53,280	-	-
Capital outlay	160,285	349	-	83,189
Debt service				
Principal	-	-	390,444	-
Interest	353,264	-	58,552	-
Total expenditures	72,366,754	16,788,975	468,594	624,340
Excess (deficiency) of revenues over expenditures	(3,215,700)	238,210	724,600	1,204,333
Other financing sources (uses)				
Gain on sale of assets	7,803	-	-	-
Operating transfers in	-	793,184	448,995	-
Proceeds from notes	-	-	-	10,000,000
Operating transfers out	(949,216)	(604,444)	-	-
Total other financing sources (uses)	(941,413)	188,740	448,995	10,000,000
Excess (deficiency) of revenues over expenditures and other sources (uses)	(4,157,113)	426,950	1,173,595	11,204,333
Fund balances, beginning of year	3,160,031	1,661,328	-	(447,365)
Fund balances, end of year	\$ (997,082)	\$ 2,088,278	\$ 1,173,595	\$ 10,756,968

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

Fiduciary Fund Type	Totals (Memorandum Only)
Expendable Trust	
\$ -	\$ 21,211,311
-	171,881
-	546,114
-	66,072,156
-	488,219
4,000	714,425
<u>4,000</u>	<u>89,204,106</u>
-	39,174,745
-	12,232,439
-	5,525,215
-	331,003
-	1,935,429
-	2,835,635
-	5,919,162
-	463,271
-	6,865,364
-	915,831
-	593,904
-	7,213,484
-	2,123,373
-	621,495
3,000	885,893
-	494,347
-	5,799
-	1,015,911
-	53,280
-	243,823
-	390,444
-	411,816
<u>3,000</u>	<u>90,251,663</u>
<u>1,000</u>	<u>(1,047,557)</u>
-	7,803
-	1,242,179
-	10,000,000
-	(1,553,660)
<u>-</u>	<u>9,696,322</u>
1,000	8,648,765
4,000	4,377,994
<u>\$ 5,000</u>	<u>\$ 13,026,759</u>

LORAIN CITY SCHOOL DISTRICT
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) – ALL GOVERNMENTAL FUND TYPES
 FOR THE YEAR ENDED JUNE 30, 2002

	General		Variance Favorable (Unfavorable)
	Budget	Actual	
Revenues			
Taxes	\$ 23,703,592	\$ 20,498,588	\$ (3,205,004)
Tuition and fees	429,500	171,881	(257,619)
Interest	817,600	435,751	(381,849)
Intergovernmental	45,586,474	48,334,352	2,747,878
Extracurricular	-	-	-
Miscellaneous	275,000	334,103	59,103
Total revenues	<u>70,812,166</u>	<u>69,774,675</u>	<u>(1,037,491)</u>
Expenditures			
Current			
Instruction			
Regular	33,182,219	32,272,432	909,787
Special	7,220,705	7,081,673	139,032
Vocational education	5,831,704	5,764,750	66,954
Adult continuing	-	-	-
Other	2,316,725	2,093,765	222,960
Supporting services			
Pupil	2,421,637	2,352,608	69,029
Instructional	4,059,176	3,892,626	166,550
Board of education	634,765	619,275	15,490
Administration	6,354,270	6,224,462	129,808
Fiscal	1,095,273	926,502	168,771
Business	684,120	606,173	77,947
Operation and maintenance	7,744,617	7,647,993	96,624
Pupil transportation	2,209,735	2,099,133	110,602
Central services	730,376	574,654	155,722
Operation of non-instructional services			
Community services	-	-	-
Extracurricular activities	1,229,317	1,198,991	30,326
Capital outlay	285,474	282,030	3,444
Debt service			
Principal	947,758	947,758	-
Interest	353,264	353,264	-
Total expenditures	<u>77,301,135</u>	<u>74,938,089</u>	<u>2,363,046</u>
Excess (deficiency) of revenues over expenditures	<u>(6,488,969)</u>	<u>(5,163,414)</u>	<u>1,325,555</u>
Other financing sources (uses)			
Gain (loss) on sale of assets	-	7,803	7,803
Operating transfers-in	-	1,686	1,686
Proceeds from notes	-	-	-
Advances in	501,900	972,934	471,034
Refund of prior year expenditures	-	100,329	100,329
Advances out	(533,611)	(533,504)	107
Refund of prior year receipts	-	750	750
Operating transfers-out	(829,470)	(828,735)	735
Total other financing sources (uses)	<u>(861,181)</u>	<u>(278,737)</u>	<u>582,444</u>
Excess (deficiency) of revenues over expenditures and other sources (uses)	(7,350,150)	(5,442,151)	1,907,999
Prior year encumbrances	1,614,302	1,614,302	-
Fund balances, beginning of year	6,536,975	6,536,975	-
Fund balances, end of year	<u>\$ 801,127</u>	<u>\$ 2,709,126</u>	<u>\$ 1,907,999</u>

