

# **Lorain City School District**

*Basic Financial Statements*

***June 30, 2008***





Mary Taylor, CPA  
Auditor of State

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, 2007 through June 30, 2008. 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.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

March 6, 2009

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**LORAIN CITY SCHOOL DISTRICT**

*For the year Ended June 30, 2008*

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## Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

*Focused on Your Future.*

December 29, 2008

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

### INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, the aggregate discretely presented component units and remaining fund information of Lorain City School District (the School District), as of and for the year ended June 30, 2008, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the component unit for the Jointly Administered Trust Fund for the Benefit of Lorain City School District Employees, which represents 0.46 percent, 0.01 percent, and 7.96 percent, respectively, of the assets, net assets, and revenues of the related consolidated totals. The financial statement was audited by another auditor whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Jointly Administered Trust Fund for the Benefit of Lorain City School District Employees is based on the report of the other auditor.

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 and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, 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 discretely presented component units and remaining fund information of the School District, as of June 30, 2008, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2008, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 12 are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We and other auditors 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 on it.

*Rea & Associates, Inc.*



**Lorain City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2008*

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The discussion and analysis of the Lorain City School District's (the "School District") financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2008. The intent of this discussion and analysis is to look at the School District's 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 School District's financial performance.

***Financial Highlights***

Key financial highlights for 2008 are as follows:

- ❑ General Revenues accounted for \$78.8 million in revenue or 69.6% of all revenues. Program specific revenues in the form of charges for services and sales, grants, and contributions accounted for \$34.4 million or 30.4% of total revenues of \$113.2 million.
- ❑ Total program expenses were \$105.3 million, which is a decrease of 11.6% or \$13.9 million from fiscal year 2007.
- ❑ Net assets increased \$7.9 million compared to the \$7.3 million decrease in fiscal year 2007.
- ❑ Outstanding debt decreased \$2.2 million through principal payments and related liabilities.
- ❑ The School District changed its capitalization threshold from \$500 to \$5,000 which resulted in a net decrease of \$7.9 million from the ending fiscal year 2007 balances.

**Using this Annual Report**

This annual report consists of the MD&A, the basic financial statements and the notes to the basic financial statements. The basic financial statements include a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows.

The *Statement of Net Assets and Statement of Activities* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the Lorain City School District, the general, debt service and classroom facilities capital projects funds are the most significant funds.

***Reporting the School District as a Whole***

*Statement of Net Assets and the Statement of Activities*

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2008?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets and liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

**Lorain City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2008*

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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 School 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 property tax base, current property tax laws in Ohio, which restrict revenue growth, facility conditions, required educational programs, and other factors.

In the Statement of Net Assets and the Statement of Activities, the School District activities are listed as governmental:

- Governmental Activities - Most of the School District's programs and services are reported here, including instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.

The government-wide financial statements begin on page 13.

***Reporting the School District's Most Significant Funds***

*Fund Financial Statements*

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School District uses fund accounting to ensure compliance with finance-related legal requirements. The School District uses many funds to account for financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the general fund, the debt service fund, and the classroom facilities capital projects fund.

**Governmental Funds** - Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service and classroom facilities capital projects fund, all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation.

The School District adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The governmental fund financial statements begin on page 16.

**Lorain City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2008*

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**Proprietary Funds** - The School District maintains one type of proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the School District's various functions. The School District uses an internal service fund to account for its health insurance benefits. Because this service predominantly benefits governmental rather than business-type functions, it has been included within the governmental activities in the government-wide financial statements.

The proprietary fund financial statements begin on page 22.

**Fiduciary Funds** - These funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the School District's own programs. The accounting for the fiduciary funds is much like that used for proprietary funds.

The fiduciary fund financial statements begin on page 25.

**Notes to the Financial Statements** - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 27.

**Lorain City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2008*

**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 2008 compared to 2007:

**(Table 1)**  
**Net Assets**

	2008	Restated 2007
<b>Assets</b>		
Current and Other Assets	\$ 182,342,967	\$ 182,369,559
Capital Assets	87,443,506	87,969,806
Total Assets	269,786,473	270,339,365
<b>Liabilities</b>		
Long-Term Liabilities	54,396,618	56,964,008
Other Liabilities	32,118,695	37,996,912
Total Liabilities	86,515,313	94,960,920
<b>Net Assets</b>		
Invested in Capital		
Assets Net of Debt	48,343,932	47,920,943
Restricted	146,273,204	144,582,412
Unrestricted (Deficit)	(11,345,976)	(17,124,910)
Total Net Assets	\$ 183,271,160	\$ 175,378,445

Total assets decreased \$.5 million from fiscal year 2007 and total liabilities decreased by \$8.4 million. The decrease in the number of employees has impacted the accrued wages and benefits and related payables. Principal payments on debt obligations have also contributed to the total decrease in liabilities. These changes resulted in an increase in net assets from fiscal year 2007 of 4.5% or \$7.9 million.

**Lorain City School District**  
*Management's Discussion and Analysis*  
For the Fiscal Year Ended June 30, 2008

Table 2 shows the changes in net assets for fiscal year 2008 and 2007 and will help further explain the change from the prior year.

**(Table 2)**  
**Governmental Activities**

	2008	2007
<b><i>Revenues</i></b>		
<i>Program Revenues:</i>		
Charges for Services	\$ 2,652,416	\$ 3,015,407
Operating Grants	29,622,679	24,621,160
Capital Grants	2,130,075	2,339,189
<i>General Revenue:</i>		
Property Taxes	20,218,841	24,118,689
Grants and Entitlements not Restricted to Specific Programs	57,880,096	56,478,275
Other	734,067	1,295,499
<i>Total Revenues</i>	113,238,174	111,868,219
<b><i>Program Expenses</i></b>		
Instruction	60,260,568	66,861,405
Support Services	35,264,351	41,473,026
Operation of Non-Instructional	6,074,946	6,806,816
Extracurricular Activities	1,854,830	2,049,275
Interest and Fiscal Charges	1,890,764	2,032,185
<i>Total Expenses</i>	105,345,459	119,222,707
<i>Increase (Decrease) in Net Assets</i>	\$ 7,892,715	\$ (7,354,488)

Total net assets increased by \$7.9 million. Total revenues are 1.2% or \$1.4 million over fiscal year 2007. Operating grants increased \$5.0 million over fiscal year 2007. Property taxes decreased 16.1% from fiscal year 2007 due, in part, to the reduction in personal property taxes and the reimbursement for those losses being recorded as an unrestricted grant. Expenses decreased \$13.9 million from fiscal year 2007. Instructional expenses decreased nearly 10% and support services expenses decreased 15% from fiscal year 2007. The reduction in staff accounts for the substantial decreases in the vocational instruction, instructional staff and administration.

**Lorain City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2008*

**Governmental Activities**

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 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 activities had total revenues of \$113.2 million and expenses of \$105.3 million in fiscal year 2008.

**(Table 3)**  
**Governmental Activities**

	2008		2007	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Instruction	\$ 60,260,568	\$ 45,784,416	\$ 66,861,405	\$ 53,865,860
Support Services:				
Pupil and Instructional Staff	9,090,410	947,642	11,750,734	5,780,230
Board of Education, Administration				
Fiscal and Business	8,998,945	6,904,714	13,233,046	11,911,224
Operation and Maintenance of Plant	13,657,245	9,850,647	12,789,290	11,944,999
Pupil Transportation and Central	3,517,751	3,340,427	3,699,956	3,569,167
Operation of Non-Instructional	6,074,946	485,515	6,806,816	569,388
Extracurricular Activities	1,854,830	1,736,164	2,049,275	1,913,087
Interest and Fiscal Charges	1,890,764	1,890,764	2,032,185	2,032,185
<b>Total Expenses</b>	<b>\$ 105,345,459</b>	<b>\$ 70,940,289</b>	<b>\$ 119,222,707</b>	<b>\$ 91,586,140</b>

Instruction and student support services comprise 65.9% of governmental program expenses. Interest/fiscal charges were 1.8%. Interest expense was attributable to the outstanding bonds and fiscal expenses, which include payments to the County Auditor(s) for administrative fees. Operation and maintenance of facilities and pupil transportation accounts for 16.3% of governmental program expenses.

The dependence upon tax revenues for governmental activities is apparent. The community, as a whole, is by far the primary support for Lorain City School District students.

**Lorain City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2008*

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**Financial Analysis of the Government's Funds**

***Governmental Funds***

The focus of the School District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the School District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the School District's net resources available for spending at year-end.

The School District's governmental funds (as presented on the balance sheet on page 16) reported a total fund balance of \$51.8 million, which is \$5.7 million over last year's balance of \$46.1 million. The most significant changes within the School District's major funds were reported in the general fund with a increase in fund balance of \$3.2 million.

