

LORAIN CITY SCHOOL DISTRICT
BASIC FINANCIAL STATEMENTS
JUNE 30, 2003



**Auditor of State
Betty Montgomery**

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

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, 2002 through June 30, 2003. 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

April 14, 2004

This Page is Intentionally Left Blank.

LORAIN CITY SCHOOL DISTRICT
TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Management's Discussion and Analysis	3
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Assets	9
Statement of Activities	10
Fund Financial Statements	
Balance Sheet - Governmental Funds	11
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	12
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	13
Reconciliation of the Changes in Fund Balances of Governmental Funds to the Statement of Activities	14
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget Basis (Non-GAAP) and Actual - General Fund	15
Statement of Fund Net Assets - Proprietary Fund	16
Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Fund	17
Statement of Cash Flows - Proprietary Fund	18
Statement of Fiduciary Assets and Liabilities - Agency Funds	19
Notes to the Basic Financial Statements	20

This Page is Intentionally Left Blank.

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

December 17, 2003

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

INDEPENDENT AUDITOR'S REPORT

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lorain City School District, as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Lorain City School District as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2003, the School District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 17, 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.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion thereon.

Rea & Associates, Inc.

LORAIN CITY SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED

The discussion and analysis of the Lorain City School District's financial performance provides an overall review of the school district's financial activities for the fiscal year ended June 30, 2003. The intent of this discussion and analysis is to review the school district's financial performance as a whole. Readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the overall school district's performance.

Financial Highlights

- Revenues for governmental activities totaled \$95.3M. Of this total, nearly 16% was generated by tax revenues, 58% was generated by state revenues, and the balance of the revenues (26%) was born from tuition, fees, interest, charges for services, extracurricular activities, grants and other sources.
- Total expenses summed to \$100.5 M with 59% of that total being used for Instruction and 28% was used for Support Services.
- One of five Energy Conservation Bonds was paid off in fiscal year 2003 with that principal and interest totaling \$0.3M.
- The district received cash of \$41.1M as a result of a building facilities bond levy which passed in November 2001.
- The district received a one-time \$4.2M cash inflow from the state of Ohio as a result of a state formula recalculation on assessed values.

Reporting the School District as a Whole

While this document contains all the funds used by the school district to provide programs and activities, the view of the school district as a whole considers all financial transactions and asks the question, "How did we do financially during fiscal year 2003?" The Statement of Net Assets and the Statement of Activities answers this question. These statements include all assets and liabilities using the accrual basis of accounting, similar to accounting used by most private sector companies. Accrual accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the school district's net assets. In the *Statement of Activities*, the school district is classified into governmental activities. All of the school district's programs and services are reported here including instruction, support services, operation and maintenance, pupil transportation, food service operation and extracurricular activities.

These two statements report the school district's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the district as a whole, the financial position of the school district has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the school district's performance, demographic and socioeconomic factors, and the willingness of the community to support the school district. On the other hand, financial factors may include the school district's financial position, liquidity and solvency, fiscal capacity and risk and exposure.

LORAIN CITY SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED

The Balance Sheet communicates the financial position of Lorain City Schools as of June 30, 2003. Modified accrual accounting is used in this statement which measures cash and all other financial assets that can be readily converted to cash.

The Statement of Revenues, Expenditures, and Changes in Fund Balances details the revenues and expenses of the General Fund, Classroom Facilities fund and Other Governmental funds.

This document contains the Reconciliation of Total Government Fund Balances to Net Assets of Governmental Activities, and Reconciliation of the Statement of Changes in Fund Balances of Governmental Funds to the Statement of Activities. These reports reconcile modified accrual accounting to normal accrual accounting.

Finally, this document contains a Statement of Fund Net Assets for Internal Service Funds, a Statement of Revenues, Expenses and Changes in Fund Net Assets for Internal Service Funds, and a Statement of Fiduciary Assets and Liabilities for Agency Funds.

Financial Statements

Statement of Net Assets

The School District as a Whole

Recall that the Statement of Net Assets provides the perspective of the School District as a whole.

Table 1 provides a summary of the School District's net assets for 2003 compared to 2002:

(Table 1)
Net Assets

	Governmental Activities	
	2003	2002
Assets		
Current and other assets	\$ 259,201,246	\$ 232,700,929
Capital assets	18,420,780	15,834,009
Total assets	277,622,026	248,534,938
 Liabilities		
Long-term liabilities	53,255,988	23,196,490
Other liabilities	33,882,520	45,793,795
Total liabilities	87,138,508	68,990,285
 Net Assets		
Invested in capital assets net of debt	15,149,019	15,001,472
Restricted	218,337,362	187,946,978
Unrestricted (deficit)	(43,002,863)	(23,403,797)
Total net assets	\$ 190,483,518	\$ 179,544,653

LORAIN CITY SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED

Significant issues in this statement are Equity in pooled cash, Due from other governments, Taxes receivable, Long term liabilities and Capital projects. These balances have all increased from fiscal year 2002 because of an impressive Ohio State Facilities Commission (OSFC) project to build and/or renovate the school buildings in the entire Lorain City Schools system. The OSFC project is approximately \$216M in total with a local bond issue which yielding a \$41.1M cash inflow for fiscal year 2003. This \$41.1M cash inflow increased Equity in pooled cash, Due from other governments, Taxes receivable, Long term liabilities and Capital projects from fiscal year 2002.

The Deferred revenue figure of \$22.3M is attributable to the fact that tax revenues are collected prior to expenditures utilizing those revenues.

Statement of Activities

Governmental Activities

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 2 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements. All governmental funds had total revenues of \$ 95.3 million and expenditures of \$ 100.5 million. Comparisons to 2002 have not been made since they are not available.

(Table 2)
Governmental Activities

	2003	
	Total Cost of Service	Net Cost of Service
Instruction	\$ 63,321,394	\$ 50,351,022
Supporting services		
Pupil and instructional staff	9,633,547	6,458,466
Board of education, administration, fiscal and business	8,842,389	7,896,986
Operation and maintenance of plant	7,135,163	7,031,750
Pupil transportation and central	2,673,299	2,342,738
Operation of non-instructional	5,588,680	569,551
Extracurricular activities	1,604,191	1,328,427
Interest and fiscal charges	1,688,654	1,688,654
Total expenses	\$ 100,487,317	\$ 77,667,594

Approximately 63% of the district's budget is used to fund instructional expenses. Additional support services for pupils, staff and business operations encompass another 28% of the budget. The remaining 9% of the budget is used to facilitate other obligations of the district such as the food service program, extracurricular activities and debt service. Program revenues fund 23% of the cost structure.

LORAIN CITY SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED

Balance Sheet – Governmental Funds

Significant items in the Balance Sheet for Governmental funds were that cash increased by almost \$32M from fiscal year 2002 as a result of the cash inflow from the previously communicated OSFC local bond issue. Delinquent Taxes increased from \$7.2M in fiscal year 2002 to \$12.4M in fiscal year 2003. That increase of \$5.2M is due mainly to the delinquent tax state of a local steel company.

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds

The General Fund is the largest source of revenues in the district totaling approximately 73% of total Governmental Fund revenues.

General Fund revenue sources are as follows:

	<u>FY02</u>	<u>FY03</u>
Local Taxes	29%	25%
State Funding	70%	74%
Other	<u>1%</u>	<u>1%</u>
	100%	100%

The district continues to be plagued by local tax delinquencies totaling over \$12.4M in fiscal year 2003. The largest source of these delinquencies is a local steel company. Local tax revenues comprise almost 21% of total revenues. Total tax revenues were very constant when comparing FY02 to FY03. State funding sources generate approximately 58% of total revenues.

Regarding expenditures, the district spends approximately 59% of its total expenses on Instruction, and another 28% on Support Services. The remaining 21% was spent on the retiring of a \$10M note, food service, sports oriented activities, capital outlay and some other lesser expenditure items.

General Fund Budgeting Highlights

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

The district uses a combination site-based and activity-based style of budgeting and has systems in place to tightly control expenses, yet provide flexibility for proper decisions by management.

The General Fund budget was over budget in certain areas due to a reduction in pupil enrollment which became official in the second half of fiscal year 2003. However, because of the previously communicated recalculation of the assessed valuation of the school district, the district netted \$4.2 M cash inflow from the state of Ohio in June 2003 which was previously unbudgeted.