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)
\$ -	\$ 132,807	\$ 132,807	\$ -	\$ 1,054,488	\$ 1,054,488
-	-	-	-	-	-
38,330	4,597	(33,733)	-	-	-
18,549,942	15,891,069	(2,658,873)	-	138,706	138,706
815,300	488,219	(327,081)	-	-	-
428,458	502,415	73,957	-	-	-
<u>19,832,030</u>	<u>17,019,107</u>	<u>(2,812,923)</u>	<u>-</u>	<u>1,193,194</u>	<u>1,193,194</u>
6,822,353	6,471,836	350,517	-	-	-
6,004,350	5,192,877	811,473	-	-	-
460,830	470,185	(9,355)	-	-	-
421,626	360,982	60,644	-	-	-
81,154	79,589	1,565	-	-	-
636,158	536,568	99,590	-	-	-
3,049,420	2,410,825	638,595	-	-	-
-	-	-	-	-	-
763,371	567,456	195,915	-	-	-
-	2,468	(2,468)	-	19,599	(19,599)
122,624	54,625	67,999	-	-	-
(67,271)	70,065	(137,336)	-	-	-
3,750	30,141	(26,391)	-	-	-
774,462	161,009	613,453	-	-	-
1,147,215	967,776	179,439	-	-	-
570,092	400,538	169,554	-	-	-
9,066	9,066	-	-	-	-
-	-	-	390,444	390,444	-
-	-	-	58,551	58,551	-
<u>20,799,200</u>	<u>17,786,006</u>	<u>3,013,194</u>	<u>448,995</u>	<u>468,594</u>	<u>(19,599)</u>
<u>(967,170)</u>	<u>(766,899)</u>	<u>200,271</u>	<u>(448,995)</u>	<u>724,600</u>	<u>1,173,595</u>
-	-	-	-	-	-
501,035	793,184	292,149	448,995	448,995	-
-	-	-	-	-	-
59,320	96,504	37,184	-	-	-
60,000	58	(59,942)	-	-	-
711,440	(378,260)	(1,089,700)	-	-	-
81,882	(77,757)	(159,639)	-	-	-
(217,062)	(604,444)	(387,382)	-	-	-
<u>1,196,615</u>	<u>(170,715)</u>	<u>(1,367,330)</u>	<u>448,995</u>	<u>448,995</u>	<u>-</u>
229,445	(937,614)	(1,167,059)	-	1,173,595	1,173,595
955,152	955,152	-	-	-	-
1,911,322	1,911,322	-	-	-	-
<u>\$ 3,095,919</u>	<u>\$ 1,928,860</u>	<u>\$ (1,167,059)</u>	<u>\$ -</u>	<u>\$ 1,173,595</u>	<u>\$ 1,173,595</u>

LORAIN CITY SCHOOL DISTRICT
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) – ALL GOVERNMENTAL FUND TYPES
 FOR THE YEAR ENDED JUNE 30, 2002

	Capital Projects		
	Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Taxes	\$ -	\$ -	\$ -
Tuition and fees	-	-	-
Interest	-	105,766	105,766
Intergovernmental	967,437	1,720,910	753,473
Extracurricular	-	-	-
Miscellaneous	-	-	-
Total revenues	<u>967,437</u>	<u>1,826,676</u>	<u>859,239</u>
Expenditures			
Current			
Instruction			
Regular	514,936	512,377	2,559
Special	31	-	31
Vocational education	61,908	51,900	10,008
Adult continuing	-	-	-
Other	-	-	-
Supporting services			
Pupil	-	-	-
Instructional	51,640	15,985	35,655
Board of education	-	-	-
Administration	-	-	-
Fiscal	-	-	-
Business	-	-	-
Operation and maintenance	-	-	-
Pupil transportation	-	-	-
Central services	14,034	14,053	(19)
Operation of non-instructional services			
Community services	-	-	-
Extracurricular activities	-	-	-
Capital outlay	500,000	354,248	145,752
Debt service			
Principal	-	-	-
Interest	-	-	-
Total expenditures	<u>1,142,549</u>	<u>948,563</u>	<u>193,986</u>
Excess (deficiency) of revenues over expenditures	<u>(175,112)</u>	<u>878,113</u>	<u>1,053,225</u>
Other financing sources (uses)			
Gain (loss) on sale of assets	-	-	-
Operating transfers-in	-	-	-
Proceeds from notes	-	10,000,000	10,000,000
Advances in	-	-	-
Refund of prior year expenditures	-	-	-
Advances out	-	-	-
Refund of prior year receipts	-	-	-
Operating transfers-out	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>10,000,000</u>	<u>10,000,000</u>
Excess (deficiency) of revenues over expenditures and other sources (uses)	<u>(175,112)</u>	<u>10,878,113</u>	<u>11,053,225</u>
Prior year encumbrances	77,929	77,929	-
Fund balances, beginning of year	423,183	423,183	-
Fund balances, end of year	<u>\$ 326,000</u>	<u>\$ 11,379,225</u>	<u>\$ 11,053,225</u>

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

Totals
(Memorandum Only)