***Major Funds***

The general fund is the main operating fund of the School District. At the end of fiscal year 2008, the general fund had a fund deficit of \$.3 million, which is an increase of \$3.2 million from fiscal year 2007. The decreases in accrued wages and related liabilities accounts for most of this change.

The debt service fund is the School District fund that accumulates tax revenues to pay general obligation bonds. At the end of fiscal year 2008, the fund balance in the debt service fund was \$2.5 million, which is a decrease of \$.3 million from fiscal year 2007. There is no individually significant item responsible for this change.

The classroom facilities fund is the School District fund that accounts for the construction and equipping of buildings and classrooms. At the end of fiscal year 2008, the fund balance in the classroom facilities fund was \$46.9 million, which is an increase of \$2.0 million from fiscal year 2007 primarily due to the timing of revenues received for construction projects and the actual expenditures for the construction costs.

***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 budgeted fund is the general fund.

The School 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.

For the general fund, there was a difference of \$2.8 million between the final budget basis revenue and other financing sources of \$77.5 million, and the original budget basis revenue and other financing sources of \$80.3 million. The original budget anticipated more tax and intergovernmental revenues than the final budget. The original budgeted expenditures of \$77.9 million were \$.2 million more the final budget amount of \$77.6 million.

**Lorain City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2008*

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***Capital Assets and Debt Administration***

**Capital Assets**

At the end of fiscal year 2008, the School District governmental activities had \$87.4 million invested in land, construction in progress, land improvements, buildings and improvements, furniture and equipment, vehicles and textbooks. Table 4 shows fiscal year 2008 balances compared with 2007.

**(Table 4)**  
**Capital Assets at June 30**  
**(Net of Depreciation)**

	Governmental Activities	
	2008	Restated 2007
Land, Buildings and Improvements	\$ 78,168,960	\$ 65,887,618
Furniture and Equipment	2,651,159	2,400,198
Vehicles	126,101	71,059
Textbooks	500,003	700,005
Construction in Progress	5,997,283	18,910,926
Totals	\$ 87,443,506	\$ 87,969,806

Two elementary schools were completed in fiscal year 2008 and the construction in progress for those projects was reclassified to the land, buildings and improvements category. The School District also changed their capitalization threshold from \$500 to \$5,000 which decreased the 2007 capital assets over \$7 million. The decrease in capital assets from the restated fiscal year 2007 total is from the depreciation amounting to more than the fiscal year 2008 acquisitions. See Note 9 for further information regarding capital assets of the School District.

**Debt**

At June 30, 2008, the School District had \$37.1 million in bonds outstanding with \$1.1 million due within one year, notes payable of \$5.4 million, with \$1.1 million due within one year and \$5.4 million in a Qzab loan. During fiscal year 2008, \$1.4 million of general obligation bonds and \$1.1 million in notes payable were retired. Table 5 summarizes debt outstanding. See Note 14 for further information regarding long term liabilities of the School District.



**Lorain City School District**  
*Management's Discussion and Analysis*  
For the Fiscal Year Ended June 30, 2008

**(Table 5)**  
**Outstanding Debt, at June 30**

	Governmental Activities	
	2008	2007
General Obligation Bonds:		
2003 Classroom Facilities Bonds	\$ 19,520,000	\$ 20,550,000
Capital Appreciation Bonds	3,623,976	3,623,976
Accretion	619,401	499,394
2006 Classroom Facilities Bonds Refunding	4,055,000	4,105,000
Capital Appreciation Bonds	64,995	64,995
Accretion	24,359	6,710
Premium on Debt Issuance	395,127	425,521
Refunding Loss	(311,673)	(335,648)
2007 Classroom Facilities Bonds Refunding	8,860,000	8,985,000
Premium on Debt Issuance	958,440	1,011,687
Refunding Loss	(740,782)	(781,937)
	<u>37,068,843</u>	<u>38,154,698</u>
Revenue Anticipation Notes	4,320,000	5,400,000
Qzab Loan	5,400,000	5,400,000
	<u>5,400,000</u>	<u>5,400,000</u>
Total Debt	<u>\$ 46,788,843</u>	<u>\$ 48,954,698</u>

In 2003, the School District passed a bond issue providing \$41.1 million for renovations and construction of buildings in the School District. In 2005, the School District issued \$5.4 million in Qualified Zone Academy Bonds for purchase of computer equipment. In 2006, the School District also issued a tax anticipation note for \$5.4 million. In December 2006 the School District issued \$4.2 million in refunding bonds and in March 2007 the School District issued refunding bonds for \$8.9 million. The proceeds were used to refund a portion of the 2003 Classroom Facilities Bonds. More information about the long-term obligations is in Note 14 to the basic financial statements.

***School District Outlook***

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

The financial future of the School District is not without its challenges. Internal challenges will continue to exist as the School District must rely on local property taxes to fund some of its operations. Three levies, combined as one issue, were renewed in May 2006. The current forecast shows a \$2.7 million deficit in fiscal year 2010 and an \$8.6 million deficit in fiscal year 2011. A 4.9 mill levy was on the ballot on November 4, 2008 which would keep the School District solvent through fiscal year 2011. Ballots are still being counted and as of November 14, 2008, the levy's passage or failure is still uncertain.

**Lorain City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2008*

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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, investors, and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Treasurer/CFO Lorain City Schools; 2350 Pole Avenue; Lorain, Ohio, 44052.

**Lorain City School District**  
*Statement of Net Assets*  
June 30, 2008

	Governmental Activities	Component Units Digital Academies
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$ 55,910,066	\$ 292,608
Cash and Cash Equivalents:		
In Segregated Accounts	13,616	0
With Fiscal Agents	5,186,249	0
Investments:		
In Segregated Accounts	608,369	0
Receivables:		
Taxes	23,384,954	0
Accounts	77,445	0
Accrued Interest	270,810	0
Intergovernmental	92,721,373	0
Prepaid and Deferred Expenses	4,170,085	0
Nondepreciable Capital Assets	8,016,885	0
Depreciable Capital Assets (Net)	79,426,621	205,961
<i>Total Assets</i>	<u>269,786,473</u>	<u>498,569</u>
<b>Liabilities</b>		
Accounts Payable	1,243,245	27,867
Contracts Payable	16,165	0
Accrued Wages and Benefits	7,131,124	0
Retainage Payable	13,616	0
Intergovernmental Payable	2,401,805	34,143
Deferred Revenue	18,621,939	0
Due to Others	693,109	0
Accrued Interest Payable	126,570	0
Claims Payable	854,165	0
Cost Sharing Payable	340,696	0
Matured Compensated Absences	676,261	0
Long Term Liabilities:		
Due Within One Year	3,679,116	0
Due in More Than One Year	50,717,502	0
<i>Total Liabilities</i>	<u>86,515,313</u>	<u>62,010</u>
<b>Net Assets</b>		
Invested in Capital Assets, Net of Related Debt	48,343,932	205,961
Restricted for:		
Capital Projects	136,967,341	0
Debt Service	2,752,489	0
Other Purposes	6,553,374	5,247
Unrestricted	(11,345,976)	225,351
<i>Total Net Assets</i>	<u>\$ 183,271,160</u>	<u>\$ 436,559</u>

See accompanying notes to the basic financial statements.

**Lorain City School District**  
*Statement of Activities*  
For the Fiscal Year Ended June 30, 2008

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants, Contributions and Interest
<b>Governmental Activities</b>				
Current:				
Instruction:				
Regular	\$ 35,403,960	\$ 1,274,620	\$ 10,653,472	\$ 124,555
Special	8,077,507	0	175,232	0
Vocational	1,893,546	0	78,604	0
Adult Continuing	147,681	0	178,176	0
Other	14,737,874	0	1,991,493	0
Support services:				
Pupils	4,382,619	0	3,644,141	0
Instructional Staff	4,707,791	647	4,497,980	0
Board of Education	250,858	0	0	0
Administration	6,408,121	155,526	1,347,581	0
Fiscal	1,884,009	59,749	531,375	0
Business	455,957	0	0	0
Operation and Maintenance of Plant	13,657,245	0	1,801,078	2,005,520
Pupil Transportation	2,643,745	0	82,353	0
Central	874,006	0	94,971	0
Operation of Non-Instructional Services:				
Food Service Operation	4,310,490	459,411	3,502,094	0
Community Services	1,764,456	584,928	1,042,998	0
Extracurricular Activities	1,854,830	117,535	1,131	0
Interest and Fiscal Charges	1,890,764	0	0	0
<i>Total Governmental Activities</i>	<u>105,345,459</u>	<u>2,652,416</u>	<u>29,622,679</u>	<u>2,130,075</u>
<b>Component Units</b>				
Digital Academies	<u>955,519</u>	<u>0</u>	<u>671,935</u>	<u>0</u>
<i>Total Component Units</i>	<u>955,519</u>	<u>0</u>	<u>671,935</u>	<u>0</u>
<i>Totals</i>	<u>\$ 106,300,978</u>	<u>\$ 2,652,416</u>	<u>\$ 30,294,614</u>	<u>\$ 2,130,075</u>

**General Revenues**

Property Taxes Levied for:

General Purposes

Debt Service

Grants and Entitlements not Restricted to Specific Programs

Investment Earnings

Miscellaneous

Total General Revenues

Change in Net Assets

Net Assets Beginning of Year (Restated, See Note 3)

Net Assets End of Year

See accompanying notes to the basic financial statements.