LORAIN CITY SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2003, the School District had \$ 18.4 million invested in land, buildings, equipment, and construction in progress. Table 3 shows fiscal year 2003 balances compared with 2002.

(Table 3)
Capital Assets at June 30
(Net of Depreciation)

	Governmental Activities	
	2003	2002
Land, buildings and improvements	\$ 8,813,437	\$ 9,227,050
Furniture and fixtures	4,257,775	4,642,748
Textbooks	1,543,695	1,749,520
Vehicles	153,603	214,691
Construction in progress	3,652,270	-
Totals	\$ 18,420,780	\$ 15,834,009

No depreciation expense was charged to governmental funds. See Note 2 I and Note 9 for additional information.

The increase in capital assets was attributable mainly to construction in progress.

A change in Ohio law required school districts to set aside 3% of certain revenues for capital improvements and an additional 3% for textbooks. For fiscal year 2003, this amounted to \$ 1,538,940 for each set aside. The School District has qualifying disbursements or offsets which did not exceed these requirements for capital improvements and textbooks. See Note 18 for additional information and the required funds set aside.

Debt

At June 30, 2003, the School District had \$ 3,511,513 in notes payable and \$ 41,531,095 in bonds outstanding with \$ 2,215,404 due within one year. During fiscal year 2003, \$ 11,016,271 of notes payable were retired and \$ 395,418 of bonds were retired. Table 4 summarizes debt outstanding.

(Table 4)
Outstanding Debt, at June 30

	Governmental Activities 2003	Governmental Activities 2002
Notes payable	\$ 3,511,513	\$ 14,527,784
Improvement bonds	437,119	832,537
General obligation bonds	41,093,976	-
Totals	\$ 45,042,608	\$ 15,360,321

LORAIN CITY SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED

School District Outlook

The Board of Education and Administration closely monitor the revenues and expenditures of the district in accordance with the financial forecast and the Comprehensive Continuous Improvement Plan (CCIP).

The financial future of the district is not without its challenges. Internal challenges will continue to exist as the district must rely on local property taxes to fund some of its operations. External challenges continue to evolve as the State of Ohio determines the amount of funding they will allocate to education through its budgeting process.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers and investors and creditors with a general overview of the school district's finances and to show the district's accountability for the money it receives. If you have any questions about this report or need additional information, please contact James E. Estle, Treasurer/CFO, at (440) 233-2239, or by mail at Lorain City Schools, 2350 Pole Avenue, Lorain, OH 44052.

LORAIN CITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

JUNE 30, 2003

	Governmental Activities
Assets	
Equity in pooled cash	\$ 55,959,095
Cash with fiscal agents	4,246
Accounts receivable	430,508
Due from other governments	172,971,758
Inventories and supplies	40,790
Taxes receivable	25,945,513
Prepaid and deferred expenses	3,784,336
Deposits and other assets	65,000
Capital assets	
Nondepreciable capital assets	5,671,872
Depreciable capital assets, net	12,748,908
Total assets	<u>277,622,026</u>
Liabilities	
Accounts and contracts payable	1,078,981
Claims payable	1,076,193
Accrued salaries, wages and benefits	5,484,967
Interest payable	261,316
Matured interest payable	976,975
Due to other governments	2,051,540
Due to others	693,109
Deferred revenue	22,259,439
Long term liabilities	
Due within one year	3,624,137
Due in more than one year	49,631,851
Total liabilities	<u>87,138,508</u>
Net assets	
Invested in capital assets, net of related debt	15,149,019
Restricted for:	
Debt service	2,382,310
Capital projects	213,414,973
Other purposes	2,540,079
Unrestricted (deficit)	(43,002,863)
Total net assets	<u>\$ 190,483,518</u>

See accompanying notes to the basic financial statements.

LORAIN CITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2003

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants Interest and Contributions	
Governmental activities				
Instruction				
Regular	\$ 41,138,951	\$ 246,114	\$ 5,755,756	\$ (35,137,081)
Special	12,415,891	-	5,999,180	(6,416,711)
Vocational	5,523,005	-	360,417	(5,162,588)
Adult/continuing	493,574	-	430,312	(63,262)
Other instruction	3,749,973	6,765	171,828	(3,571,380)
Supporting services				
Pupil	3,058,626	-	880,864	(2,177,762)
Instructional staff	6,574,921	-	2,294,217	(4,280,704)
Board of education	254,787	-	-	(254,787)
Administration	7,094,317	272,698	603,328	(6,218,291)
Fiscal services	989,638	-	22,777	(966,861)
Business	503,647	-	46,600	(457,047)
Operation and maintenance	7,135,163	-	103,413	(7,031,750)
Pupil transportation	1,893,647	-	3,415	(1,890,232)
Central services	779,652	-	327,146	(452,506)
Operation of non-instructional				
Food service operation	3,815,799	890,638	3,114,061	188,900
Community services	1,772,881	27,649	986,781	(758,451)
Extracurricular activities				
Academic and subject oriented	444,245	10,170	6,390	(427,685)
Occupation oriented	4,067	-	2,313	(1,754)
Sports oriented	1,079,899	223,681	31,811	(824,407)
Co-curricular	75,980	-	1,399	(74,581)
Interest	1,688,654	-	-	(1,688,654)
Totals	<u>\$ 100,487,317</u>	<u>\$ 1,677,715</u>	<u>\$ 21,142,008</u>	<u>(77,667,594)</u>
General revenues				
Property taxes levied for:				
General purpose				13,073,418
Capital improvements				239,482
Debt Service				1,697,967
Grants and entitlements not restricted to specific purposes				55,615,481
Investment earnings				876,757
Miscellaneous				984,542
Total general revenues				<u>72,487,647</u>
Change in net assets				(5,179,947)
Net assets at beginnig of year, restated				195,663,465
Net assets at end of year				<u>\$ 190,483,518</u>

See accompanying notes to the basic financial statements.

LORAIN CITY SCHOOL DISTRICT
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2003

	General	Debt Service	Classroom Facilities Commission	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in pooled cash	\$ 2,666,062	\$ 3,025,089	\$ 43,233,846	\$ 3,810,748	\$ 52,735,745
Cash with fiscal agents	-	-	4,246	-	4,246
Restricted cash	1,490,123				1,490,123
Receivables, net of allowance					
Taxes, current	21,786,647	2,833,608	-	356,710	24,976,965
Taxes, delinquent	832,052	121,234	-	15,262	968,548
Accounts and other	174,000	-	-	213,881	387,881
Due from other governments	-	-	171,143,880	1,827,878	172,971,758
Interfund receivable	2,357,117	-	-	6,000	2,363,117
Inventories and supplies	-	-	-	40,790	40,790
Total assets	\$ 29,306,001	\$ 5,979,931	\$ 214,381,972	\$ 6,271,269	\$ 255,939,173
Liabilities and fund balances					
Liabilities					
Accounts and contracts payable	\$ 408,561	\$ -	\$ 79,565	\$ 568,136	\$ 1,056,262
Accrued wages and benefits	4,771,887	-	-	713,081	5,484,968
Accrued interest	3,414	116,331	-	-	119,745
Matured interest payable	-	976,975	-	-	976,975
Due to others	-	-	-	693,109	693,109
Due to other governments	1,276,348	-	-	116,032	1,392,380
Interfund payable	-	-	-	2,363,117	2,363,117
Deferred revenue	20,082,724	2,625,549	171,134,748	1,868,024	195,711,045
Notes payable	3,511,512	-	-	-	3,511,512
Compensated absences	476,468	-	-	-	476,468
Total liabilities	30,530,914	3,718,855	171,214,313	6,321,499	211,785,581
Fund balances					
Reserved	4,498,446	329,293	1,163,656	569,441	6,560,836
Unreserved, reported in					
General Fund	(5,723,359)	-	-	-	(5,723,359)
Special Revenue Funds	-	-	-	263,554	263,554
Debt Service Fund	-	1,931,783	-	-	1,931,783
Capital Projects Funds	-	-	42,004,003	(883,225)	41,120,778
Total fund balances (deficits)	(1,224,913)	2,261,076	43,167,659	(50,230)	44,153,592
Total liabilities and fund balances	\$ 29,306,001	\$ 5,979,931	\$ 214,381,972	\$ 6,271,269	\$ 255,939,173

See accompanying notes to the basic financial statements.