Budget	Actual	Variance Favorable (Unfavorable)
\$ 23,703,592	\$ 21,685,883	\$ (2,017,709)
429,500	171,881	(257,619)
855,930	546,114	(309,816)
65,103,853	66,085,037	981,184
815,300	488,219	(327,081)
703,458	836,518	133,060
<u>91,611,633</u>	<u>89,813,652</u>	<u>(1,797,981)</u>
40,519,508	39,256,645	1,262,863
13,225,086	12,274,550	950,536
6,354,442	6,286,835	67,607
421,626	360,982	60,644
2,397,879	2,173,354	224,525
3,057,795	2,889,176	168,619
7,160,236	6,319,436	840,800
634,765	619,275	15,490
7,117,641	6,791,918	325,723
1,095,273	948,569	146,704
806,744	660,798	145,946
7,677,346	7,718,058	(40,712)
2,213,485	2,129,274	84,211
1,518,872	749,716	769,156
1,147,215	967,776	179,439
1,799,409	1,599,529	199,880
794,540	645,344	149,196
1,338,202	1,338,202	-
411,815	411,815	-
<u>99,691,879</u>	<u>94,141,252</u>	<u>5,550,627</u>
<u>(8,080,246)</u>	<u>(4,327,600)</u>	<u>3,752,646</u>
-	7,803	7,803
950,030	1,243,865	293,835
-	10,000,000	10,000,000
561,220	1,069,438	508,218
60,000	100,387	40,387
177,829	(911,764)	(1,089,593)
81,882	(77,007)	(158,889)
(1,046,532)	(1,433,179)	(386,647)
<u>784,429</u>	<u>9,999,543</u>	<u>9,215,114</u>
(7,295,817)	5,671,943	12,967,760
2,647,383	2,647,383	-
8,871,480	8,871,480	-
<u>\$ 4,223,046</u>	<u>\$ 17,190,806</u>	<u>\$ 12,967,760</u>

LORAIN CITY SCHOOL DISTRICT
 COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS -
 ALL PROPRIETARY FUND TYPES
 FOR THE YEAR ENDED JUNE 30, 2002

	Enterprise	Internal Service	Totals (Memorandum Only)
Operating revenues			
Tuition and fees	\$ 12,597	\$ -	\$ 12,597
Extracurricular	20,393	-	20,393
Miscellaneous	74,381	181,320	255,701
Charges for services	990,271	6,487,574	7,477,845
Total operating revenues	<u>1,097,642</u>	<u>6,668,894</u>	<u>7,766,536</u>
Operating expenses			
Salaries and wages	79,908	261,042	340,950
Fringe benefits	243,703	285,520	529,223
Contractual services	4,060,502	6,858,262	10,918,764
Materials and supplies	287,830	-	287,830
Other expenses	-	27,516	27,516
Depreciation	43,648	-	43,648
Total operating expenses	<u>4,715,591</u>	<u>7,432,340</u>	<u>12,147,931</u>
Operating loss	<u>(3,617,949)</u>	<u>(763,446)</u>	<u>(4,381,395)</u>
Nonoperating revenues (expenses)			
Interest	-	107,072	107,072
Intergovernmental	3,217,990	80,971	3,298,961
Gain (loss) on sale of assets	(3,107)	-	(3,107)
Miscellaneous	-	15,000	15,000
Total nonoperating revenues (expenses)	<u>3,214,883</u>	<u>203,043</u>	<u>3,417,926</u>
Loss before operating transfers	(403,066)	(560,403)	(963,469)
Operating transfers in	<u>120,481</u>	<u>191,000</u>	<u>311,481</u>
Net loss	(282,585)	(369,403)	(651,988)
Retained earnings, beginning of year	<u>239,823</u>	<u>1,352,678</u>	<u>1,592,501</u>
Retained earnings, end of year	<u>\$ (42,762)</u>	<u>\$ 983,275</u>	<u>\$ 940,513</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, 2002

	Enterprise	Internal Service	Totals (Memorandum Only)
Cash flows from operating activities:			
Operating loss	\$ (3,617,949)	\$ (763,446)	\$ (4,381,395)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities:			
Donated commodities used	199,338	-	199,338
Depreciation	43,648	-	43,648
Changes in net assets (increase) decrease and liabilities increase (decrease):			
Receivables, accounts and other	(26,283)	106,271	79,988
Due from other governments	11,092	14,256	25,348
Inventories and supplies	(20,375)	-	(20,375)
Prepaid and deferred expenses	-	41,288	41,288
Accounts and contracts payable	211,121	(265,679)	(54,558)
Claims payable	-	170,470	170,470
Accrued salaries and benefits	(3,120)	13,586	10,466
Due to other governments	(9,664)	31,414	21,750
Interfund payable	153,581	(27,001)	126,580
Deferred revenue	4,396	-	4,396
Accrued leave benefits	29	-	29
Total adjustments	<u>563,763</u>	<u>84,605</u>	<u>648,368</u>
Net cash (used in) operating activities	<u>(3,054,186)</u>	<u>(678,841)</u>	<u>(3,733,027)</u>
Cash flows from non-capital financing activities:			
Intergovernmental revenue	3,018,652	80,971	3,099,623
Miscellaneous	-	15,000	15,000
Operating transfers-in	120,481	191,000	311,481
Net cash provided by non-capital financing activities	<u>3,139,133</u>	<u>286,971</u>	<u>3,426,104</u>
Cash flows from capital and related financing activities:			
Acquisition of fixed assets	(24,036)	-	(24,036)
Net cash (used in) capital and related financing activities	<u>(24,036)</u>	<u>-</u>	<u>(24,036)</u>
Cash flows provided by investing activities:			
Interest income	-	107,072	107,072
Net cash provided by investing activities	<u>-</u>	<u>107,072</u>	<u>107,072</u>
Net increase (decrease) in cash cash equivalents	60,911	(284,798)	(223,887)
Equity in pooled cash and equivalents, beginning of year	<u>315,943</u>	<u>2,590,431</u>	<u>2,906,374</u>
Equity in pooled cash and equivalents, end of year	<u>\$ 376,854</u>	<u>\$ 2,305,633</u>	<u>\$ 2,682,487</u>
Non-cash transaction:			
Disposal of fixed assets, net book value	<u>\$ 3,107</u>	<u>\$ -</u>	<u>\$ 3,107</u>