Net (Expense) Revenue and Changes in Net Assets	
Governmental Activities	Component Units
\$ (23,351,313)	\$ 0
(7,902,275)	0
(1,814,942)	0
30,495	0
(12,746,381)	0
(738,478)	0
(209,164)	0
(250,858)	0
(4,905,014)	0
(1,292,885)	0
(455,957)	0
(9,850,647)	0
(2,561,392)	0
(779,035)	0
(348,985)	0
(136,530)	0
(1,736,164)	0
(1,890,764)	0
(70,940,289)	0
0	(283,584)
0	(283,584)
(70,940,289)	(283,584)
17,946,457	0
2,272,384	0
57,880,096	0
181,984	11,373
552,083	255
78,833,004	11,628
7,892,715	(271,956)
175,378,445	708,515
\$ 183,271,160	\$ 436,559

See accompanying notes to the basic financial statements.

**Lorain City School District**  
*Balance Sheet*  
*Governmental Funds*  
*June 30, 2008*

	General	Debt Service	Classroom Facilities	Other Governmental Funds
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$ 891,594	\$ 2,245,264	\$ 46,678,839	\$ 5,406,834
Cash and Cash Equivalents:				
In Segregated Accounts	0	0	13,616	0
With Fiscal Agents	2,445,000	0	0	2,741,249
Receivables:				
Taxes	20,592,609	2,490,060	0	302,285
Accounts	5,456	0	0	25,435
Interfund	481,731	0	0	0
Accrued Interest	7,662	0	254,019	9,129
Intergovernmental	135,343	0	87,305,546	5,280,484
Advances to Other Funds	1,555,359	0	0	0
<i>Total Assets</i>	<u>\$ 26,114,754</u>	<u>\$ 4,735,324</u>	<u>\$ 134,252,020</u>	<u>\$ 13,765,416</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts Payable	\$ 435,184	\$ 0	\$ 0	\$ 783,436
Contracts Payable	0	0	16,165	0
Accrued Wages and Benefits	5,023,696	0	0	2,107,428
Retainage Payable	0	0	13,616	0
Interfund Payable	0	0	0	481,731
Intergovernmental Payable	1,799,794	0	0	505,164
Deferred Revenue	18,479,686	2,204,181	87,305,546	4,966,261
Due to Others	0	0	0	693,109
Advances from Other Funds	0	0	0	1,555,359
Matured Compensated Absences	676,261	0	0	0
<i>Total Liabilities</i>	26,414,621	2,204,181	87,335,327	11,092,488
<b>Fund Balances</b>				
Reserved for Encumbrances	597,729	0	3,198,310	613,764
Reserved for Tax Revenue Unavailable for Appropriation	2,112,923	285,879	0	33,752
Reserved for Advances	1,555,359	0	0	0
Unreserved, Undesignated, Reported in:				
General Fund	(4,565,878)	0	0	0
Special Revenue Funds	0	0	0	196,310
Debt Service Fund	0	2,245,264	0	0
Capital Projects Funds	0	0	43,718,383	1,829,102
<i>Total Fund Balances</i>	<u>(299,867)</u>	<u>2,531,143</u>	<u>46,916,693</u>	<u>2,672,928</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 26,114,754</u>	<u>\$ 4,735,324</u>	<u>\$ 134,252,020</u>	<u>\$ 13,765,416</u>

See accompanying notes to the basic financial statements.

**Lorain City School District**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Assets Governmental Activities  
 June 30, 2008*

Total Governmental Funds	Total Governmental Fund Balances	\$ 51,820,897
	<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
\$ 55,222,531	Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.	87,443,506
13,616		
5,186,249	Other long-term assets are not available to pay for current-period expenditures and therefore, are deferred in the funds.	
23,384,954	Grants	\$ 92,003,274
30,891	Prepays and Deferred Expenses	4,117,431
481,731	Delinquent Property Taxes	2,330,461
270,810		98,451,166
92,721,373	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.	
1,555,359		78,779
<u>\$ 178,867,514</u>		
	Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds.	
\$ 1,218,620	General Obligation Bonds and Notes Payable	(42,155,000)
16,165	Capital Appreciation Bonds	(4,332,731)
7,131,124	Bond Premium	(1,353,567)
13,616	Loss on Refunding	1,052,455
481,731	Compensated Absences	(7,607,775)
2,304,958	Accrued Interest Payable	(126,570)
112,955,674		(54,523,188)
693,109		
1,555,359		
676,261	Net Assets of Governmental Activities	<u>\$ 183,271,160</u>
127,046,617		
4,409,803		
2,432,554		
1,555,359		
(4,565,878)		
196,310		
2,245,264		
45,547,485		
51,820,897		
<u>\$ 178,867,514</u>		

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 Fiscal Year Ended June 30, 2008*

	General	Debt Service	Classroom Facilities	Other Governmental Funds
<b>Revenues:</b>				
Taxes	\$ 16,927,166	\$ 2,184,692	\$ 0	\$ 266,985
Intergovernmental	57,061,646	308,102	5,120,870	24,965,962
Investment Income	181,984	0	2,005,520	255,351
Tuition and Fees	1,262,994	0	0	0
Extracurricular Activities	0	0	0	772,036
Charges for Services	0	0	0	557,637
Rentals	59,749	0	0	0
Gifts and Donations	0	0	0	510,348
Miscellaneous	550,489	0	0	1,547
<i>Total Revenues</i>	76,044,028	2,492,794	7,126,390	27,329,866
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular	25,460,879	0	0	9,090,142
Special	8,147,453	0	0	89,168
Vocational	1,683,332	0	0	132,709
Adult Continuing	3,967	0	0	138,589
Other	12,689,994	0	0	1,998,550
Support Services:				
Pupils	1,123,102	0	0	3,251,785
Instructional Staff	729,162	0	0	3,901,450
Board of Education	253,255	0	0	0
Administration	5,339,931	0	0	1,312,263
Fiscal	1,397,530	44,691	0	424,616
Business	444,551	0	0	0
Operation and Maintenance of Plant	7,257,870	0	0	1,278,190
Pupil Transportation	2,582,403	0	0	62,676
Central	738,965	0	0	105,646
Operation of Non-Instructional Services				
Food Service	0	0	0	4,295,699
Community Services	72,424	0	0	1,674,434
Extracurricular Activities	1,439,711	0	0	401,669
Capital outlay	82,915	0	5,148,113	400,705
Debt Service:				
Principal Retirement	1,080,000	1,205,000	0	0
Interest and Fiscal Charges	231,563	1,527,759	0	0
<i>Total Expenditures</i>	70,759,007	2,777,450	5,148,113	28,558,291
<i>Excess (Deficiency) of Revenues Over (Under) Expenditures</i>	5,285,021	(284,656)	1,978,277	(1,228,425)
<b>Other Financing Sources (Uses):</b>				
Proceeds From Sales of Capital Assets	5,740	0	0	0
Transfers In	0	0	0	2,110,423
Transfers Out	(2,110,423)	0	0	0
<i>Total Financing Sources and (Uses)</i>	(2,104,683)	0	0	2,110,423
<i>Net Change in Fund Balance</i>	3,180,338	(284,656)	1,978,277	881,998
<i>Fund Balance (Deficit) at Beginning of Year</i> <i>(Restated, See Note 3)</i>	(3,480,205)	2,815,799	44,938,416	1,790,930
<i>Fund Balance (Deficit) at End of Year</i>	\$ (299,867)	\$ 2,531,143	\$ 46,916,693	\$ 2,672,928

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 Fiscal Year Ended June 30, 2008*