LORAIN CITY SCHOOL DISTRICT
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2003

Total governmental funds balances	\$	44,153,592
Amount reported for governmental activities in the statement of net assets are different because		
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.		18,420,780
Other long term assets are not available to pay for current period expenditures and therefore are deferred in the funds:		
Property taxes		172,223,998
Prepaid and deferred expenses		3,736,390
Grants		1,227,608
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		689,392
Due to other governments includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore not reported in the funds.		(558,664)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
Compensated absences		(49,268,007)
Accrued interest payable		(141,571)
		.
Net assets of governmental activities	\$	190,483,518

See accompanying notes to the basic financial statements.

LORAIN CITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2003

	General	Debt Service	Classroom Facilities Commission	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes	\$ 18,679,702	\$ 2,300,142	\$ -	\$ 296,561	\$ 21,276,405
Tuition and fees	246,114	-	-	10,525	256,639
Interest	312,679	-	463,591	4,163	780,433
Intergovernmental	55,615,481	-	3,980,764	19,391,877	78,988,122
Charges for services	-	-	-	890,638	890,638
Extracurricular	-	-	-	530,438	530,438
Gifts and donations	-	-	-	401,821	401,821
Other	141,589	-	-	105,494	247,083
Total revenues	<u>74,995,565</u>	<u>2,300,142</u>	<u>4,444,355</u>	<u>21,631,517</u>	<u>103,371,579</u>
Expenditures					
Current					
Instruction					
Regular	32,883,740	-	-	6,192,289	39,076,029
Special	7,018,424	-	-	4,975,819	11,994,243
Vocational	5,171,381	-	-	477,729	5,649,110
Adult/continuing	-	-	-	495,338	495,338
Other instruction	3,531,700	-	-	218,273	3,749,973
Supporting services					
Pupil	2,173,069	-	-	864,576	3,037,645
Instructional staff	4,451,097	-	-	2,337,058	6,788,155
Board of education	253,980	-	-	-	253,980
Administration	6,193,215	-	-	861,391	7,054,606
Fiscal services	905,224	36,891	-	24,138	966,253
Business	460,890	-	-	38,715	499,605
Operation and maintenance	6,913,688	-	-	100,328	7,014,016
Pupil transportation	1,882,739	-	-	3,845	1,886,584
Central services	550,264	-	-	539,204	1,089,468
Operation of non-instructional					
Food service operation	-	-	-	3,887,379	3,887,379
Community services	-	-	-	1,736,133	1,736,133
Extracurricular activities	1,165,544	-	-	453,825	1,619,369
Capital outlay	159,020	-	3,652,270	24,402	3,835,692
Debt service					
Principal	-	10,395,418	-	-	10,395,418
Interest	77,735	1,473,276	-	-	1,551,011
Total expenditures	<u>73,791,710</u>	<u>11,905,585</u>	<u>3,652,270</u>	<u>23,230,442</u>	<u>112,580,007</u>
Excess (deficiency) of revenues over expenditures	<u>1,203,855</u>	<u>(9,605,443)</u>	<u>792,085</u>	<u>(1,598,925)</u>	<u>(9,208,428)</u>
Other financing sources (uses)					
Transfers-in	25,662	418,988	-	375,091	819,741
Transfers-out	(791,079)	-	-	(28,662)	(819,741)
Gain on sale of fixed assets	2,650	-	-	-	2,650
Proceeds from the sale of bonds	-	9,999,976	31,094,000	-	41,093,976
Total other financing sources (uses)	<u>(762,767)</u>	<u>10,418,964</u>	<u>31,094,000</u>	<u>346,429</u>	<u>41,096,626</u>
Net change in fund balances	441,088	813,521	31,886,085	(1,252,496)	31,888,198
Fund balances (deficit), beginning of year, as restated	(1,666,001)	1,447,555	11,281,574	1,202,266	12,265,394
Fund balances (deficit), end of year	<u>\$ (1,224,913)</u>	<u>\$ 2,261,076</u>	<u>\$ 43,167,659</u>	<u>\$ (50,230)</u>	<u>\$ 44,153,592</u>

See accompanying notes to the basic financial statements.

LORAIN CITY SCHOOL DISTRICT
RECONCILIATION OF THE CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2003

Net change in fund balances - total governmental funds		\$ 31,888,198
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.		
	2,586,771	2,586,771
Other financing sources in the governmental funds increase long-term liabilities in the statement of activities		(41,093,976)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Property taxes	(6,265,538)	
Intergovernmental revenue	(2,632,454)	
Charges for services	(6,939,934)	(15,837,926)
Repayment of note and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets		10,395,418
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. Also, in the statement of activities, interest of \$ 976,975 is a capitalized asset not an expense.		(137,643)
Some expenses reported in the statement of activities, do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.		
Compensated absences	573,949	
Pension obligations	(269,939)	
Claims paid	7,206,358	7,510,368
The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.		(491,157)
Change in net assets of governmental activities		\$ (5,179,947)

See accompanying notes to the basic financial statements.

LORAIN CITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET BASIS (NON-GAAP) AND ACTUAL – GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2003

	General			Variance with Final Budget Positive (Negative)
	Original	Budget	Actual	
Revenues				
Taxes	\$ 19,578,202	\$ 18,581,968	\$ 18,581,968	\$ -
Tuition and fees	277,145	259,698	259,698	-
Interest	329,559	312,679	312,679	-
Intergovernmental	53,434,318	54,914,679	55,632,336	717,657
Miscellaneous	165,490	299,645	299,645	-
Total revenues	<u>73,784,714</u>	<u>74,368,669</u>	<u>75,086,326</u>	<u>717,657</u>
Expenditures				
Current				
Instruction				
Regular	29,946,169	33,214,175	32,877,192	336,983
Special	7,111,674	7,025,000	7,024,353	647
Vocational education	5,311,029	5,400,000	5,362,746	37,254
Other	1,578,000	3,600,000	3,586,224	13,776
Supporting services				
Pupil	2,438,770	2,158,622	2,147,191	11,431
Instructional	4,187,828	4,500,000	4,400,667	99,333
Board of education	592,929	300,000	297,851	2,149
Administration	6,880,468	6,120,000	6,102,533	17,467
Fiscal	1,037,091	1,200,000	1,018,251	181,749
Business	580,240	500,000	482,308	17,692
Operation and maintenance	6,843,414	6,800,000	6,784,490	15,510
Pupil transportation	1,988,123	1,900,000	1,886,389	13,611
Central services	946,901	600,000	586,276	13,724
Extracurricular activities				
Academic and subject oriented	493,577	400,000	396,609	3,391
Sports oriented	769,068	760,000	753,722	6,278
Capital outlay	63,000	175,000	170,318	4,682
Debt service				
Principal	1,016,271	1,020,000	1,016,271	3,729
Interest	284,750	80,000	78,723	1,277
Total expenditures	<u>72,069,302</u>	<u>75,752,797</u>	<u>74,972,114</u>	<u>780,683</u>
Excess (deficiency) of revenues over expenditures	<u>1,715,412</u>	<u>(1,384,128)</u>	<u>114,212</u>	<u>1,498,340</u>
Other financing sources (uses)				
Gain on sale of assets	2,738	2,500	2,650	150
Transfers-in	17,253	20,000	25,662	5,662
Advances in	1,236,180	150,000	158,362	8,362
Advances out	(399,000)	(870,000)	(863,616)	6,384
Transfers-out	(879,000)	(800,000)	(791,079)	8,921
Total other financing sources (uses)	<u>(21,829)</u>	<u>(1,497,500)</u>	<u>(1,468,021)</u>	<u>29,479</u>
Excess (deficiency) of revenues over expenditures and other sources (uses)	1,693,583	(2,881,628)	(1,353,809)	1,527,819
Prior year encumbrances	1,919,960	1,919,960	1,919,960	-
Fund balances, beginning of year	2,709,126	2,709,126	2,709,126	-
Fund balances, end of year	<u>\$ 6,322,669</u>	<u>\$ 1,747,458</u>	<u>\$ 3,275,277</u>	<u>\$ 1,527,819</u>

See accompanying notes to the basic financial statements.

