



**LORAIN COMMUNITY SCHOOL  
LORAIN COUNTY**

**REGULAR AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2003**



**Auditor of State  
Betty Montgomery**



**LORAIN COMMUNITY SCHOOL  
CUYAHOGA COUNTY**

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

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

We have audited the accompanying financial statements of the Lorain Community School, Lorain County, Ohio, (the School) as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lorain Community School, Lorain County, Ohio, as of June 30, 2003, and the results of its operations and the cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2003 on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in black ink that reads "Betty Montgomery".

**Betty Montgomery**  
Auditor of State

December 12, 2003

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**Lorain Community School  
Lorain County  
Balance Sheet  
As of June 30, 2003**

**Assets:**

**Current Assets:**

Cash	\$184,630
Due from Other Governments	<u>25,764</u>
<i>Total Current Assets</i>	210,394

**Non-Current Assets:**

Security Deposits	6,000
Fixed Assets (Net of Accumulated Depreciation)	<u>96,742</u>
<i>Total Non-Current Assets</i>	<u>102,742</u>
<i>Total Assets</i>	<u><u>\$313,136</u></u>

**Liabilities and Equity:**

**Current Liabilities:**

Accounts Payable	\$9,521
Due to Other Governments	6,579
Accrued Wages and Benefits	457
Deferred Revenue	<u>18,599</u>
<i>Total Current Liabilities</i>	<u>35,156</u>

**Long Term Liabilities:**

Leases Payable	<u>13,600</u>
<i>Total Liabilities</i>	<u>48,756</u>

**Equity:**

Retained Earnings	<u>264,380</u>
<i>Total Liabilities and Equity</i>	<u><u>\$313,136</u></u>

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

**Lorain Community School  
Lorain County  
Statement of Revenues, Expenses and  
Changes in Retained Earnings  
For the Fiscal Year Ended June 30, 2003**

**Operating Revenues:**

Foundation and DPIA Revenues	\$815,112
Other Operating Revenues	<u>35,444</u>
<i>Total Operating Revenues</i>	<u>850,556</u>

**Operating Expenses:**

Salaries	318,011
Fringe Benefits	81,197
Purchased Services	350,252
Materials and Supplies	74,069
Capital Outlay	11,747
Depreciation	37,799
Other Operating Expenses	<u>25,504</u>
<i>Total Operating Expenses</i>	<u>898,579</u>
Operating Loss	<u>(48,023)</u>

**Non-Operating Revenues:**

Interest	1,087
Federal and State Grants	<u>147,418</u>
<i>Total Non-Operating Revenues</i>	<u>148,505</u>
Net Income	<u>100,482</u>
Retained Earnings at Beginning of the Year	<u>163,898</u>
Retained Earnings at End of Year	<u><u>\$264,380</u></u>

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



**Lorain Community School  
Lorain County  
Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2003**

**Increase (Decrease) in Cash:**

**Cash Flows from Operating Activities:**

Cash Received from State of Ohio	\$815,112
Cash Payments to Suppliers for Goods and Services	(548,445)
Cash Payments to Employees for Services	(317,364)
Other Operating Revenues	<u>40,950</u>
Net Cash Used for Operating Activities	<u>(9,747)</u>

**Cash Flows from Noncapital Financing Activities:**

Federal and State Grants Received	<u>124,096</u>
Net Cash Provided by Noncapital Financing Activities	<u>124,096</u>

**Cash Flows from Capital and Related Financing Activities:**

Payments for Capital Acquisitions	<u>(89,608)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(89,608)</u>

**Cash Flows from Investing Activities:**

Interest	<u>1,087</u>
Net Cash Provided by Investing Activities	<u>1,087</u>

Net Increase in Cash	25,828
Cash at Beginning of Year	<u>158,802</u>
Cash at End of Year	<u><u>\$184,630</u></u>

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

**Lorain Community School**  
**Lorain County**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2003**  
**(Continued)**

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

Operating Loss	<u>(\$48,023)</u>
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**Adjustments to Reconcile Operating Loss to  
Net Cash Provided by Operating Activities:**

Depreciation	37,799
Changes in Assets and Liabilities:	
(Decrease) in Accounts Payable	(12,884)
Increase in Due to Other Governments	673
Increase in Accrued Wages and Benefits	382
Increase in Deferred Revenue	5,506
Increase in Leases Payable	<u>6,800</u>
Total Adjustments	<u>38,276</u>
Net Cash Used for Operating Activities	<u><u>(\$9,747)</u></u>

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

**LORAIN COMMUNITY SCHOOL**  
— A Community School —  
Lorain County

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2003**

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**I. Description of the School and Reporting Entity**

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

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

The Governing Authority controls LCS' one instructional facility staffed by two uncertified and eleven certificated full time teaching personnel who provide services to 138 students.