Total Governmental Funds	Net Change in Fund Balances - Total Governmental Funds	\$	5,755,957
	<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
\$ 19,378,843	Governmental funds report capital outlays as expenditures,		
87,456,580	however, in the statement of activities, the cost of those		
2,442,855	assets is allocated over their estimated useful lives as		
1,262,994	depreciation expense. This is the amount by which		
772,036	depreciation exceeded capital outlay in the current period.		
557,637	Capital Asset Additions Less CIP Disposals	\$	1,888,895
59,749	Current Year Depreciation	(2,414,016)	(525,121)
510,348			
552,036	Net effect of transactions involving sale of capital		(1,179)
	assets are not reflected in the funds.		
112,993,078	Revenues in the statement of activities that do not provide		
	current financial resources are not reported as revenues		
	in the funds.		
	Grants	(594,949)	
34,551,021	Delinquent Property Taxes	839,998	
8,236,621	Prepaid and Deferred Expenses	106,446	351,495
1,816,041			
142,556	Repayment of bond principal is an expenditure in the governmental		
14,688,544	funds, but the repayment reduces long-term liabilities in the		
	statement of net assets.		
4,374,887	Bond Principal		2,285,000
4,630,612			
253,255	In the statement of activities interest is accrued on outstanding		
6,652,194	bonds, whereas in governmental funds, interest is expensed		
1,866,837	when due.		2,794
444,551			
8,536,060	Some expenses reported in the statement of activities do not		
2,645,079	use the current financial resources and therefore, are not reported		
844,611	as expenditures in governmental funds.		
	Decrease in Compensated Absences	401,535	
4,295,699	Bond Accretion	(137,656)	
1,746,858	Amortization of Loss on Refunding	(65,130)	
1,841,380	Amortization of Bond Premium	83,641	282,390
5,631,733			
	The internal service fund used by management to charge the costs		
2,285,000	of insurance to individual funds is not reported in the district-wide		
1,759,322	statement of activities. The net revenue (expense) of internal service		
	funds is reported with governmental activities.		(258,621)
107,242,861			
5,750,217	Change in Net Assets of Governmental Activities	\$	7,892,715
5,740			
2,110,423			
(2,110,423)			
5,740			
5,755,957			
46,064,940			
\$ 51,820,897			

See accompanying notes to the basic financial statements.

**Lorain City School District**  
*Statement of Revenues, Expenditures, and Changes in Fund Balance -  
 Budget (Non-GAAP Basis) and Actual  
 General Fund  
 For the Fiscal Year Ended June 30, 2008*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Taxes	\$ 19,383,029	\$ 18,015,655	\$ 18,015,655	\$ 0
Intergovernmental	58,198,902	57,061,646	57,061,646	0
Investment Income	300,000	175,134	175,134	0
Tuition and Fees	1,185,344	1,130,123	1,130,123	0
Rentals	59,749	59,749	59,749	0
Miscellaneous	675,960	548,890	548,890	0
<i>Total Revenues</i>	<u>79,802,984</u>	<u>76,991,197</u>	<u>76,991,197</u>	<u>0</u>
<b>Expenditures:</b>				
<b>Current</b>				
Instruction	46,896,025	49,391,422	49,391,422	0
Support Services				
Pupils	2,110,988	1,259,658	1,259,658	0
Instructional Staff	1,842,192	810,534	810,534	0
Board of Education	271,458	292,236	292,236	0
Administration	6,019,680	5,787,372	5,787,372	0
Fiscal	3,853,894	3,707,697	3,707,697	0
Business	432,424	454,294	454,294	0
Operation and Maintenance of Plant	9,536,558	8,324,400	8,324,400	0
Pupil Transportation	3,029,193	2,845,710	2,845,710	0
Central	806,653	803,156	803,156	0
Operation of Non-Instructional Services	55,975	59,283	59,283	0
Extracurricular Activities	1,535,178	1,362,440	1,362,440	0
Capital Outlay	81,842	88,679	88,679	0
<i>Total Expenditures</i>	<u>76,472,060</u>	<u>75,186,881</u>	<u>75,186,881</u>	<u>0</u>
Excess of Revenues Over (Under) Expenditures	3,330,924	1,804,316	1,804,316	0
<b>Other Financing Sources (Uses):</b>				
Proceeds from Sale of Assets	3,000	5,740	5,740	0
Refund of Prior Year Expenditures	490,000	510,800	510,800	0
Advances Out	0	(351,513)	(351,513)	0
Transfers Out	(1,413,949)	(2,110,423)	(2,110,423)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(920,949)</u>	<u>(1,945,396)</u>	<u>(1,945,396)</u>	<u>0</u>
<i>Change in Fund Balance</i>	2,409,975	(141,080)	(141,080)	0
<i>Fund Balance (Deficit) at Beginning of Year</i>	(968,657)	(968,657)	(968,657)	0
Prior Year Encumbrances Appropriated	1,109,737	1,109,737	1,109,737	0
<i>Fund Balance (Deficit) at End of Year</i>	<u>\$ 2,551,055</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

See accompanying notes to the basic financial statements.

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**Lorain City School District**  
*Statement of Fund Net Assets*  
*Proprietary Funds*  
*June 30, 2008*

	Governmental Activities Internal Service Fund
	Fund
<b>Assets</b>	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	\$ 687,535
Investments	
In Segregated Accounts	608,369
Accounts Receivable	46,554
Prepaid Items	52,654
	1,395,112
<i>Total Assets</i>	<i>1,395,112</i>
<b>Liabilities</b>	
Current Liabilities:	
Accounts Payable	24,625
Intergovernmental Payable	96,847
Claims Payable	854,165
Cost Sharing Payable	340,696
	1,316,333
<i>Total Current Liabilities</i>	<i>1,316,333</i>
<b>Net Assets</b>	
Unrestricted	78,779
	78,779
<b>Total Net Assets</b>	<b>\$ 78,779</b>

See accompanying notes to the basic financial statements.

**Lorain City School District**  
*Statement of Revenues, Expenses and Changes in Fund Net Assets*  
*Proprietary Funds*  
*For the Fiscal Year Ended June 30, 2008*

	Governmental Activities Internal Service Fund
<b>Operating Revenues:</b>	
Charges for Services	\$ 8,952,325
Other Operating Revenues	11,938
<i>Total Operating Revenues</i>	8,964,263
<b>Operating Expenses:</b>	
Fringe Benefits	203,519
Purchased Services	544,888
Claims	8,539,257
<i>Total Operating Expenses</i>	9,287,664
Operating Income (Loss)	(323,401)
<b>Non-Operating Revenues (Expenses):</b>	
Interest	64,780
<i>Change in Net Assets</i>	(258,621)
<i>Net Assets (Deficit) Beginning of Year</i>	337,400
<i>Net Assets (Deficit) End of Year</i>	\$ 78,779

See accompanying notes to the basic financial statements.

**Lorain City School District**  
*Statement of Cash Flows*  
*Proprietary Funds*  
For the Fiscal Year Ended June 30, 2008

	Governmental Activities Internal Service Fund
<b>Cash Flows From Operating Activities:</b>	
Cash Received from Interfund Services	\$ 8,940,239
Cash Paid for Goods and Services	(664,333)
Cash Paid for Claims	(8,795,511)
	(519,605)
<i>Net Cash Provided By (Used For) Operating Activities</i>	(519,605)
<b>Cash Flows From Non-Capital Financing Activities:</b>	
Advances from Other Funds	582,126
	582,126
<i>Net Cash Provided By (Used For) Non-Capital Financing Activities</i>	582,126
<b>Cash Flows From Investing Activities:</b>	
Interest on Investments	64,780
Redemption of Investments	304,051
	368,831
<i>Net Cash Provided By (Used For) Investing Activities</i>	368,831
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	431,352
<i>Cash and Cash Equivalents at Beginning of Year</i>	256,183
<i>Cash and Cash Equivalents at End of Year</i>	\$ 687,535
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:</b>	
Operating Income (Loss)	\$ (323,401)
Adjustments:	
(Increase) Decrease Assets	
Accounts Receivable	(24,024)
Prepaid Items	15,403
Increase (Decrease) in Liabilities	
Accounts Payable	3,743
Due to Other Governments	(187,018)
Claims Payable	(256,254)
Cost Sharing Payable	251,946
	(196,204)
<i>Total Adjustments</i>	(196,204)
<i>Net Cash Provided By (Used For) Operating Activities</i>	\$ (519,605)

See accompanying notes to the basic financial statements.

**Lorain City School District**  
*Statement of Fiduciary Assets and Liabilities*  
*Fiduciary Funds*  
*June 30, 2008*

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	<u>Agency</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$ 115,850
	<hr/>
<b>Liabilities</b>	
Undistributed Monies	\$ 86,152
Due to Students	29,698
	<hr/>
<i>Total Liabilities</i>	<u>\$ 115,850</u>

See accompanying notes to the basic financial statements.