LORAIN CITY SCHOOL DISTRICT
STATEMENT OF FUND NET ASSETS
PROPRIETARY FUND
JUNE 30, 2003

	Governmental Activities
	Internal
	<u>Service Fund</u>
Assets	
Equity in pooled cash	\$ 1,385,961
Investments	347,266
Accounts receivable	42,627
Deposits and other	65,000
Prepaid expenses	47,946
Total assets	<u>1,888,800</u>
Liabilities	
Accounts payable	22,719
Claims payable	1,076,193
Due to other governments	100,496
Total liabilities	<u>1,199,408</u>
Net assets	
Unrestricted	<u>\$ 689,392</u>

See accompanying notes to the basic financial statements.

LORAIN CITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2003

	Governmental Activities
	Internal
	<u>Service Fund</u>
Operating revenue	
Charges for services	\$ 7,376,589
Miscellaneous	300,804
	<u>7,677,393</u>
Operating expenses	
Purchased services	67,854
Claims	8,197,020
Total operating expenses	<u>8,264,874</u>
Operating loss	<u>(587,481)</u>
Nonoperating revenue	
Interest	<u>96,324</u>
Change in net assets	(491,157)
Net assets, beginning of year	<u>1,180,549</u>
Net assets, end of year	<u><u>\$ 689,392</u></u>

See accompanying notes to the basic financial statements.

LORAIN CITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS -
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2003

	Governmental Activities Internal Service Fund
Cash flow s from operating activites	
Cash received from interfund services	\$ 7,634,766
Cash payments for goods and services	(671,203)
Cash payments for claims	(7,653,044)
Net cash used in operating activities	<u>(689,481)</u>
 Cash flow s from investing activities	
Interest income	66,963
Redemption of investments	969,266
Net cash provided by investing activities	<u>1,036,229</u>
 Net increase in cash and cash equivalents	346,748
 Cash and cash equivalents, beginning of year	<u>1,039,213</u>
 Cash and cash equivalents, end of year	<u>\$ 1,385,961</u>
 Reconciliation of operating loss to net cash used in operating activities	
Operating loss	<u>\$ (587,481)</u>
Adjustments	
Increase in accounts receivable	(42,627)
Increase in prepaid expenses	(47,770)
Increase in accounts payable	34,079
Decrease in due to other governments	(31,182)
Decrease in claims payable	(14,500)
Total adjustments	<u>(102,000)</u>
 Net cash used in operating activities	<u>\$ (689,481)</u>

See accompanying notes to the basic financial statements.

LORAIN CITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES -
AGENCY FUNDS
JUNE 30, 2003

	Agency
Assets	
Equity in pooled cash	\$ 83,470
Total assets	83,470
Liabilities	
Accounts payable	195
Due to students	23,672
Due to others	59,603
Total liabilities	\$ 83,470

See accompanying notes to the basic financial statements.

LORAIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING 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, 2002 was 10,289. The District employs 875 certificated and 348 non-certificated employees.

REPORTING ENTITY

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 the District, this includes general operations, food service, and student related activities of the District.

Within the District boundaries, there are various nonpublic schools. Current State legislation provides funding to these nonpublic schools. These monies are received and disbursed by the District on behalf of the nonpublic schools by the Treasurer of the School District, as directed by the nonpublic schools. These transactions are reported as a governmental activity 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 10 to the financial statements.

Financial information for the Trust's year ended December 31, 2002 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.

LORAIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY (continued)

The following entities which perform activities within the District's boundaries for the benefit of its residents are excluded from the accompanying financial statements because the District is not financially accountable for the 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 19 of the financial statements.

Lake Erie Regional Council – The Lake Erie Regional Council (LERC) promotes cooperative agreements to its members in dealing with problems of mutual concern. This is a jointly governed organization. The District's participation is disclosed in Note 19 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 represents 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

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989, to its governmental and business-type activities and to its proprietary funds provided they do not conflict with or contradict GASB pronouncements. Following are the more significant of the District's accounting policies.

A. BASIS OF PRESENTATION

The District's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses.

LORAIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. BASIS OF PRESENTATION (continued)

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

Fund Financial Statements

During the year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the District at this more detailed level. The focus of governmental financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

B. FUND ACCOUNTING

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

Governmental Funds

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

General Fund - the general fund is the operating fund of the school district and is used to account for all financial resources, except those required to be accounted for in another fund.

Debt Service Fund - The debt service fund is used to account for the accumulation of property tax revenues for, and the payment of, principal and interest obligations relative to the school district's general obligation bonds.

Classroom Facilities Commission Fund - this fund is used to account for monies received and expended in connection with contracts entered into by the school district and the Ohio Department of Education for the building and equipping of classroom facilities.

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

LORAIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Proprietary Fund

The proprietary fund focuses on the determination of the changes in net assets, financial position, and cash flows. Proprietary funds are classified as enterprise or internal service; the District has no enterprise funds.

Internal Service Funds – The internal service funds account for the financing of services provided by one department or agency to other departments or agencies of the District on a cost reimbursement basis.

Fiduciary Funds

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

C. MEASUREMENT FOCUS

Government-wide Financial Statements - The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the Statement of Net Assets. The Statement of Activities presents increases (revenues) and decreases (expenses) in the total net assets.

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

Like the government-wide statements, the internal service fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of this fund are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activity.

LORAIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. BASIS OF ACCOUNTING

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting.

Proprietary and the fiduciary fund also use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-exchange Transactions

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 8). Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year end: property taxes available as an advance, grants, investment earnings, tuition, and student fees.

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of June 30, 2003, but which were levied to finance fiscal year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

LORAIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. BASIS OF ACCOUNTING (continued)

Expenditures/Expenses

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

E. BUDGETARY PROCESS

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Board. The primary level of budgetary control is at the object code function level within each fund.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate that were in effect at the time the final appropriations were passed by the Board of Education.

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

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. On fund financial statements, encumbrances outstanding at year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds. A reserve for encumbrances is not reported on government-wide financial statements.

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

LORAIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. CASH AND INVESTMENTS

Cash received by the District is deposited in one central bank account with individual fund balance integrity maintained through District records. Monies for all funds are maintained in this account or temporarily transferred to the State Treasurer's investment pool (STAROhio) or other short term investments. Under existing Ohio statutes, interest earnings are allocated to funds based on average monthly cash balances. Interest income earned for the year ended June 30, 2003 totaled \$ 876,757.

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 in the State Treasury Asset Reserve of Ohio (STAROhio) during the year. 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, 2003.

Investments with an original maturity of three months or less at the time of purchase are considered to be cash equivalents.

G. INVENTORY

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

On fund financial statements, inventories of governmental funds are stated at cost. Cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

H. RESTRICTED ASSETS

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other government or imposed by enabling legislation. Restricted assets include amounts required by statute to be set aside for the purchase of textbooks and other instructional material, capital maintenance, and to create a reserve for budget stabilization. See Note 5 and Note 18 for additional information regarding set-asides.

LORAIN CITY SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. CAPITAL ASSETS

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported on the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of five hundred dollars. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets, other than land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Description	Estimated lives
Land improvements	20 years
Buildings	40 years
Building improvements	40 years
Furniture and equipment	6 - 10 years
Vehicles	4 - 10 years
Textbooks	5 years

J. INTERFUND BALANCES

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental column of the statement of net assets.

K. COMPENSATED ABSENCES

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the vesting method. The liability is based on an estimate of the amount of accumulated sick leave that will be paid as a termination benefit. The liability includes employees who are currently eligible to receive termination benefits and those the District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the District's termination policy.

A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

LORAIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

L. ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Long-term notes and capital leases are recognized as a liability on the governmental fund financial statements when due.

M. NET ASSETS

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

The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

N. FUND BALANCE RESERVES AND DESIGNATIONS

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for property taxes, inventory, budget stabilization, and encumbrances.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. The reserve for budget stabilization represents monies required to be set aside by State statute to protect against cyclical changes in revenues and expenditures. The designation for budget stabilization represents revenues set aside that exceed statutorily required amounts.

O. OPERATING REVENUES AND EXPENSES

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of this fund. Revenues and expenses not meeting those definitions are reported as non-operating.

LORAIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

P. INTERFUND TRANSACTIONS

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

Q. ESTIMATES

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

NOTE 3 - CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE

A. CHANGES IN ACCOUNTING PRINCIPLES

For fiscal year 2003, the District has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments"; GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". At June 30, 2003, there was no effect on fund balance as a result of implementing GASB Statements 37 and 38 and GASB Interpretation No. 6.