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

LORAIN CITY SCHOOL DISTRICT
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002

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, 2001 was 10,869. The District employs 945 certificated and 335 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)- The Trust was established in 1994 to provide health care benefits to the employees of the Lorain City School District. The Trust is directed by a twelve member Board of Trustees, eight members appointed by the District's Superintendent and four members appointed by the Lorain Education Association. 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 to District employees for hospitalization, medical, dental, vision and prescription drugs as provided for in the collective bargaining agreement. The District's participation is disclosed in Note 13 to the financial statements.

Financial information for the Trust's year ended December 31, 2001 is presented in these financial statements as an Internal Service Fund. Complete financial statements for the Trust may be obtained by contacting the Plan Administrator at 10045 College Park, Concord Ohio 44060.

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 16 to the financial statements.

LORAIN CITY SCHOOL DISTRICT
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002

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

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 16 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, which 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:

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. Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

LORAIN CITY SCHOOL DISTRICT
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which taxes are levied (See Note 11). Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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.

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

LORAIN CITY SCHOOL DISTRICT
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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 funds for the District 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.

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 2002. 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, 2002.

LORAIN CITY SCHOOL DISTRICT
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. RESTRICTED CASH

Restricted cash in the general fund represents cash and cash equivalents set aside for textbooks, capital maintenance and budget stabilization. A fund balance reserve has also been established.

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. Estimated useful lives of depreciable assets consisting of equipment and vehicles is 5 to 20 years.

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.

H. ACCRUED LEAVE BENEFITS

Accrued leave benefits is comprised of absences for which employees will be paid, such as vacation, severance, and sick leave. A liability for compensated absences that is attributable to services already rendered and that is 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.

LORAIN CITY SCHOOL DISTRICT
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. ACCRUED LEAVE BENEFITS (continued)

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 general purpose 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.

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.

LORAIN CITY SCHOOL DISTRICT
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 3 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued)

A. BUDGETARY PROCESS (continued)

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 Budgetary Basis) - All Governmental Fund Types" do not include July 1, 2001 unencumbered fund balances. However, those fund balances are available for appropriations.

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 Budgetary 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 GENERAL PURPOSE FINANCIAL STATEMENTS
 JUNE 30, 2002

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 Budgetary 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), and,
- 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		
	General	Special Revenue	Capital Projects
Budget basis	\$ (5,442,151)	\$ (937,614)	\$ 10,878,113
Adjustments, increase (decrease)			
Revenue accruals	(1,598,991)	(10,669)	1,997
Expenditure accruals	2,884,029	1,375,233	324,223
GAAP basis, as reported	\$ (4,157,113)	\$ 426,950	\$ 11,204,333

B. FUND EQUITY DEFICITS

The fund equity deficit of \$ 997,082 in the General Fund results from reflecting expenditures in accordance with the modified accrual basis. Not apparent in the financial statements are fund equity deficits of \$4,695 in the Management Information Fund, \$162,320 in the D.P.I.A. Fund, \$934 in the Adult Basic Education Fund, \$142,397 in the Title I Fund, \$339 in the EHA Preschool Fund, \$111,391 in the Title VI-R Fund, \$916,000 in the Building Fund, \$166,134 in the Food Service Fund, and \$284 in the Adult Education Fund. These fund equity deficits at year-end result from reflecting expenditures in accordance with the modified accrual and accrual basis 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.

LORAIN CITY SCHOOL DISTRICT
 NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
 JUNE 30, 2002

NOTE 4 RESERVATIONS OF FUND BALANCES

Reservations of fund balances consisted of:

	General	Special Revenue	Debt Service	Capital Projects	Total
Reserved for property tax	\$ 3,063,100	\$ -	\$ -	\$ -	\$ 3,063,100
Reserved for debt service	-	-	1,173,595	-	1,173,595
Reserved for textbooks	1,321,364	-	-	-	1,321,364
Reserved for budget stabilization	220,833	-	-	-	220,833
Reserved for encumbrances	1,853,353	798,981	-	292,545	2,944,879
	<u>\$ 6,458,650</u>	<u>\$ 798,981</u>	<u>\$ 1,173,595</u>	<u>\$ 292,545</u>	<u>\$ 8,723,771</u>

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, 2002, the reserve activity was as follows:

	Textbook	Capital Maintenance	Budget Stabilization	Total
Balance, July 1, 2001	\$ 986,232	\$ -	\$ 220,833	\$ 1,207,065
Required set aside	1,349,067	1,349,067	-	2,698,134
Qualifying expenditures	(1,013,935)	(1,349,067)	-	(2,363,002)
Balance June 30, 2002	<u>\$ 1,321,364</u>	<u>\$ -</u>	<u>\$ 220,833</u>	<u>\$ 1,542,197</u>

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 GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002

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.

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 \$ 11,356,519 and the bank balance was \$ 13,980,776, 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 or its component unit.