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## LORAIN CITY SCHOOL DISTRICT

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2008*

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### **Note 1 - Description of the School District**

The Lorain City School District (the School 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 School District is a city school district as defined by Section 3311.02 of the Ohio Revised Code. The School District operates under an elected Board of Education consisting of five members and is responsible for providing public education to residents of the School District. Average daily membership on, or as of, October 1, 2007, was 10,116. The School District employs 736 certificated and 394 non-certificated employees.

#### *Reporting Entity*

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

Within the School District boundaries, there are various nonpublic schools. Current State legislation provides funding to these nonpublic schools. These monies are received and disbursed by the School 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 governmental activity of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and, 1) the School District is able to significantly influence the programs or services performed or provided by the organization; or 2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of or provided financial support to the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School 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 School District's operations and so data from these units are combined with data of the School District. The School 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 School District's Superintendent and four members appointed by the Lorain Education Association. Although the Trust is legally separate from the School District, it should be reported as if it were part of the primary government because its sole purpose is to provide benefits to School District employees for hospitalization, medical, dental, vision and prescription drugs as provided for in the collective bargaining agreement. The School District's participation is disclosed in Note 10 to the financial statements.

## LORAIN CITY SCHOOL DISTRICT

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2008*

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Financial information for the Trust's year ended December 31, 2007, 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.

Discretely presented component units are legally separate entities which have a governing board appointed by the School District. The School District has four discretely presented component units which are combined on the governmental financial statements. These component units are as follows:

Lorain Alternative Academy

Lorain Elementary Digital Academy

Lorain K-8 Digital Academy

Lorain High School Digital Academy

See Note 22 for additional information.

The following entities which perform activities within the School District's boundaries for the benefit of its residents are excluded from the accompanying financial statements because the School District is not financially accountable for the entities nor are they fiscally dependent on the School 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 School 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 School 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 School District for operational subsidies. The School District does serve as the taxing authority for the library which is not considered part of the School District and its operations are not included within the accompanying financial statements.

### **Note 2 - Summary of Significant Accounting Policies**

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities and proprietary funds provided they do not conflict with or contradict GASB pronouncements.

**LORAIN CITY SCHOOL DISTRICT**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2008*

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Following are the most significant of the School District's accounting policies.

**A. Basis of Presentation**

The School 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 School 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.

The statement of net assets presents the financial condition of the governmental activities of the School District at year-end. The statement of activities presents a comparison between direct expenses, which include certain indirect expenses charged to individual federal programs, and program revenues for each program or function of the School District's governmental activities of the School District. 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 of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program, and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District, with certain limitations. 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 School District.

**Fund Financial Statements** During the year, the School District segregates transactions related to certain School 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 School District at this more detailed level. The focus of governmental financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

**B. Fund Accounting**

The School District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary, and fiduciary.

**Governmental Funds** Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses 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 are the School District's major governmental funds:

## LORAIN CITY SCHOOL DISTRICT

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2008*

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**General Fund** The general fund accounts for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the School District for any purpose provided it is expended or transferred according to the general laws of Ohio.

**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** The classroom facilities commission 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 School District account for grants and other resources whose use is restricted to a particular purpose.

**Proprietary Fund Type** Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. The following is the School District's proprietary fund type:

**Internal Service Funds** Internal service funds account for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost reimbursement basis. The School District's only internal service fund accounts for a self-insurance program for employee health insurance benefits.

**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 School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's only fiduciary funds are agency funds. The School District's agency funds account for student activities.

### ***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 School District are included on the statement of 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.

## LORAIN CITY SCHOOL DISTRICT

### *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2008*

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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 these funds 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 School District finances and meets the cash flow needs of its proprietary fund activities.

#### ***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 fiduciary funds also use the accrual basis of accounting. Differences in the accrual and the 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. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within sixty days of the fiscal year-end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (See Note 7) Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School 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, interest, tuition, grants, student fees, and rentals.

***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, 2008, but which were levied to finance fiscal year 2009 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 Fiscal Year Ended June 30, 2008*

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***Expenses/Expenditures*** On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the fund financial statements as intergovernmental revenue and an expenditure of food service operations. In addition, this amount is reported on the statement of activities as an expense with a like amount reported within the “Operating Grants and Contributions” program revenue account.

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. Cash and Cash Equivalents***

Cash received by the School District is deposited in one central bank account with individual fund balance integrity maintained through School District records. Monies for all funds are maintained in this account or other short term investments. Under existing Ohio statutes, interest earnings are allocated to funds based on average monthly cash balances. Interest revenue credited to the general fund during fiscal year 2008 amounted to \$181,984, which includes \$120,791 assigned from other School District funds.

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.

Investments of the cash management pool and investments with a maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents. Investments with an original maturity of more than three months that are not made from the pool are reported as investments.

### ***F. Restricted Assets***

Assets are reported as restricted 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 governments 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 and to create a reserve for budget stabilization. See Note 21 for additional information regarding set asides.

### ***G. 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 in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of five thousand dollars. The School 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.

**LORAIN CITY SCHOOL DISTRICT**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2008*

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All reported capital assets except land and construction in progress 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:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land Improvements	20 Years
Buildings and Improvements	40 Years
Furniture and Equipment	6 - 10 Years
Vehicles	4 - 10 Years
Textbooks	5 - 20 Years

***H. 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. Advances in/out are reported for interfund loans that may not be repaid within the next year.

***I. Prepaid and Deferred Expenses***

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

On government wide financial statements, bond issuance costs are defined and amortized over the term of the bonds using the straight line method, which approximates the effective interest method.

***J. Compensated Absences***

The School District reports compensated absences in accordance with the provisions of GASB No. 16, "Accounting for 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 employer 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 includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rate at fiscal year end, taking into consideration any limits specified in the School District's termination policy.

The entire compensated absence liability is reported on the government-wide financial statements.

In governmental funds, the liability for unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources.

**LORAIN CITY SCHOOL DISTRICT**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2008*

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***K. 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, accrued liabilities, and long-term obligations payable from proprietary funds are reported on the proprietary fund financial 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 special termination benefits 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 fiscal year. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

***L. 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 School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes primarily include extracurricular activities, operation and maintenance of plant, and special education instruction.

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

***M. Fund Balance Reserves***

The School District reserves those portions of fund equity which are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity, which is available for appropriation, in future periods. Fund balance reserves are established for encumbrances, property taxes and long term advances.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute.

***N. Interfund Activity***

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 and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.



**LORAIN CITY SCHOOL DISTRICT**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2008*

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***O. Extraordinary and Special Items***

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2008.

***P. Operating Revenues and Expenses***

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, these revenues charges for services for self-insurance programs. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating.

***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 in the financial statements and accompanying notes. Actual results may differ from those estimates.

***R. Budgetary Data***

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of control has been established by the Board of Education at the fund level for all funds. Budgetary modifications may only be made by resolution of the Board of Education.

***Tax Budget*** Prior to January 15, the Superintendent and Treasurer submit to the Board a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing or increased tax rates. By no later than January 20, the Board-adopted budget is filed with the Lorain County Budget Commission for rate determination.

***Estimated Resources*** The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the School District by March 1. As part of the certification, the School District receives the official certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the School District must revise its budget ensuring that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. On or about July 1, the certificate of estimated resources is amended to include any unencumbered balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the amended certificate when the original

## LORAIN CITY SCHOOL DISTRICT

### *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2008*

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appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2008.

***Appropriations*** A temporary appropriations measure to control expenditures may be passed on or about July 1 of each year for the period July 1 to September 30. An annual appropriation resolution must be passed by October 1 of each year for the period July 1 to June 30. The appropriation resolution fixes spending authority at the legal level of control and may be amended during the year as new information becomes available provided that total fund appropriations do not exceed current estimated resources, as certified. The total of expenditures and encumbrances may not exceed appropriations at any level of control. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education. The Board may pass supplemental fund appropriations provided the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. The amounts reported as the original budgeted amounts in the budgetary statements reflect the appropriation in the first complete appropriated budget, including amounts automatically carried over from prior years. The amounts reported as the final budgeted amounts in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds other than agency funds, consistent with statutory provisions.

***Encumbrances*** As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. 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.

***Lapsing of Appropriations*** 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.

#### ***S. Implementation of New Accounting Policies***

For the year ended 2008, the School District has implemented GASB Statement No. 45, “*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*”, GASB Statement No. 48, “*Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*”, GASB Statement No. 49, “*Accounting and Financial Reporting for Pollution Remediation Obligations*”, and GASB Statement No. 50, “*Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27.*”

GASB Statement No. 45 provides guidance on all aspects of OPEB reporting by employers. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers.

GASB Statement No. 48 provides guidance on accounting for sales and pledges of receivables and future revenues. The Statement also requires governments to disclose in the notes to the financial statements the amount of future revenues that have been pledged or sold.