GASB Statement No. 34 creates new basic financial statements for reporting on the District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements split the District's programs between governmental and business-type activities. Except for the restatement explained below, the beginning net asset amount for the business-type activities equals fund equity of the enterprise funds from last year. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2002, caused by the elimination of the internal service fund, reclassification of funds based on guidance provided in GASB Statement No. 34 and the conversion to the accrual basis of accounting.

It was determined that enterprise funds and certain internal service funds should be reclassified to special revenue funds and that the medical self-insurance program should be accounted for as an internal service fund.

LORAIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE (continued)

B. RESTATEMENT OF FUND BALANCE

The restatements for GASB Statement No. 34 had the following effects on fund balance of the major and nonmajor funds of the District as they were previously reported. The transition from governmental fund balance to net assets of the governmental activities is also presented.

	General	Debt Service	Classroom Facilities Commission	Other Governmental Funds	Total
Fund balances, June 30, 2002	\$ (997,082)	\$ 1,173,595	\$ 11,281,574	\$ 1,563,672	\$ 13,021,759
Fund reclassifications	-	-	-	(235,036)	(235,036)
Fixed assets	-	-	-	(287,768)	(287,768)
Deferred revenue	(624,859)	273,960	-	39,334	(311,565)
Accrued expenses	(44,060)	-	-	122,064	78,004
Restated fund balances, June 30, 2002	<u>\$ (1,666,001)</u>	<u>\$ 1,447,555</u>	<u>\$ 11,281,574</u>	<u>\$ 1,202,266</u>	12,265,394
GASB 34 adjustments					
Capital assets					15,834,009
Grants and entitlements					175,115,512
Internal service fund					1,180,549
Health trust					3,469,966
Long-term assets					7,234,086
Long-term liabilities					(19,436,051)
Governmental activities net assets, June 30, 2002					<u>\$ 195,663,465</u>
			Business-type Activities		
Net assets, June 30, 2002			\$ (42,762)		
Fund reclassification			42,762		
Restated net assets, June 30, 2002			<u>\$ -</u>		

LORAIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 4 – DEFICIT FUND EQUITY

At June 30, 2003, the following funds had deficit fund balances:

General Fund	\$ (1,224,913)
Special Revenue Funds	
Food Service	\$ (203,966)
Management Information Systems	(4,857)
Adult Basic Education	(24,723)
Career Development	(4,537)
Miscellaneous Federal Grants	(52,093)
DPIA	(162,705)
Vocational Education	(149,476)
Rotary	(544,587)
	<u>\$ (1,146,944)</u>
Capital Projects Funds	
Building Fund	<u>\$ (916,000)</u>
Internal Service Funds	
Jointly Administered Trust Fund for the Benefit of Lorain City School District Employees	<u>\$ (409,427)</u>

The General Fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities.

NOTE 5 – RESERVATIONS OF FUND BALANCES

Reservations of fund balances consisted of the following:

	General	Debt Service	Classroom Facilities Commission	Other Governmental Funds	Total
Reserved for budget stabilization	\$ 220,833	\$ -	\$ -	\$ -	\$ 220,833
Reserved for textbooks	994,654	-	-	-	994,654
Reserved for capital maintenance	274,636	-	-	-	274,636
Reserved for property tax	2,535,975	273,960	-	96,646	2,906,581
Reserved for encumbrances	472,348	-	1,163,656	528,128	2,164,132
	<u>\$ 4,498,446</u>	<u>\$ 273,960</u>	<u>\$ 1,163,656</u>	<u>\$ 624,774</u>	<u>\$ 6,560,836</u>

LORAIN CITY SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2003

NOTE 6 - BUDGETARY BASIS OF ACCOUNTING

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund.

Net Change in Fund Balance	
	General
Budget basis	\$ (1,353,809)
Adjustments, increase (decrease)	
Revenue accruals	67,295
Expenditure accruals	1,022,348
Other sources (uses)	705,254
GAAP basis, as reported	\$ 441,088

NOTE 7 - DEPOSITS AND INVESTMENTS

State statutes 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 the Board of Education has identified as not required for use within the current five 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.

LORAIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 7 - DEPOSITS AND INVESTMENTS (continued)

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.

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), 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.

Interim monies may be invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security 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;
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 2 percent and be marked to market daily, and 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) 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 (STAR Ohio);
7. Commercial paper and bankers' acceptances (if authorized by the Board of Education), and
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

LORAIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 7 - DEPOSITS AND INVESTMENTS (continued)

At fiscal year end, the District had \$24,450 in cash on hand which is included on the balance sheet of the District as part of "Equity in Pooled Cash".

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements". At fiscal year end, the carrying amount of the District's deposits was \$46,261,582 and the bank balance was \$47,865,435, 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 Schools or its component unit. The District's investments are categorized to give an indication of the level of risk assumed by the District at fiscal year end. Category 1 includes investments that are insured or registered for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty'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 counterparty, or by its trust department or agent 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	\$ 347,266	\$ -	\$ 5,073,449	\$ 5,420,715
Investment in State Treasurer's Investment Pool (STAROhio)				4,364,514 <u>\$ 9,785,229</u>

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting".

A reconciliation between the classification of cash and cash equivalents and investments on the combined financial statements and the classification of deposits and investments according to GASB Statement No. 3 is as follows:

	Cash	
	Equivalents	Investments
GASB Statement 9	\$ 55,699,545	\$ 347,266
U.S. Government securities	(5,073,449)	5,073,449
STAROhio	(4,364,514)	4,364,514
GASB Statement 3	\$ 46,261,582	\$ 9,785,229

LORAIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 8 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis, while the District's fiscal year runs from July through June. First-half tax distributions are received by the District in the second half of the fiscal year. Second-half tax distributions are received in the first half of the following fiscal year.

Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the District. Real and public utility property tax revenues received in calendar year 2003 represent the collection of calendar year 2002 taxes. Real property taxes for 2003 were levied after April 1, 2003, on the assessed values as of January 1, 2003, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility real and tangible personal property taxes for 2003 were levied after April 1, 2003, on the assessed values as of December 31, 2002, the lien date. Public utility real property is assessed at 35 percent of true value; tangible personal property is currently assessed at varying percentages of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

Tangible personal property tax revenues received in calendar year 2003 (other than public utility property) represent the collection of calendar year 2003 taxes. Tangible personal property taxes for 2003 were levied after April 1, 2002, on the value as of December 31, 2002. Tangible personal property is currently assessed at 25 percent of true value. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The District receives property taxes from Lorain County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2003, are available to finance fiscal year 2003/2004 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, public utility property, and tangible personal property taxes which were measurable as of June 30, 2003 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, amounts to be received during the available period are not subject to reasonable estimation at June 30, nor were they levied to finance fiscal year 2003 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 was recognized as revenue.

The amount available as an advance at June 30, 2003, was \$2,535,975 in the General Fund, \$329,293 in the Debt Service Fund and \$41,313 in the Classroom Facilities Maintenance Fund.

LORAIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 8 - PROPERTY TAXES

The assessed values upon which the fiscal year 2003 taxes were collected are:

	2002 Second Half Collections		2003 First Half Collections	
	Amount	%	Amount	%
Agricultural Residential				
Real Estate	\$ 455,782,680	63.41%	\$ 457,690,950	64.12%
Other Commercial	101,272,190	14.09%	100,203,040	14.04%
Public Utility Tangible	804,200	0.11%	915,180	0.13%
Tangible Personal Property	160,940,850	22.39%	154,945,840	21.71%
	<u>\$ 718,799,920</u>	<u>100.00%</u>	<u>\$ 713,755,010</u>	<u>100.00%</u>
Tax Rate per \$ 1,000 of Assessed Valuation:	<u>62.45</u>		<u>62.45</u>	