LORAIN CITY SCHOOL DISTRICT
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 5 DEPOSITS AND INVESTMENTS (continued)

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 STAROhio, 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
	1	2	3	
U.S. Government securities	\$ 1,287,171	\$ -	\$ -	\$ 1,287,171
Investment in State Treasurer's Investment Pool (STAROhio)				11,050,950
				<u>\$12,338,121</u>

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 July 1, 2001	Additions	Disposals	Balance June 30, 2002
Land	\$ 1,908,740	\$ -	\$ -	\$ 1,908,740
Buildings and improvements	36,524,059	69,346	-	36,593,405
Furniture and equipment	17,330,839	839,723	488,224	17,682,338
Vehicles	487,258	61,355	46,919	501,694
	<u>\$ 56,250,896</u>	<u>\$ 970,424</u>	<u>\$ 535,143</u>	<u>\$ 56,686,177</u>

B. PROPRIETARY FUND TYPE FIXED ASSETS

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

	Balance June 30, 2002
<u>Enterprise</u>	
Machinery and equipment	\$ 996,614
Vehicles	25,593
	<u>1,022,207</u>
Less accumulated depreciation	(734,439)
Net fixed assets	<u>\$ 287,768</u>

LORAIN CITY SCHOOL DISTRICT
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 7 DEFERRED REVENUE

Deferred revenue at year-end consisted of:

	Balance June 30, 2002
Property taxes receivable	\$ 31,390,025
Federal commodities, unused	11,938
Classroom facilities grant	173,928,137
Other grants	1,213,341
	\$ 206,543,441

NOTE 8 NOTES PAYABLE

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

	Rate of Interest	Issue Date	Maturity Date	Balance June 30, 2002
General Fund:				
State loan	0.07	3-28-96	6-15-06	\$ 2,263,892
State loan	0.07	3-28-96	6-15-06	1,131,946
State loan	0.07	3-28-96	6-15-06	1,131,946
				4,527,784
General Long Term Debt:				
Classroom facilities improvements - bond anticipation notes	0.02	12-27-01	8-14-02	10,000,000
Total notes payable				\$ 14,527,784

Debt service requirements to retire notes payable at June 30, 2002, consisted of:

Year ending June 30,	Principal	Interest	Total
2003	11,016,271	393,750	11,410,021
2004	1,089,738	211,284	1,301,022
2005	1,168,515	132,507	1,301,022
2006	1,253,260	47,763	1,301,023
	\$ 14,527,784	\$ 785,304	\$ 15,313,088

LORAIN CITY SCHOOL DISTRICT
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 9 BONDS PAYABLE

Bonds payable outstanding at year-end consisted of the following general obligation bonds:

	Outstanding June 30, 2001	Additions	Deductions	Outstanding June 30, 2002
General obligation bonds				
Energy conservation improvement bonds (1993) 5.95% through 2002	\$ 600,000	\$ -	\$ 300,000	\$ 300,000
Energy conservation improvement bonds, (1996) 5.5% through 2007	622,981	-	90,444	532,537
	<u>\$ 1,222,981</u>	<u>\$ -</u>	<u>\$ 390,444</u>	<u>\$ 832,537</u>

Debt service requirements to retire bonds payable outstanding at June 30, 2002, consisted of:

Year ending June 30,	Principal	Interest	Total
2003	\$ 395,418	\$ 35,591	\$ 431,009
2004	100,666	21,273	121,939
2005	106,203	15,584	121,787
2006	112,044	9,583	121,627
2007	118,206	3,251	121,457
	<u>\$ 832,537</u>	<u>\$ 85,282</u>	<u>\$ 917,819</u>

NOTE 10 GENERAL LONG-TERM DEBT

Changes in general long-term debt consisted of:

	Outstanding June 30, 2001	Additions	Deductions	Outstanding June 30, 2002
Due to other governments	\$ 633,567	\$ 561,107	\$ 633,567	\$ 561,107
Notes payable	-	10,000,000	-	10,000,000
Bonds payable	1,222,981	-	390,444	832,537
Accrued leave benefits	7,703,839	132,330	-	7,836,169
	<u>\$ 9,560,387</u>	<u>\$10,693,437</u>	<u>\$ 1,024,011</u>	<u>\$ 19,229,813</u>

LORAIN CITY SCHOOL DISTRICT
 NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
 JUNE 30, 2002

NOTE 11 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.

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 2002 before certain homestead and rollback reductions, which reductions are reimbursed to the District by the State of Ohio, amounted to \$ 62.45 per \$ 1,000 of valuation. After adjustment of the rate for inflationary increases in property values, the effective tax rate was \$ 34.22 per \$ 1,000 of assessed valuation for real property classified as residential/agricultural and \$ 54.58 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, 2002, was \$ 62.45 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, 2002. 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, 2002 was \$ 3,063,100 and is recognized as revenue and fund balance reserved for property taxes.

The property valuation consisted of:

Real Property - 2001	
Residential / Agricultural	\$ 455,782,680
Commercial / Industrial	101,272,190
Public Utilities	804,200
Tangible Personal Property - 2002	
General	137,700,830
Public Utilities	23,240,020
	\$ 718,799,920

LORAIN CITY SCHOOL DISTRICT
 NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
 JUNE 30, 2002

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 2002, expenditures for operating leases totaled \$ 216,510. The following is a schedule of future minimum rental payments required under the operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2002:

Year ending June 30,	Amount
2003	\$ 238,088
2004	258,936
2005	258,936
Total minimum lease payments	<u>\$ 755,960</u>

NOTE 13 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.