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

**LORAIN COMMUNITY SCHOOL**  
— A Community School —  
Lorain County

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2003**

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**II. Summary of Significant Accounting Policies**

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

**1. Basis of Presentation**

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

**2. Measurement Focus and Basis of Accounting**

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

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

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

**LORAIN COMMUNITY SCHOOL**  
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Lorain County

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2003**

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**II. Summary of Significant Accounting Policies (Continued)**

**3. Cash**

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

**4. Budgetary Process**

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

**5. Due from Other Governments**

Moneys due LCS for the year ended June 30, 2003 are recorded as Due from Other Governments. A current asset for the receivable amount is recorded at the time of the event causing the moneys to be due.

**6. Fixed Assets and Depreciation**

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

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

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

**LORAIN COMMUNITY SCHOOL**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2003**

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**II. Summary of Significant Accounting Policies (Continued)**

**6. Fixed Assets and Depreciation (Continued)**

<b>Fixed Asset Classification</b>	<b>Years</b>
Computers and Office Equipment	3
Leasehold Improvements	5
Furniture, Equipment & Materials	10

**7. Intergovernmental Revenues**

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

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

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

LCS also participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, LCS was awarded \$150,000 during the fiscal year to offset start-up costs of the School. During the 2003 fiscal year \$45,000 from this award was received. The remaining grant money (\$105,000) is available for the 2004 fiscal year. Revenue received from this program is recognized as non-operating revenue on the accompanying financial statements.

Amounts awarded under the above named programs for the 2003 school year totaled \$962,530.

**LORAIN COMMUNITY SCHOOL**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2003**

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**II. Summary of Significant Accounting Policies (Continued)**

**8. Deferred Revenue**

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

**9. Compensated Absences**

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

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

**10. Use of Estimates**

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

**III. Deposits**

At fiscal year end June 30, 2003, the carrying amount of LCS' deposits totaled \$184,630 and its bank balance was \$194,097. Of the bank balance \$100,000 was covered by the Federal Depository Insurance Corporation and \$94,097 was covered by US Bank pledged pooled collateral securities. The Ohio Depository Act stipulates that US Bank pledge collateral for the deposits of the Lorain Community School in a pool of securities under Section 135.181 of the Ohio Revised Code.

**LORAIN COMMUNITY SCHOOL**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2003**

**IV. Fixed Assets**

A summary of LCS' fixed assets at June 30, 2003 follows:

Leasehold Improvements	\$79,592
Computers and Office Equipment	60,295
Furniture, Equipment & Materials	4,192
Less Accumulated Depreciation	<u>(47,337)</u>
Net Fixed Assets	<u>\$ 96,742</u>

**V. Purchased Services**

Purchased Services include the following:

Occupancy Costs	\$110,676
Pupil Support Services	56,595
Instruction	27,931
Administrative	101,376
Staff Development	12,350
Food Services	<u>41,324</u>
Total	<u>\$350,252</u>

**VI. Operating Leases**

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

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

Lease Year	Straight Line Expense	Rental Payments Due
2004	78,800	80,000
2005	78,800	85,000
2006	<u>78,800</u>	<u>85,000</u>
	<u>\$236,400</u>	<u>\$250,000</u>



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Lorain County

**NOTES TO THE FINANCIAL STATEMENTS**  
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**VI. Operating Leases (Continued)**

LCS has recorded \$13,600 as leases payable on the balance sheet. This amount represents the difference between rental payments made and the amounts due, based on the straight line basis over the life of the lease.

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

On June 25, 2003, LCS and Genco Development, Inc. amended the lease to include an additional area of the building. The amendment is to run concurrently with the remainder of the original lease. The monthly rent for this additional space is \$2,500.

**VII. Risk Management**

**1. Property and Liability Insurance**

LCS is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2003, LCS contracted with Cincinnati Insurance Company for all of its insurance.

General liability is covered at \$1,000,000 single occurrence limit and \$2,000,000 aggregated. Hired and Non-Owned Vehicles are covered at \$300,000 combined single limit of liability. Other coverage includes School Leaders Errors & Omissions, Employee Crime, Sexual Abuse and Misconduct, Electronic Data Processing and Business Interruption.

**2. Workers' Compensation**

LCS makes premium payments to the Ohio Worker's Compensation System for employee injury coverage. As of June 30, 2003 there have been no claims filed by LCS employees with the Ohio Worker's Compensation System.

**LORAIN COMMUNITY SCHOOL**  
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Lorain County

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2003**

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**VII. Risk Management (Continued)**

**3. Employee Medical, Dental, and Life Benefits**

LCS provides medical, dental and life insurance benefits to all full time employees. Up to \$3,500 in premiums are paid by LCS for each employee that elects to have coverage. Those employees whose coverage exceeds the \$3,500 limit reimburse LCS through payroll deductions up to a maximum of \$200 per month. Any amount exceeding the \$200 employee deduction per month is paid by LCS. During the current fiscal year the cost to LCS for insurance benefits was \$28,203.

**VIII. Defined Benefit Pension Plans**

**1. Employees Retirement System**

LCS contributes to the School Employees Retirement System of Ohio (“SERS”), a cost sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, annual cost of living adjustments, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad St., Suite 100, Columbus, Ohio 43215-3476 or by calling (614)222-5853.