NOTE 9 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

	Balance June 30, 2002 (As Restated)	Additions	Disposals	Balance June 30, 2003
Governmental Activities				
Nondepreciable capital assets				
Land	\$ 2,019,602	\$ -	\$ -	\$ 2,019,602
Construction in process	-	3,652,270	-	3,652,270
	<u>2,019,602</u>	<u>3,652,270</u>	<u>-</u>	<u>5,671,872</u>
Depreciable capital assets				
Land improvements	5,255,169	87,248	37,085	5,305,332
Buildings and improvements	25,673,814	29,251	403,485	25,299,580
Furniture and fixtures	18,484,378	1,128,334	655,750	18,956,962
Textbooks	4,116,518	-	-	4,116,518
Vehicles	547,113	-	-	547,113
Total capital assets being depreciated	<u>54,076,992</u>	<u>1,244,833</u>	<u>1,096,320</u>	<u>54,225,505</u>
Less accumulated depreciation				
Land improvements	5,203,776	6,412	37,085	5,173,103
Buildings and improvements	18,517,759	459,548	339,333	18,637,974
Furniture and fixtures	13,841,630	1,416,438	558,881	14,699,187
Textbooks	2,366,998	205,825	-	2,572,823
Vehicles	332,422	61,088	-	393,510
Total accumulated depreciation	<u>40,262,585</u>	<u>2,149,311</u>	<u>935,299</u>	<u>41,476,597</u>
Depreciable capital assets, net of accumulated depreciation	<u>13,814,407</u>	<u>(904,478)</u>	<u>161,021</u>	<u>12,748,908</u>
Governmental activities capital assets, net	<u>\$ 15,834,009</u>	<u>\$ 2,747,792</u>	<u>\$ 161,021</u>	<u>\$ 18,420,780</u>

LORAIN CITY SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2003

NOTE 9 - CAPITAL ASSETS (continued)

Depreciation expense was charged to governmental functions as follows:

Instruction		
Regular	\$	1,525,697
Special		33,517
Vocational		215,752
Adult/Continuing		2,800
Supporting services		
Pupils		4,892
Instructional staff		58,380
Administrative		52,626
Fiscal		930
Business		933
Operation and maintenance		113,558
Pupil transportation		5,564
Central services		44,701
Operation of non-instructional services		
Food service operation		37,872
Community services		38,285
Extracurricular activities		13,804
	<u>\$</u>	<u>2,149,311</u>

NOTE 10 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The risks are covered by commercial insurance purchased from independent third parties. There have not been any significant reductions in insurance coverage from coverage in the prior year, and the amounts of settlements have not exceeded coverage for any of the prior three years.

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, dental, vision and prescription 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 benefits 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 "stop-loss" 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 and vision care are provided through Direct Reimbursement Services, and prescription drugs are provided through National Prescription Administrators (NPA), a division of Express Scripts.

Contributions by the Lorain City School District Board of Education 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 an 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.

LORAIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 10 - RISK MANAGEMENT (continued)

The claims liability of \$ 1,076,193 at June 30, 2003, is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 30. 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.

	June 30, 2003	June 30, 2002
Unpaid claims, beginning of year	\$ 1,011,247	\$ 840,777
Incurred claims	7,717,990	6,172,549
Paid claims	(7,653,044)	(6,002,079)
Unpaid claims, end of year	\$ 1,076,193	\$ 1,011,247

NOTE 11 - INTERFUND ASSETS/LIABILITIES

On the fund financial statements at June 30, 2003, interfund balances consisted of the following:

	Receivables	Payables
General Fund	\$ 2,357,117	\$ -
Special Revenue Funds		
Miscellaneous Grants	-	71,335
Athletic Fund	-	24,000
Auxiliary Service Fund	-	7,700
Career Development	-	4,011
Alternative Education	-	6,112
Parent Mentor	-	43,365
Adult Basic Education	-	59,873
Title IVB Fund	6,000	-
Vocational Education	-	54,056
Title III	-	437
Title I	-	81,188
Title V	-	5,405
Drug Free Schools	-	25,101
Improving Teacher Quality	-	5,905
Miscellaneous Federal Grants	-	52,013
Food Service Fund	-	487,663
Uniform School Supply	-	4,873
Rotary	-	514,080
	6,000	1,447,117
Capital Projects Funds		
Building Fund	-	916,000
	\$ 2,363,117	\$ 2,363,117

These amounts are represented as "Interfund Receivable/Payable" on the balance sheet. The loans were made to support programs and projects in the Special Revenue Funds and the Capital Project Fund.

LORAIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 12 - DEFINED BENEFIT 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 Broad 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. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17 percent of annual covered salary was used to fund pension obligations. For fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. 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 District's contributions to SERS for the years ended June 30, 2003, 2002, and 2001 were \$ 1,162,949, \$ 1,097,500 and \$ 1,043,600, respectively. The full amount has been contributed for 2002 and 2001. For 2003, \$ 500,086 (43%) has been contributed with the remainder being reflected as an intergovernmental payable.

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 is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, college, university, institution or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof.

Plan options – Effective July 1, 2001, two new plan options were offered to selected members. New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to invest all their member contributions and employer contributions equal to 10.5% of earned compensation. The Combined Plan offers features of the DC Plan and the DB plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a bi-weekly basis. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one-time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001.

LORAIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 12 - DEFINED BENEFIT PENSION PLANS (continued)

B. STATE TEACHERS RETIREMENT SYSTEM (STRS) (continued)

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

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

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

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

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for a money-purchase benefit or a lump-sum payment in addition to the original retirement allowance.

Prior to February 1, 2002, benefits were increased annually by the greater of the amount of the change in the Consumer Price Index (CPI) or the cumulative CPI increase since retirement, less previous cost-of-living increases, up to a maximum of 3% of the original base benefit. Effective February 1, 2002, benefits are increased annually by 3% of the original base amount, regardless of the change in the CPI.

LORAIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 12 - DEFINED BENEFIT PENSION PLANS (continued)

B. STATE TEACHERS RETIREMENT SYSTEM (STRS) (continued)

The Defined Benefit and Combined Plans offer access to health care coverage to retirees who participated in the plans and their dependents. Coverage under the current program includes hospitalization, physician fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums.

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

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

Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2003 were 9.3% of covered payroll for members and 14% for employers. The Lorain City School District's contribution to STRS for the years ended June 30, 2003, 2002, and 2001 were \$ 6,878,741, \$ 6,913,100, and \$ 6,636,500, respectively. The full amount has been contributed for 2002 and 2001. For 2003, \$ 5,713,679 (84%) has been contributed with the remainder being reported as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal year 2003 were \$3,870 made by the district and \$ 52,014 made by plan members.

STRS Ohio issues a stand-alone financial report. Copies of STRS Ohio's 2002 Comprehensive Annual Financial Report can be requested by writing STRS Ohio , 275 E. Broad St., Columbus, Ohio 43215-3371, or by calling 614-227-4090.

NOTE 13 - 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, 2003, the healthcare allocation rate is 8.54%. 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 2003, 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 THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 13 - 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, 2002 were \$ 182,946,777 and the target level was \$ 274.4 million. At June 30, 2002, the Retirement System's net assets available for payment of health care benefits was \$ 335.2 million.

The number of benefit recipients receiving health care benefits is approximately 50,000. The portion of the District's contributions that were used to fund postemployment benefits amounted to \$ 966,372.

B. STATE TEACHERS RETIREMENT SYSTEM

State Teachers Retirement System of Ohio (STRS Ohio) provides access to health care benefits to retirees who participated in the Defined Benefit or Combined Plans and their dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Pursuant to Revised Code (R.C.), the State Teachers Retirement Board (the board) has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium.

The Revised Code 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 Stabilization Fund from which health care benefits are paid. For the fiscal year ended June 30, 2003, the board allocated employer contributions equal to 4.5% of covered payroll to the Health Care Stabilization Fund. Effective, July 1, 2001, 1% of covered payroll will be allocated to the fund. The balance in the Health Care Stabilization Fund was \$ 3.011 billion on June 30, 2002.

For the year ended June 30, 2002, net health care costs paid by STRS Ohio were \$ 354,697,000. There were 105,300 eligible benefit recipients.