The Trust establishes a liability for both reported and unreported insured events. Changes in the balance of claims liability are summarized below. Incurred claims and claim payments are not segregated between current and prior year claims due to the impracticability of obtaining such information.

	<u>June 30, 2002</u>	<u>June 30, 2001</u>
Unpaid claims, beginning of year	\$ 840,777	\$ 821,400
Incurred claims	6,172,549	5,256,236
Paid claims	<u>(6,002,079)</u>	<u>(5,236,859)</u>
Unpaid claims, end of year	<u>\$ 1,011,247</u>	<u>\$ 840,777</u>

LORAIN CITY SCHOOL DISTRICT
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 14 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 defined benefit pension plan. SERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. The School Employees Retirement System issues a publicly available, stand alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SERS, 300 East Board St., Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute 9 percent of their annual covered salary and the Lorain City School District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Lorain City School district's contributions to SERS for the years ended June 30, 2002, 2001, and 2000 were \$1,097,500, \$1,043,600, and \$1,020,600, respectively. The full amount has been contributed for 2001 and 2000. For 2002, \$434,600 (40%) 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. The STRS Ohio's 2001 Comprehensive Annual Financial Report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (614) 227-4090.

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 its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Lorain City School District's contributions to STRS for the years ended June 30, 2002, 2001, and 2000 were \$6,913,400, \$6,636,500, and \$6,353,700, respectively. The full amount has been contributed for 2001 and 2000. For 2002, \$5,722,338 (83%) has been contributed with the remainder being reported as a liability within the respective funds.

NOTE 15 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, 2001, the healthcare allocation rate is 9.80%. 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 2001, 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.

LORAIN CITY SCHOOL DISTRICT
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 15 POSTEMPLOYMENT BENEFITS (continued)

A. SCHOOL EMPLOYEES RETIREMENT SYSTEM (continued)

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2001 were \$ 161,439,934 and the target level was \$ 242.2 million. At June 30, 2001, the Retirement System's net assets available for payment of health care benefits was \$ 315.7 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 \$ 1,025,000.

B. STATE TEACHERS RETIREMENT SYSTEM

State Teachers Retirement System of Ohio (STRS Ohio) provides comprehensive health care benefits to retirees and their dependents. Coverage includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Pursuant to Revised Code (R.C.), the State Teachers Retirement Board (the board) has discretionary authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most recipients pay a portion of the health care cost in the form of a monthly premium.

The R.C. grants authority to STRS Ohio to provide health care coverage to benefit recipients, spouses, and dependents. By Ohio law, the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14% of covered payroll.

The Retirement Board allocates employer contributions to the Health Care Reserve Fund from which health care benefits are paid. For the fiscal year ended June 30, 2001, the board allocated employer contributions equal to 4.5% of covered payroll to the Health Care Reserve Fund. The balance in the Health Care Reserve Fund was \$ 3.256 billion on June 30, 2001.

For the year ended June 30, 2001, net health care costs paid by STRS were \$ 300,772,000. There were 102,132 eligible benefit recipients.

NOTE 16 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, 2002, the District paid \$ 261,700 to LEECA for basic service charges.

LORAIN CITY SCHOOL DISTRICT
 NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
 JUNE 30, 2002

NOTE 16 JOINTLY GOVERNED ORGANIZATIONS (continued)

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, 2002 the District paid \$ 1,029,300 to LERC.

NOTE 17 INTERFUND RECEIVABLES AND PAYABLES

	Receivables	Payables
General Fund	\$ 1,651,863	\$ -
Special Revenue Funds		
Athletic Fund	-	24,000
Auxiliary Service Fund	-	45,000
Title VIB Fund	6,000	-
Vocational Education Grant Fund	-	51,504
Capital Projects Funds		
Building Fund	-	916,000
Enterprise Funds		
Food Service Fund	-	487,663
Internal Service Funds		
Rotary Funds	-	133,696
	\$ 1,657,863	\$ 1,657,863

LORAIN CITY SCHOOL DISTRICT
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 18 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 funds follows:

	Food Service	Uniform School Supplies	Rotary	Adult Education	Total
Operating revenues	\$ 996,148	\$ 4,643	\$ 91,652	\$ 5,199	\$ 1,097,642
Operating expenses					
Salaries and wages	59,434	-	16,458	4,016	79,908
Fringe benefits	239,745	-	3,090	868	243,703
Contractual services	4,058,004	-	2,389	109	4,060,502
Materials and supplies	229,266	-	58,564	-	287,830
Depreciation	39,817	-	3,831	-	43,648
Total operating expenses	4,626,266	-	84,332	4,993	4,715,591
Operating income (loss)	(3,630,118)	4,643	7,320	206	(3,617,949)
Non-operating revenues					
Intergovernmental	3,203,490	-	14,500	-	3,217,990
Loss on sale of fixed assets	(3,107)	-	-	-	(3,107)
Total non-operating revenues	3,200,383	-	14,500	-	3,214,883
Income (loss) before operating transfers	(429,735)	4,643	21,820	206	(403,066)
Operating transfers-in	120,481	-	-	-	120,481
Net income (loss)	\$ (309,254)	\$ 4,643	\$ 21,820	\$ 206	\$ (282,585)
Other information					
Net working capital	\$ (429,027)	\$ 19,011	\$ 79,770	\$ 258	\$ (329,988)
Fixed asset additions	\$ 11,615	\$ -	\$ 12,421	\$ -	\$ 24,036
Fixed asset disposals	\$ 11,875	\$ -	\$ -	\$ -	\$ 11,875
Total assets	\$ 673,925	\$ 19,011	\$ 106,362	\$ 258	\$ 799,556
Total equity	\$ (166,134)	\$ 19,011	\$ 104,645	\$ (284)	\$ (42,762)