**LORAIN CITY SCHOOL DISTRICT**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2008*

GASB Statement No. 49 provides guidance on how to calculate and report the costs and obligations associated with pollution cleanup efforts.

GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of GASB Statement No. 25, “*Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*”, and GASB Statement No. 27, “*Accounting for Pensions by State and Local Governmental Employers*”, to conform with requirements of GASB Statement No. 43, “*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*”, and GASB Statement No. 45, “*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*”.

Implementation of these GASB Statements did not affect the presentation of the financial statements of the School District.

**Note 3 – Restatement of Fund Balance and Net Assets**

It was determined that the interest receivable recorded to the general fund in fiscal year 2007 should have been a receivable in the classroom facilities fund. The change in fund balance for those funds is as follows:

	<u>General Fund</u>	<u>Classroom Facilities Fund</u>
Fund Balance at June 30, 2007	\$ (2,780,639)	\$ 44,238,850
Adjustment for Interest Receivable	<u>(699,566)</u>	<u>699,566</u>
Restated Fund Balance at July 1, 2007	<u>\$ (3,480,205)</u>	<u>\$ 44,938,416</u>

The School District changed the capital asset threshold from five hundred to five thousand dollars resulting in a decrease in net assets. The change in net assets is summarized below:

	<u>Governmental Activities</u>
Net Assets at June 30, 2007	\$ 183,238,572
Decrease in Capital Assets	<u>(7,860,127)</u>
Restated Net Assets at July 1, 2007	<u>\$ 175,378,445</u>

**LORAIN CITY SCHOOL DISTRICT**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2008*

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The following is the change in capital assets:

	<u>Capital Assets</u>
Capital Assets Balance at June 30, 2007	\$ 95,829,933
Adjustment Due to Increase in Threshold	<u>(7,860,127)</u>
Capital Assets Balance at July 1, 2007	<u><u>\$ 87,969,806</u></u>

**Note 4 – Accountability and Compliance**

**A. Fund Deficits**

Fund balances at June 30, 2008, included the following individual fund deficits:

	<u>Deficit Fund Balance</u>
General Fund	\$ 299,867
NonMajor Governmental Funds:	
Food Service	846,371
Rotary	202,314
EMIS	4,899
Public Preschool	5,883
Poverty Aid	1,041,831
Adult Education	2,526
Title VI-B	8,001
Vocational	1,102
Preschool Grant	9,979
Title II-A	55,763
Building Fund	916,000

The deficits resulted from adjustments for accrued liabilities. The general fund is liable for any deficit in the nonmajor governmental funds and will provide transfers when cash is required, not when accruals occur.

**B. Compliance**

**Ohio Revised Code Section 5705.10(H)** requires money that is paid into a fund must be used only for purposes for which such fund has been established. As a result, a negative fund balance indicates that money from one fund was used to cover the expenditures of another fund. At December 31, 2007, the general fund and food service fund reported material negative fund balances of \$1,018,319 and \$541,925, respectively. Additionally, the food service fund reported a \$130,216 negative fund balance at year end.

**LORAIN CITY SCHOOL DISTRICT**

*Notes to the Basic Financial Statements*

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**Ohio Revised Code Section 5705.41(B)** states that no subdivision or taxing unit is to expend money unless it has been appropriated. At October 31, 2007, expenditures plus encumbrances exceeded appropriations in the internal service fund by \$2,738,332.

**Note 5 - Budgetary Basis of Accounting**

While the School District is reporting financial position, results of operations, and changes in fund balance/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 Balance - Budget (Non-GAAP Basis) and Actual, is presented for the general fund 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 are that:

1. Revenues and other sources are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures/expenses and other uses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).
4. Advances In and Advances Out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statement to the budgetary basis statement on a fund type basis for the general fund.

**Net Change in Fund Balance**

	<u>General</u>
GAAP Basis	\$ 3,180,338
Net Adjustment for Revenue Accruals	1,457,969
Advance Out	(351,513)
Net Adjustment for Expenditure Accruals	(3,406,065)
Adjustment for Encumbrances	<u>(1,021,809)</u>
Budget Basis	<u><u>\$ (141,080)</u></u>

**LORAIN CITY SCHOOL DISTRICT**  
*Notes to the Basic Financial Statements*  
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**Note 6 - Deposits and Investments**

State statutes classify monies held by the School 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 School District treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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

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

Protection of School 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 to be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
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 that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

**LORAIN CITY SCHOOL DISTRICT**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2008*

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6. The State Treasurer's investment pool (STAROhio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest 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 School 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, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Custodial credit risk for deposits is the risk that in the event of bank failure, the government's deposits may not be returned to it. Protection of the School District cash and deposits is provided by the Federal Deposit Insurance Corporation, as well as qualified securities pledged by the institution holding the assets. By law, financial institutions must collateralize all uninsured public deposits. The face value of the pooled collateral must equal at least 105 percent of uninsured public funds deposited. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

Custodial credit risk for an investment is the risk that in the event of failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District's \$12,551,492 investment in repurchase agreements is to be secured by the specific government securities upon which the repurchase agreements are based. These securities, held by the counterparty and not in the School District's name, must be obligations of or guaranteed by the United States and mature or be redeemable within five years of the date of the related repurchase agreement. The School District's policy is to invest money with financial institutions that are able to abide by the laws governing insurance and collateral of public funds.

***Cash on Hand:*** At year end, the School District had \$14,050 in undeposited cash on hand which is included on the balance sheet of the School District as part of equity in pooled cash and cash equivalents.

***Deposits*** At fiscal year-end, the carrying amount of the School District's deposits was \$48,660,239 and the bank balance was \$49,182,248. Of the bank balance:

1. \$707,939 of the bank balance was covered by depository insurance; and
2. \$48,474,309 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging institution in the pledging institution's name, and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

**LORAIN CITY SCHOOL DISTRICT**  
*Notes to the Basic Financial Statements*  
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**Investments**

Investments are reported at fair value. As of June 30, 2008, the district had the following investments:

Standard & Poor's	Investment	Fair Value	Investment Maturities (in years)		% Total Investments
			less than 1	1 - 2	
N/A *	Repurchase Agreement	\$12,551,492	\$ 12,551,492	\$ 0	95.4%
AAA	Treasury Notes	608,369	608,369	0	4.6%
		<u>\$13,159,861</u>	<u>\$ 13,159,861</u>	<u>\$ 0</u>	<u>100.0%</u>

\* Underlying securities exempt

**Interest Rate Risk:** The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. The School District's policy indicates that the investments must mature within five years.

**Credit Risk:** The School District's investments credit ratings are summarized above.

**Concentration of Credit Risk:** The School District places no limit on the amount the district may invest in any one issuer. Investments of the School District are diversified to eliminate the risk of loss resulting from over concentration of assets in a specific maturity; a specific issue or a specific class of securities, strategies to achieve this are determined and revised periodically. The investment percentages are listed above.

**Note 7 - Property Taxes**

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

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the School District. Property tax revenue received during calendar 2008 for real and public utility property taxes represents collections of calendar 2007 taxes. Property tax revenue received during calendar 2007 for tangible personal property (other than public utility property) is for calendar 2007 taxes.

2008 real property taxes are levied after April 1, 2008, on the assessed value listed as of the prior January 1, the lien date. Assessed values are established by State law at 35 percent of appraised market value.

Public utility property tax revenue received in calendar 2008 represents collections of calendar year 2007 taxes. Public utility real and tangible personal property taxes received in calendar year 2008 became a lien December 31, 2006, were levied after April 1, 2007 and are collected in 2008 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar year 2008 (other than public utility property) represents the collection of 2008 taxes. Tangible personal property taxes received in calendar year 2008 were



**LORAIN CITY SCHOOL DISTRICT**

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*For the Fiscal Year Ended June 30, 2008*

levied after April 1, 2008, on the value as of December 31, 2007. In prior years, tangible personal property was assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory was 12.5 percent for 2007 and is 6.25 percent for 2008. This will be reduced to zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the District due to the phasing out of the tax. In calendar years 2006-2010, the School District will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

The property valuation consisted of:

	<b>2007 Second Half Collections</b>		<b>2008 First Half Collections</b>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Real Estate				
Residential/Agricultural	\$ 583,658,380	76.66%	\$ 587,230,750	79.16%
Commercial/Industrial	115,764,910	15.21%	120,896,810	16.30%
Tangible Personal Property				
Public Utilities	17,447,880	2.29%	11,712,000	1.58%
Personal Property	44,458,549	5.84%	21,897,494	2.96%
	<u>\$ 761,329,719</u>	<u>100.00%</u>	<u>\$ 741,737,054</u>	<u>100.00%</u>
Tax Rate per \$1,000 of Assessed Valuation		59.41		59.47

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 later payment dates to be established.