LORAIN CITY SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2003

NOTE 14 – LONG-TERM DEBT OBLIGATIONS

Changes in the District's long-term obligations during fiscal year 2003 were as follows:

	Outstanding June 30, 2002	Additions	Deductions	Outstanding June 30, 2003	Due in less than one year
Notes payable	\$ 14,527,784	\$ -	\$ 11,016,271	\$ 3,511,513	\$ 1,089,738
Bonds payable	832,537	41,093,976	395,418	41,531,095	1,125,666
Accrued leave benefits	7,836,169	662,438	285,227	8,213,380	1,408,733
	<u>\$ 23,196,490</u>	<u>\$ 41,756,414</u>	<u>\$ 11,696,916</u>	<u>\$ 53,255,988</u>	<u>\$ 3,624,137</u>

Principal and interest requirements to retire notes payable and bonds payable outstanding at June 30, 2003, were as follows:

Year ending June 30,	Principal	Interest	Total
2004	\$ 2,215,404	\$ 2,876,916	\$ 5,092,320
2005	2,104,718	1,800,989	3,905,707
2006	2,255,304	1,694,289	3,949,593
2007	1,073,206	1,620,311	2,693,517
2008	1,030,000	1,592,688	2,622,688
2009-2013	6,485,000	7,321,172	13,806,172
2014-2018	7,418,976	7,800,168	15,219,144
2019-2023	12,535,000	3,988,506	16,523,506
2024-2026	9,925,000	728,057	10,653,057
	<u>\$ 45,042,608</u>	<u>\$ 29,423,096</u>	<u>\$ 74,465,704</u>

Notes payable will be repaid from the General Fund. Bonds payable will be repaid from the Debt Service Fund. Accrued leave benefits will be repaid from the funds from which employees' salaries are paid.

NOTE 15 - NOTES PAYABLE

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

	Outstanding June 30, 2002	Additions	Deductions	Outstanding June 30, 2003	Original Amount of Issue
Revenue anticipation notes, 1996, 7%, through 2006, to cover operating expenses	\$ 4,527,784	\$ -	\$ 1,016,271	\$ 3,511,513	\$ 9,337,816
Bond anticipation notes, 2001, 2%	10,000,000	-	10,000,000	-	10,000,000
Bond anticipation notes, 2002, 2%	-	41,094,000	41,094,000	-	41,094,000
	<u>\$ 14,527,784</u>	<u>\$ 41,094,000</u>	<u>\$ 52,110,271</u>	<u>\$ 3,511,513</u>	<u>\$ 60,431,816</u>

LORAIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 16 – BONDS PAYABLE

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

	<u>Outstanding June 30, 2002</u>	<u>Additions</u>	<u>Deductions</u>	<u>Outstanding June 30, 2003</u>
Energy conservation improvement bonds (1993) 5.95% through 2002	\$ 300,000	\$ -	\$ 300,000	\$ -
Energy conservation improvement bonds, (1996) 5.5% through 2007	532,537	-	95,418	437,119
Classroom facilities improvement bonds 1.45 - 5.25% through 2025	-	41,093,976	-	41,093,976
	<u>\$ 832,537</u>	<u>\$ 41,093,976</u>	<u>\$ 395,418</u>	<u>\$ 41,531,095</u>

NOTE 17 – OPERATING LEASES

The 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 2003, expenditures for operating leases totaled \$ 321,463. The following is a schedule of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2003.

<u>Year ending June 30,</u>	<u>Amount</u>
2004	\$ 314,404
2005	252,276
2006	4,588
Total minimum lease payments	<u>\$ 571,268</u>

LORAIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 18 – RESTRICTED CASH

The District is required by State statute to annually set aside, in the General Fund, an amount based on a statutory formula for the purchase of textbooks and other instructional materials, and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year end. These amounts must be carried forward and used for the same purposes in future years. In addition, the District has set aside money for budget stabilization.

The following cash basis information identifies the changes in the fund balance reserves for textbooks, capital improvements, and budget stabilization during fiscal year 2003.

	Textbook	Capital Maintenance	Budget Stabilization	Total
Balance, July 1, 2002	\$ 1,321,364	\$ -	\$ 220,833	\$ 1,542,197
Required set aside	1,538,940	1,538,940	-	3,077,880
Qualifying expenditures	(1,865,650)	(1,264,304)	-	(3,129,954)
Balance June 30, 2003	<u>\$ 994,654</u>	<u>\$ 274,636</u>	<u>\$ 220,833</u>	<u>\$ 1,490,123</u>
Balance carried forward to future years	<u>\$ 994,654</u>	<u>\$ 274,636</u>	<u>\$ -</u>	<u>\$ 1,269,290</u>

Expenditures for textbooks and capital maintenance during the year were \$ 1,865,650 and \$ 1,264,304, respectively, which did not exceed the required set-aside and the reserve balance. These balances will be carried forward and added to the required expenditures for 2004.

NOTE 19 - JOINTLY GOVERNED ORGANIZATION

A. LAKE ERIE EDUCATION COMPUTER ASSOCIATION

The Lake Erie Educational Computer Association (LEECA) is a jointly governed organization comprised of thirty school districts. The jointly governed organization was formed to provide data processing services for accounting, administrative and instructional functions of member districts. Each of the governments of these districts supports LEECA based upon a per pupil charge dependent upon the software packages 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, 2003, the District paid \$ 263,956 to LEECA.

LORAIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 19 - JOINTLY GOVERNED ORGANIZATION

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 e media center, gas consumption, driver education, food service and insurance. Each member provides operating resources to LERC on a per pupil or actual usage charge except for insurance.

The LERC assembly consists of a superintendent or designed 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 of the Educational Service Center of Lorain County located at 1885 Lake Avenue, Elyria, Ohio 44035. During the year ended June 30, 2003 the District paid \$ 601,132 to LERC.

C. OHIO SCHOOLS COUNCIL

The Ohio Schools Council (Council) is a jointly governed organization among eighty-three school districts. The Council was formed to offer supplies and services at the lowest possible cost to the member districts. Each district supports the Council by paying an annual participation fee for the services provided. The Council's Board consists of seven superintendents of the participating districts whose term rotates every year. The degree of control exercised by any school district is limited to its representation on the Board. In fiscal year 2003 the District paid \$ 1,229 to the Council.

The Lorain City Schools participates in the Council's electric purchase program which was implemented during fiscal year 2000. The program allows school districts to purchase electricity at reduced rates for a period of eight years through Energy Acquisition Corporation (Corporation), a non-profit corporation with a self-appointing board of trustees. The Corporation issued \$ 119,140,000 of notes to prepurchase eight years of electricity from Cleveland Electric Illuminating (CEI). The participating school districts are not obligated in any manner for this debt. If a participating school district terminates their agreement during the eight year period, they are required to repay the savings to CEI and CEI will refund the remaining prepayment related to that participant to Energy Acquisition Corporation.

The Lorain City Schools participates in the Council's prepaid natural gas program which was implemented during fiscal year 2000. This program allows school districts to purchase natural gas at reduced rates, if the school districts will commit to participating for a twelve year period. The participants make monthly payments based on estimated usage. Each June these estimated payments are compared to their actual usage and any necessary adjustments are made.

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

The Lorain City Schools also participates in the Council's group life insurance and school bus acquisition programs. Financial information can be obtained by contacting Joseph Lesak, Executive Director at the Ohio Schools Council at 155 Center Road, Bedford, Ohio 44146-2738.

LORAIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 20 - SCHOOL FOUNDATION PROGRAM

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

NOTE 21 - INTERFUND TRANSFERS

During the year ended June 30, 2003, the general fund transferred \$ 208,851 to the special revenue ROTC fund. A transfer of \$ 418,988 was made from the general fund to the debt service fund for payment of principal and interest on notes payable. The district also transferred \$ 162,371 to the athletics fund, \$ 536 to the drug free school fund and \$ 331 to the continuous improvement fund.

The other grants fund made a transfer of \$ 25,622. These transfers assisted in supporting these programs.

NOTE 22 - CONTINGENCIES

The District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2003.

NOTE 23 - 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 effect on the District's financial position.

NOTE 24 - OTHER COMMITMENTS

The District has entered into an agreement with the State of Ohio under the Ohio School Facilities Commission - Classroom Facilities Assistance Program. This program is designed to help schools fund the renovation and construction of new school buildings within their District. The total budget for the Project is two hundred and sixteen million two hundred eighty-four thousand eight hundred eighty dollars (\$216,284,880). The State's share of the total Project budget shall be one hundred seventy-five million one hundred ninety thousand eight hundred eighty dollars (\$175,190,880). The School Districts Board's local share of the total Project budget shall be forty one million ninety-four thousand dollars (\$41,094,000). The District has issued bonds to cover their portion of the building project.