LORAIN CITY SCHOOL DISTRICT
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 19 OTHER MATTERS - SCHOOL FUNDING

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 ". The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

NOTE 20 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 judgment against the District would not have a material adverse effect on the District's financial position.

NOTE 21 SUBSEQUENT EVENT

On August 14, 2002, the District refinanced \$10,000,000 of Bond anticipation notes for the Classroom Facilities project. The District also issued bond anticipation notes in the amount of \$31,094,000 related to the Classroom Facilities project. These notes are due February 13, 2003 and February 23, 2003, respectively. The \$ 10,000,000 bond anticipation notes are excluded from current liabilities and reported as noncurrent liabilities, because after June 30, 2002 a long-term obligation was issued for the purpose of refinancing these notes on a long-term basis.

In November 2002, the District issued bonds for the purpose of funding the Classroom Facilities project. The principal from these bonds will repay the bond anticipation notes disclosed above.

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LORAIN CITY SCHOOL DISTRICT

REPORT LETTERS

JUNE 30, 2002

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Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

January 23, 2003

The Board of Education
Lorain City School District
2350 Pole Avenue
Lorain, Ohio 44052

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

We have audited the general purpose financial statements of Lorain City School District as of and for the year ended June 30, 2002, and have issued our report thereon dated January 23, 2003. We have 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 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*. However, we noted an immaterial instance of non-compliance that we have reported to management of Lorain City School District in a separate letter dated January 23, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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 general purpose 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 of 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 general purpose 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 we have reported to management of Lorain City School District in a separate letter dated January 23, 2003.

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

Rea & Associates, Inc.

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

January 23, 2003

The Board of Education
Lorain City School District
2350 Pole Avenue
Lorain, Ohio 44052

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

Compliance

We have audited the compliance of 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, 2002. 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 Lorain City School District's management. Our responsibility is to express an opinion on Lorain City School District's compliance based on our audit.

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

In our opinion, 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, 2002.

Internal Control Over Compliance

The management of 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 Lorain City School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted an immaterial instance of non-compliance that we have reported to management of Lorain City School District in a separate letter dated January 23, 2003.

Schedule of Expenditures of Federal Awards - Non GAAP Budgetary Basis

We have audited the general purpose financial statements of Lorain City School District as of and for the year ended June 30, 2002, and have issued our report thereon dated January 23, 2003. Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the general purpose financial statements of Lorain City School District. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

This report is intended solely for the information of the Board of Education, 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.

Rea & Associates, Inc.

LORAIN CITY SCHOOL DISTRICT
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

Federal Grantor/ Pass Through Grantor/ Program Title	CFDA Number	Grant Number	Federal Receipts	Federal Disbursements	Non-Cash Disbursements
U. S. Department of Education					
Impact Aid	84.041	N/A	\$ 0	\$ 0	\$ 0
Impact Aid	84.041	N/A	20,945	20,945	0
Total Impact Aid			20,945	20,945	0
Passed Through Ohio Department of Education:					
Title I	84.010	C1-S1-2001	206,165	432,289	0
Title I	84.010	C1-S1-2002	2,841,726	2,843,554	0
Title I	84.010	C1-S1-01C	202,518	202,518	0
Total Title I			3,250,409	3,478,361	0
Title I-Comprehensive School Reform	84.332	RF-S1-2001	134,929	87,772	0
Total Title I-Comprehensive School Reform			134,929	87,772	0
Title I-School Improvement	84.348	AK-S1-2002	164,030	195,616	0
Total Title I-School Improvement			164,030	195,616	0
Title VI-B	84.027	6B-SF-2001P	82,228	173,183	0
Title VI-B	84.027	6B-SF-2002P	972,941	744,862	0
Total Title VI-B			1,055,169	918,045	0
Drug Free Schools	84.186	DR-S1-2001	0	17,944	0
Drug Free Schools	84.186	DR-S1-2002	54,694	46,448	0
Total Drug Free Schools			54,694	64,392	0
Eisenhower Grant	84.281	MS-S1-2000	0	10,666	0
Eisenhower Grant	84.281	MS-S1-2001	22,166	22,461	0
Eisenhower Grant	84.281	MS-S1-2002	37,722	2,374	0
Total Eisenhower Grant			59,888	35,501	0
Title VI - Innovative Edu. Prog. Strategies	84.298	C2-S1-2000	0	13,906	0
Title VI - Innovative Edu. Prog. Strategies	84.298	C2-S1-2001	0	6,702	0
Title VI - Innovative Edu. Prog. Strategies	84.298	C2-S1-2002	73,725	68,831	0
Total Title VI			73,725	89,439	0
Title VI-R - Class Size Reduction	84.340	CR-S1-2001	0	60,440	0
Title VI-R - Class Size Reduction	84.340	CR-S1-2002	568,534	631,037	0
Total VI-R			568,534	691,477	0
Adult and Community Education	84.002	AB-S1-2001	16,497	14,933	0
Adult and Community Education	84.002	AB-S1-2002	145,179	144,646	0
Adult and Community Education	84.002	AB-S1-2003	0	2,381	0
Total Adult and Community Education			161,676	161,960	0
Goals 2000	84.276	G2-S3-01	4,369	0	0
Goals 2000	84.276	G2-S5-01	14,000	0	0
Goals 2000	84.276		0	12,689	0
Goals 2000	84.276	G2-S1-2001	0	23,910	0
Goals 2000	84.276	G2-S2-2000	0	57,782	0
Goals 2000	84.276	G2-S6-1999	0	16,369	0
Goals 2000	84.276	G2-S2-2001	0	27,806	0