Tangible personal property taxes 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. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Lorain County. The County Auditor periodically advances to the School District their portion of the taxes collected. Second-half real property tax payments collected by the Counties by June 30, 2008, are available to finance fiscal year 2008 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

**LORAIN CITY SCHOOL DISTRICT**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2008*

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Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes which became measurable as of June 30, 2008 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the delayed settlement of personal property tax and the amount of real property taxes available as an advance at June 30 were levied to finance current year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The late settlement and the amount available as an advance at June 30 are recognized as revenue.

The amount available as an advance at June 30, 2008, was \$2,432,554 and is recognized as revenue. \$2,112,923 was available to the general fund and \$285,879 was available to the bond retirement debt service fund and \$33,752 was available to the classroom facilities maintenance fund.

**Note 8 - Receivables**

Receivables at June 30, 2008, consisted of taxes, accounts (student fees), interfund, accrued interest and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. Intergovernmental receivables consisted of excess costs receivable in general fund of \$135,343, classroom facilities grant money of \$87,305,546 in the classroom facilities fund and \$5,280,484 of grants receivable in special revenue funds.

**LORAIN CITY SCHOOL DISTRICT**  
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**Note 9 - Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

	Restated Balance 6/30/07	Additions	Reductions	Balance 6/30/08
<b>Governmental Activities</b>				
<i>Capital Assets, not being depreciated:</i>				
Land	\$ 2,019,602	\$ 0	\$ 0	\$ 2,019,602
Construction in Progress	18,910,926	0	(12,913,643)	5,997,283
Total Capital Assets, not being depreciated	<u>20,930,528</u>	<u>0</u>	<u>(12,913,643)</u>	<u>8,016,885</u>
<i>Capital Assets, being depreciated:</i>				
Land Improvements	3,813,884	0	0	3,813,884
Buildings and Improvements	84,843,085	13,944,886	0	98,787,971
Furniture and Equipment	7,726,950	769,279	0	8,496,229
Vehicles	600,448	88,373	(111,025)	577,796
Textbooks	4,000,032	0	0	4,000,032
Total Capital Assets, being depreciated	<u>100,984,399</u>	<u>14,802,538</u>	<u>(111,025)</u>	<u>115,675,912</u>
Less Accumulated Depreciation:				
Land Improvements	(3,682,238)	(6,962)	0	(3,689,200)
Buildings and Improvements	(21,106,715)	(1,656,582)	0	(22,763,297)
Furniture and Equipment	(5,326,752)	(518,318)	0	(5,845,070)
Vehicles	(529,389)	(32,152)	109,846	(451,695)
Textbooks	(3,300,027)	(200,002)	0	(3,500,029)
Total Accumulated Depreciation	<u>(33,945,121)</u>	<u>(2,414,016)</u>	<u>109,846</u>	<u>(36,249,291)</u>
Total Capital Assets being depreciated, net	<u>67,039,278</u>	<u>12,388,522</u>	<u>(1,179)</u>	<u>79,426,621</u>
Governmental Activities Capital Assets, Net	<u>\$ 87,969,806</u>	<u>\$ 12,388,522</u>	<u>\$ (12,914,822)</u>	<u>\$ 87,443,506</u>

**LORAIN CITY SCHOOL DISTRICT**

*Notes to the Basic Financial Statements*

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Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 585,761
Special	8,478
Vocational	200,040
Support Services:	
Pupil	1,167
Instructional Staff	9,957
Administration	4,078
Fiscal	4,426
Business	6,085
Operation and Maintenance of Plant	1,516,580
Pupil Transportaion	3,505
Central	45,692
Operation of Non-Instructional Services	23,261
Extracurricular Activities	<u>4,986</u>
Total Governmental Activities	<u>\$ 2,414,016</u>

**Note 10 - Risk Management**

**A. Property and Liability**

The School District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The School District is contracted with Fitzgibbons, Arnold and Company with the following coverages:

<u>Type of Coverage</u>	<u>Per Occurance</u>	<u>Aggregate</u>
General Liability	\$ 1,000,000	\$ 2,000,000
Automobile	1,000,000	0
Excess Liability	1,000,000	1,000,000
Blanket Building/Contents	0	280,518,741

Settled claims have not exceeded this commercial coverage in any of the past three years and there has not been a significant reduction in coverage from the prior year.

**LORAIN CITY SCHOOL DISTRICT**  
*Notes to the Basic Financial Statements*  
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***B. Workers' Compensation***

Lorain City Schools is in a Retrospective Rating Program with the Bureau of Worker's Compensation for its workers' compensation coverage. This program is administered by the Bureau of Worker's Compensation.

The School District pays 30 percent discounted premiums to the BWC for 10 years and incurs the liability dollar-to-dollar on all claim costs. Estimated premiums for 2008 are \$255,000. The School District will only pay 30 percent of the premium and all claims expenses. The firm of CompManagement, Inc. provides administrative, cost control services, and is the third party administrator of the School District.

***C. Health Insurance***

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 is provided under Medical Mutual, vision care is provided through Vision Plan of Ohio (VSP) and prescription drugs are provided through Medical Mutual of Ohio/Medco.

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.

The claims liability of \$854,165 at June 30, 2008, 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.

	Beginning Balance	Claims Incurred	Claims Paid	Ending Balance
2007	\$1,186,740	\$8,586,638	\$(8,662,959)	\$ 1,110,419
2008	\$1,110,419	\$8,539,257	\$(8,795,511)	\$ 854,165

## LORAIN CITY SCHOOL DISTRICT

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2008*

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### **Note 11 - Compensated Absences**

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn vacation based upon length of service and hours worked. Teachers do not earn vacation time. Accumulated unused vacation time is paid to classified employees and administrators upon termination of employment.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated to a maximum of 285 through 320 days depending on the individual contracts.

Upon retirement, employees receive payment for one-fourth of the total accumulated sick leave, up to a maximum accumulation which ranges from 50 through 70 days, depending on the individual contract.

### **Note 12 - Defined Benefit Pension Plans**

#### ***A. School Employees Retirement System***

The 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 Chapter 3309 of the Ohio Revised Code. SERS 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 School Employees Retirement System 300 East Broad Street, Columbus, Ohio 43215-3746 or by calling (614) 222-5853. It is also posted on SERS' website, [www.ohsers.org](http://www.ohsers.org), under forms and publications.

Plan members are required to contribute 10 percent of their annual covered salary and the Career Center is required to contribute at an actuarially determined rate. The current Career Center rate is 14 percent of annual covered payroll. 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. The School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2008, 9.16 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2007 the amount was 10 percent and for fiscal year 2006 the amount was 10.68 percent. The contributions to SERS for pension obligations for the fiscal years ended June 30, 2008, 2007, and 2006 were \$1,141,519, \$1,520,143 and \$1,575,919, respectively; 50 percent has been contributed for fiscal year 2008 and 100 percent for the fiscal years 2007 and 2006. \$872,340 represents the unpaid contribution for fiscal year 2008, and is recorded as a liability within the respective funds.

#### ***B. State Teachers Retirement System***

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090, or by visiting the STRS Ohio Web site at [www.strsoh.org](http://www.strsoh.org).

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

## LORAIN CITY SCHOOL DISTRICT

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2008*

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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 divided by an actuarially determined annuity factor. The DC Plan allows members to allocate their member contributions and employer contributions equal to 10.5 percent of earned compensation among various investment accounts. 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 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. DC and Combined Plan members will transfer to the DB 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. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years of 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, 2008, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2007, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2008, 2007, and 2006 were \$5,120,487, \$6,445,534 and \$6,507,090, respectively. Contributions to the DC and Combined Plans for fiscal year 2008 were \$8,635 made by the School District and \$50,334 made by the plan members. 85 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006. \$816,517 represents the unpaid contribution for fiscal year 2008, and is recorded as a liability within the respective funds.

### **Note 13 - Postemployment Benefits**

#### ***A. State Teachers Retirement System***

The School District contributes to the cost-sharing multiple-employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting [www.strsoh.org](http://www.strsoh.org) or by calling (888) 227-7877.

Ohio law authorized STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a portion of the health care cost in the form of a monthly premium.

## LORAIN CITY SCHOOL DISTRICT

### *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2008*

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Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14 percent employer contribution rate, 1 percent of covered payroll was allocated to Health Care Stabilization Fund for the years ended June 30, 2008, 2007 and 2006. The School District's contributions for health care for fiscal years ended June 30, 2008, 2007 and 2006 were \$395,091, \$487,666 and \$485,838, respectively.