LORAIN CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 25 – CONTRACTUAL COMMITMENTS

As of June 30, 2003, the School District's significant contractual purchase commitments for the construction projects are as follows:

<u>Company</u>	<u>Remaining</u>
Arkintics, Inc	\$ 394,693
McDonald, Cassell, & Bassett, Inc.	8,838,525
Safeair Contractors Inc	5,008
Titan Wrecking & Environmental	114,560
GCS Industrial Serices	125,105
Total	<u>\$ 9,477,891</u>

LORAIN CITY SCHOOL DISTRICT

REPORT LETTERS

JUNE 30, 2003

TABLE OF CONTENTS

	PAGE
Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	1
Report on Compliance with Requirements Applicable to Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133.....	2-4
Schedule of Federal Financial Assistance - Cash Basis.....	5-7
Schedule of Findings and Questioned Costs	8

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

December 17, 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 basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lorain City School District, as of and for the year ended June 30, 2003, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated December 17, 2003, which included an explanatory paragraph regarding the accounting change to GASB 34.. We have conducted our audit in accordance with auditing standards 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 basic 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 immaterial instances of non-compliance that we have reported to management of Lorain City School District in a separate letter dated December 17, 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 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 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 December 17, 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

December 17, 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, 2003. 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, 2003.

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 December 17, 2003.

Schedule of Expenditures of Federal Awards - Non GAAP Budgetary Basis

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lorain City School District, as of and for the year ended June 30, 2003, which collectively comprise the School District's basic financial statements and have issued our report thereon dated December 17, 2003, which included an explanatory paragraph regarding the accounting change to GASB 34. Our audit was performed for the purpose of forming an opinion on the basic 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 basic financial statements of Lorain City School District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information 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 EXPENDITURES OF FEDERAL AWARDS - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Federal Grantor/ Pass Through Grantor/ Program Title	CFDA Number	Grant Number	Federal Receipts	Federal Disbursements	Non-Cash Disbursements
U. S. Department of Education					
Passed Through Ohio Department of Education:					
Title I	84.010	C1-S1-2002	600,547	598,719	0
Title I	84.010	C1-S1-2003	3,017,794	2,858,275	0
Title I	84.010	C1-S1-2003	33,653	33,653	0
Total Title I			3,651,994	3,490,647	0
Title I-Comprehensive School Reform	84.332	RF-S1-2001	372,334	343,475	0
Total Title I-Comprehensive School Reform			372,334	343,475	0
Title I-School Improvement	84.348	AK-S1-2002	91,510	59,924	0
Title I-School Improvement	84.348	C1-SR-2003	17,843	17,843	0
Total Title I-School Improvement			109,353	77,767	0
Title II - A - Improving Teacher Quality	84.367	TR-S1-2003	865,504	863,275	0
Title III - LEP Immigrant	84.365	T3-S1-2003	32,992	12,896	0
Title VI-B	84.027	6B-SF-2002P	1,440	228,858	0
Title VI-B	84.027	6B-SF-2003P	1,183,898	812,279	0
Total Title VI-B			1,185,338	1,041,137	0
Drug Free Schools	84.186	DR-S1-2001	85	5,747	0
Drug Free Schools	84.186	DR-S1-2002	7,624	15,870	0
Drug Free Schools	84.186	DR-S1-2003	81,921	74,293	0
Total Drug Free Schools			89,630	95,910	0
Eisenhower Grant	84.281	MS-S1-2001	(1,631)	24,757	0
Eisenhower Grant	84.281	MS-S1-2002	(24,667)	10,681	0
Total Eisenhower Grant			(26,298)	35,438	0
Title V - Innovative Edu. Prog. Strategies	84.298	C2-S1-2001	246	1,550	0
Title V - Innovative Edu. Prog. Strategies	84.298	C2-S1-2002	6,482	11,376	0
Title V - Innovative Edu. Prog. Strategies	84.298	C2-S1-2003	58,682	59,519	0
Total Title VI			65,410	72,445	0
Title VI-R - Class Size Reduction	84.340	CR-S1-2002	77,261	14,758	0
Total VI-R			77,261	14,758	0
Adult and Community Education	84.002	AB-S1-2001	0	22,412	0
Adult and Community Education	84.002	AB-S1-2002	0	533	0
Adult and Community Education	84.002	AB-S1-2003	98,810	155,013	0
Total Adult and Community Education			98,810	177,958	0
Goals 2000	84.276	G2-S3-01	(9)	4,360	0
Goals 2000	84.276	G2-S5-01	0	14,000	0
Goals 2000	84.276	G2-S1-2001	(2,284)	16,726	0
Goals 2000	84.276	G2-S2-2000	(4,723)	644	0
Goals 2000	84.276	G2-S6-1999	0	24,294	0
Total Goals 2000			(7,016)	60,024	0

**LORAIN CITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Federal Grantor/ Pass Through Grantor/ Program Title	CFDA Number	Grant Number	Federal Receipts	Federal Disbursements	Non-Cash Disbursements
Reading Excellence	84.338	RN-S1-00	0	23,473	0
Total Reading Excellence			0	23,473	0
Assistive Technology Infusion Project	84.352	AT-S1-2002	(304)	13,632	
Assistive Technology Infusion Project	84.352	AT-S2-2002	42,470	42,470	
Assistive Technology Infusion Project	84.352	AT-S3-2002	5,093	5,093	0
Total Assistive Technology Infusion Project			47,259	61,195	0
Vocational Education Basic Grant	84.048	VEAR-2002-057	3,600	24,000	0
Vocational Education Basic Grant	84.048	VECPH-S2002-057	47,905	76,354	0
Vocational Education Basic Grant	84.048	VECPH-S2003-057	306,464	357,870	0
Total Vocational Education Basic Grant			357,969	458,224	0
Preschool Grants	84.173	PG-S1-2001P	20,695	18,954	0
Preschool Grants	84.173	PG-S1-2003P	46,535	36,904	0
Total Preschool Grants			67,230	55,858	0
Technology Literacy Challenge Fund Grant	84.318	TJ-S1-2003	88,366	81,298	0
Total Technology Literacy Challenge Fund Grant			88,366	81,298	0
Learn and Serve America	94.004	SV-S3-2001	0	100	0
Learn and Serve America	94.004	SV-S4-2001	0	1,440	0
Total Learn and Serve America			0	1,540	0
21st Century Comm. Learning Center	84.287	N/A	35,897	51,421	0
Total 21st Century Comm. Learning Center			35,897	51,421	0
Gear Up	84.334	P334A990314	14,890	189,073	0
Gear up	84.334	P334A990314	451,077	444,221	0
Total Gear Up			465,967	633,294	0
Teaching American History	84.215	S215X020147	224,248	224,248	0
School Readiness Program	93.558	N/A	60,000	60,000	0
Total Department of Education			7,862,248	7,936,281	0
U. S. Department of Health & Human Services (Passed Through State Department of MRDD):					
Medical Assistance Program/CAFS	93.778	N/A	197,881	478,020	0
U. S. Department of Agriculture (Passed Through Ohio Department of Education):					
Nutrition Cluster					
Food Distribution (A) (B)	10.550	N/A	242,609	0	270,579
Total Food Distribution			242,609	0	270,579
School Breakfast Program (A)	10.553	05-PU-2001	746,553	746,553	0

**LORAIN CITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Federal Grantor/ Pass Through Grantor/ Program Title	CFDA Number	Grant Number	Federal Receipts	Federal Disbursements	Non-Cash Disbursements
Total School Breakfast Program			746,553	746,553	0
National School Lunch Program (A)	10.555	LLP4-2001	<u>2,128,595</u>	<u>2,128,595</u>	<u>0</u>
Total National School Lunch Program			2,128,595	2,128,595	0
Summer Food Service Program	10.559	24-AD99			
Summer Food Service Program	10.559	24-AD99	<u>51,342</u>	<u>51,344</u>	<u>0</u>
Total Summer Food Service Program			51,342	51,344	0
Total Department of Agriculture - Nutrition Cluster			<u>3,169,099</u>	<u>2,926,492</u>	<u>270,579</u>
 TOTAL FEDERAL FINANCIAL ASSISTANCE			 <u>\$ 11,229,228</u>	 <u>\$ 11,340,793</u>	 <u>\$ 270,579</u>

**LORAIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 , Section .505
JUNE 30, 2003**

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):	Title I, CFDA #84.010 Title I - CSR, CFDA #84.332 Title II-A, CFDA #84.367
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: > \$348,341 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.



**Auditor of State
Betty Montgomery**

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

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

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 4, 2004**