**LORAIN CITY SCHOOL DISTRICT
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

Federal Grantor/ Pass Through Grantor/ Program Title	CFDA Number	Grant Number	Federal Receipts	Federal Disbursements	Non-Cash Disbursements
Total Goals 2000			18,369	138,556	0
Reading Excellence	84.338	Rn-S1-00	515,979	563,017	0
Total Reading Excellence			515,979	563,017	0
Assistive Technology Infusion Project	84.352		13,936	0	0
Total Assistive Technology Infusion Project			13,936	0	0
Vocational Education Basic Grant	84.048	VEAR-2002-057	20,400	0	0
Vocational Education Basic Grant	84.048	VECP11-S2001-057	44,456	135,187	0
Vocational Education Basic Grant	84.048	VECP111-S2002-057	271,592	243,143	0
Total Vocational Education Basic Grant			336,448	378,330	0
Preschool Grants	84.173	PG-S1-2001P	7,333	13,313	0
Preschool Grants	84.173	PG-S1-2002P	31,042	32,783	0
Total Preschool Grants			38,375	46,096	0
Technology Literacy Challenge Fund Grant	84.318	TF-4X-2000P	0	10,132	0
Technology Literacy Challenge Fund Grant	84.318	TF-4X-2000P	0	20,123	0
Total Technology Literacy Challenge Fund Grant			0	30,255	0
Learn and Serve America	94.004	SV-S3-2001	0	3,855	0
Learn and Serve America	94.004	SV-S4-2001	10,000	8,560	0
Total Learn and Serve America			10,000	12,415	0
21st Century Comm. Learning Center	84.287	N/A	261,465	262,307	0
Total 23rd Century Comm. Learning Center			261,465	262,307	0
Gear Up	84.334	P334A990314	253,134	417,559	0
Gear up	84.334	P334A990314	669,547	495,364	0
Total Gear Up			922,681	912,923	0
Total Department of Education			7,661,252	8,087,407	0
U. S. Department of Health & Human Services (Passed Through State Department of MRDD):					
Medical Assistance Program/CAFS	93.778	N/A	635,409	424,613	0
U. S. Department of Agriculture (Passed Through Ohio Department of Education):					
Nutrition Cluster					
Food Distribution (A) (B)	10.550	N/A	219,766	0	199,338
Total Food Distribution			219,766	0	199,338
School Breakfast Program (A)	10.553	05-PU-2001	646,867	646,867	0

**LORAIN CITY SCHOOL DISTRICT
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

Federal Grantor/ Pass Through Grantor/ Program Title	CFDA Number	Grant Number	Federal Receipts	Federal Disbursements	Non-Cash Disbursements
Total School Breakfast Program			646,867	646,867	0
National School Lunch Program (A)	10.555	LLP4-2001	2,107,494	2,107,493	0
Total National School Lunch Program			2,107,494	2,107,493	0
Special Milk Program for Children	10.556	02-PU99	0	0	0
Special Milk Program for Children	10.556	02-PU99	0	0	0
Total Special Milk Program for Children			0	0	0
Summer Food Service Program	10.559	24-AD99			
Summer Food Service Program	10.559	24-AD99	48,309	48,307	0
Total Summer Food Service Program			48,309	48,307	0
Total Department of Agriculture - Nutrition Cluster			<u>3,022,436</u>	<u>2,802,667</u>	<u>199,338</u>
Telecommunications Act Fund	88.001		5,126	0	0
Total Telecommunications Act Fund			5,126	0	0
U.S. Department of Defense					
Reserve Officers Training Corp (ROTC)	12.XXX	N/A	50,695	50,695	0
Reserve Officers Training Corp (ROTC)	12.XXX	N/A	44,532	44,532	0
Total Reserve Officers Training Corp			<u>95,227</u>	<u>95,227</u>	<u>0</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u>\$ 11,419,450</u>	<u>\$ 11,409,914</u>	<u>\$ 199,338</u>

**LORAIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 , Section .505
JUNE 30, 2002**

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) (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 Section .510?	No
(d) (1) (vii)	Major Programs (list):	Gear Up, CFDA #84.334 Vocational Education Basic, CFDA #84.048 Reading Excellence, CFDA #84.338 Nutrition Cluster, CFDA #10.55*
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: > \$348,277 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 noted.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None noted.



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Betty Montgomery**

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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.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 27, 2003**