Plan members are required to contribute 9 percent of their annual covered salary and LCS is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of LCS’ contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17 percent of annual covered salary was the portion 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 a statutory maximum amount, by the SERS’ Retirement Board. LCS’ required contribution to SERS for the fiscal year ended June 30, 2003 and 2002 was \$1,643 and \$1,694. For fiscal year 2003, LCS overpaid contributions totaling \$52 at year end which has reduced the amount reflected as Due to Other Governments in the accompanying financial statements. All other required contributions were paid.

**LORAIN COMMUNITY SCHOOL**  
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Lorain County

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2003**

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**VIII. Defined Benefit Pension Plans (Continued)**

**2. State Teachers Retirement System**

LCS contributes to the State Teachers Retirement System of Ohio (“STRS Ohio”) a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS Ohio issues a publicly available financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (614)227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC 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. DC and Combined Plan members will transfer to the Defined Benefit Plan during the 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 or the Combined Plan. This option expired on December 31, 2002. Benefits are established by Chapter 3307 of the Ohio Revised Code.

**LORAIN COMMUNITY SCHOOL**  
— A Community School —  
Lorain County

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2003**

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**VIII. Defined Benefit Pension Plans (Continued)**

**2. State Teachers Retirement System (Continued)**

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salary and LCS is required to contribute 14 percent, 13 percent was the portion used to fund pension obligation. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

LCS' required contribution to STRS for the fiscal years ended June 30, 2003 and 2002 was \$38,727 and \$17,985. For fiscal year 2003, LCS contributions totaling \$850 were payable at year end and are reflected in Due to Other Governments in the accompanying financial statements. All other required contributions were paid.

**IX. Post-Employment Benefits**

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

**LORAIN COMMUNITY SCHOOL**  
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Lorain County

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2003**

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**IX. Post-Employment Benefits (Continued)**

The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio Law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. As of June 30, 2003, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund, from which payments for health care benefits are paid. For LCS, this amount equaled \$2,979 during fiscal 2003.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2002, (the latest information available) the balance in the Fund was \$3.011 billion. For the year ended June 30, 2002, net health care costs paid by STRS were \$354,697,000 and STRS had 105,300 eligible benefit recipients

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for the basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For this fiscal year, employer contributions used to fund health care benefits were 5.83 percent of covered payroll, a decrease of 2.71 percent from fiscal year 2002. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay was established at \$12,400. For LCS, the amount to fund health care benefits, including surcharge, equaled \$1,173 for fiscal 2003.

The surcharge added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level of the health care fund. The target level of the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2002 (the latest information available), were \$182,946,777 and the target level was \$274.4 million dollars. At June 30, 2002, SERS had net assets available for health care benefits of \$335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits.

**LORAIN COMMUNITY SCHOOL**  
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Lorain County

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2003**

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**X. State School Funding Decision**

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

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...".

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

**XI. Contingencies**

**1. Grants**

LCS received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of LCS. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of LCS at June 30, 2003.

**2. Litigation**

On April 21, 2003, the Court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case was heard for oral argument on November 18, 2003. A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e. Charter) Schools program violates the State Constitution and State law. The effect of this suit, if any, on LCS is not presently determinable.

**LORAIN COMMUNITY SCHOOL**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2003**

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**XI. Contingencies (Continued)**

**3. Enrollment FTE**

The Ohio Department of Education conducts reviews of enrollment and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The conclusions of this review could result in state funding being adjusted. Based on ODE's review there are no adjustments to the state funding received during fiscal year 2003.

**XII. Management Agreement**

LCS entered into an agreement with Constellation Community Schools (CCS) to provide legal, financial, and business management services for fiscal year 2003. The agreement was for a period of one year, effective July 1, 2002 with a cost of \$500 per enrolled student. The total amount due from LCS for the fiscal year ending June 30, 2003 was \$69,000 and was fully paid.

**XIII. Related Parties**

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

**XIV. Subsequent Events**

On August 21, 2003, the Board of Trustees for Akron Community School, which is the same as LCS, resigned their membership to the Board of Trustees for Akron Community School. A new Board of Trustees, which has no relationship to LCS Board of Trustees, was subsequently appointed.

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**Auditor of State  
Betty Montgomery**

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

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

We have audited the financial statements of the Lorain Community School, Lorain County, Ohio, (the School), as of and for the year ended June 30, 2003 and have issued our report thereon dated December 12, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

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

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the School in a separate letter dated December 12, 2003.

Lorain Community School  
Lorain County  
Independent Accountants' Report on Compliance and on  
Internal Control Required by *Government Auditing Standards*  
Page 2

This report is intended for the information and use of management and the Board of Trustees and is not intended to be and should not be used by anyone other than these specified parties.

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

**Betty Montgomery**  
Auditor of State

December 12, 2003



**Auditor of State  
Betty Montgomery**

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

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800-282-0370

Facsimile 614-466-4490

**LORAIN COMMUNITY SCHOOL**

**LORAIN COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JANUARY 20, 2004**