#### ***B. School Employees Retirement System***

The School District participates in two cost-sharing multiple-employer defined benefit OPEB plans administered by SERS for non-certified retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan included hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of SERS' Health Care and Medicare B plans are included in its *Comprehensive Annual Financial Report*. The report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at [www.ohsers.org](http://www.ohsers.org) under *Forms and Publications*.

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 401(h). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund. At June 30, 2008, the health care allocation was 4.18 percent, at June 30, 2007 and 2006, the health care allocation was 3.32 percent. The District's contributions for the years ended June 30, 2008, 2007 and 2006 were \$520,912, \$504,687 and \$489,893, respectively.

An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2007 (the latest information available), the minimum compensation level was established at \$35,800. For the School District during fiscal year 2008 this amounted to \$221,079.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2008, the actuarially required allocation was .66 percent and for fiscal year 2007 the required allocation was .68 percent. The School District contributions for the fiscal years 2008 and 2007 were \$82,249 and 103,370, respectively.



**LORAIN CITY SCHOOL DISTRICT**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended June 30, 2008

**Note 14 - Long - Term Obligations**

The changes in the School District's long-term obligations during the year consist of the following:

	Outstanding 6/30/07	Additions	Reductions	Outstanding 6/30/08	Amounts Due in One Year
<b>Governmental Activities:</b>					
<i>Notes Payable:</i>					
2006 Revenue Anticipation Notes					
4.75% though 2011	\$ 5,400,000	\$ 0	\$ 1,080,000	\$ 4,320,000	\$ 1,080,000
Total	<u>5,400,000</u>	<u>0</u>	<u>1,080,000</u>	<u>4,320,000</u>	<u>1,080,000</u>
<i>Qualified Zone Academy Bonds:</i>					
Due 2011	<u>5,400,000</u>	<u>0</u>	<u>0</u>	<u>5,400,000</u>	<u>0</u>
<i>General Obligation Bonds Payable:</i>					
2003 Classroom Facilities Bonds					
1.45%-5.25% through 2025	20,550,000	0	1,030,000	19,520,000	1,105,000
Capital Appreciation Bonds	3,623,976	0	0	3,623,976	0
Accretion on CABs	499,394	120,007	0	619,401	0
2006 Classroom Facilities Bonds Refunding					
3.50%-4.25% through 2020	4,105,000	0	50,000	4,055,000	35,000
Capital Appreciation Bonds	64,995	0	0	64,995	0
Accretion on CABs	6,710	17,649	0	24,359	0
Premium on Debt Issuance	425,521	0	30,394	395,127	0
Refunding Loss	(335,648)	0	23,975	(311,673)	0
2007 Classroom Facilities Bonds Refunding					
4.00%-5.50% through 2025	8,985,000	0	125,000	8,860,000	0
Premium on Debt Issuance	1,011,687	0	53,247	958,440	0
Refunding Loss	(781,937)	0	41,155	(740,782)	0
Total	<u>38,154,698</u>	<u>137,656</u>	<u>1,353,771</u>	<u>37,068,843</u>	<u>1,140,000</u>
Compensated Absences	<u>8,009,310</u>	<u>675,489</u>	<u>1,077,024</u>	<u>7,607,775</u>	<u>1,459,116</u>
Total Governmental Activities					
Long-Term Liabilities	<u>\$ 56,964,008</u>	<u>\$ 813,145</u>	<u>\$ 3,510,795</u>	<u>\$ 54,396,618</u>	<u>\$ 3,679,116</u>

In 1993, the School District issued \$940,000 in general obligation bonds for renovation, construction, and furnishing and equipping school facilities and sites. The bonds matured in December 2006.

In 2003, the School District issued \$41,094,096 in general obligation bonds for renovation, construction, and equipping school facilities. These bonds were partially refunded in fiscal year 2007. This issue included three capital appreciation bonds that mature December 1, 2013, 2014 and 2015. These bonds were purchased at a substantial discount at the time of issuance. At maturity all compounded interest is paid and the bond holder receives the face value of the bonds. As the value of the bonds increase, the accretion is reflected as principal liability. The maturity amount of the bonds are \$1,650,000, \$1,750,000 and \$7,760,000, respectively. For fiscal year 2008, \$120,007 was accreted to update the liability to \$4,243,377 at June 30, 2008.

**LORAIN CITY SCHOOL DISTRICT**

*Notes to the Basic Financial Statements*

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In 2005, the School District issued \$5,400,000 in Qualified Zone Academy Bonds (QZAB) to finance the purchase of computer technology for the classrooms. The School District will make seven annual payments, which are deposited into an escrow account that will earn an investment rate of 3.45 percent. The last payment is due in June 2011 for a total of \$3.8 million. The remaining \$1.6 million due will accrue as interest in the escrow account until the bonds mature in June 2018. As of June 30, 2008, the School District has the following payments due:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>
2009	\$ 512,000
2010	410,000
2011	<u>400,000</u>
Total	<u>\$ 1,322,000</u>

The School District issued a tax anticipation note in the amount of \$5,400,000 at 4.75 percent, maturing December 1, 2011.

*2006 School Improvement Refunding Bonds*

On December 21, 2006, the School District issued \$4,169,995 refunded general obligation bonds. The proceeds of the bonds were used to refund \$4,169,995 of the School District's outstanding Capital Improvement Bonds, Series 2003. The bonds were issued for a 14 year period with final maturity at December 1, 2020. At the date of the refunding, \$4,595,516 (including premium and after underwriting fees) was deposited in an irrevocable trust to provide for all future payments on the refunded bonds. As of June 30, 2007, \$4,169,995 of these bonds are considered defeased.

These refunding bonds were issued with a premium of \$425,521, which is reported as an increase to bonds payable. The amounts are being amortized to interest expenses over the life of the bonds using the straight-line method. There was amortization of \$30,394 recorded for June 30, 2008. The issuance costs have been reported as an expenditure. The issuance resulted in a difference between the cash flows required to service the old debt and the cash flows required to service the new debt of \$335,648. The issuance resulted in an economic gain of \$122,127.

The bond issue consists of serial and a capital appreciation bond. These bonds are not subject to early redemption.

The capital appreciation bond matures December 1, 2016. This bond was purchased at a substantial discount at the time of issuance. At maturity all compounded interest is paid and the bond holder receives the face value of the bond. As the value of the bond increases, the accretion is reflected as principal liability. The maturity amount of the bonds is \$64,995. For fiscal year 2008, \$17,649 was accreted for a liability of \$89,354.

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*For the Fiscal Year Ended June 30, 2008*

*2007 School Improvement Refunding Bonds*

On March 6, 2007, the School District issued \$8,985,000 refunded general obligation bonds. The proceeds of the bonds were used to refund \$9,050,000 of the School District's outstanding Capital Improvement Bonds, Series 2003. The bonds were issued for a 18 year period with final maturity at December 1, 2025. At the date of the refunding, \$9,996,687 (including premium and after underwriting fees) was deposited in an irrevocable trust to provide for all future payments on the refunded bonds. As of June 30, 2008, \$9,050,000 of these bonds are considered defeased.

These refunding bonds were issued with a premium of \$1,011,687, which is reported as an increase to bonds payable. The amounts are being amortized to interest expenses over the life of the bonds using the straight-line method. There was no amortization recorded for June 30, 2007. The issuance costs have been reported as an expenditure. The issuance resulted in a difference between the cash flows required to service the old debt and the cash flows required to service the new debt of \$781,937. The issuance resulted in an economic gain of \$317,942.

General obligation bonds and notes payable will be repaid from the general fund and the debt service fund. Compensated absences will be paid from various governmental funds from which employees' salaries are paid, which in prior years is primarily general fund.

Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2008, are as follows:

Fiscal Year Ending June 30,	General Obligation Bonds		Capital Appreciation Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 1,140,000	\$ 1,502,190	\$ 0	\$ 0	\$ 1,140,000	\$ 1,502,190
2010	1,225,000	1,466,445	0	0	1,225,000	1,466,445
2011	1,315,000	1,414,669	0	0	1,315,000	1,414,669
2012	1,435,000	1,346,319	0	0	1,435,000	1,346,319
2013	1,560,000	1,271,869	0	0	1,560,000	1,271,869
2014 - 2018	3,330,000	5,996,917	3,688,971	2,006,029	7,018,971	8,002,946
2019 - 2023	12,505,000	3,821,999	0	0	12,505,000	3,821,999
2024 - 2025	9,925,000	681,744	0	0	9,925,000	681,744
Totals	<u>\$ 32,435,000</u>	<u>\$ 17,502,152</u>	<u>\$ 3,688,971</u>	<u>\$ 2,006,029</u>	<u>\$ 36,123,971</u>	<u>\$ 19,508,181</u>

**LORAIN CITY SCHOOL DISTRICT**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2008*

Principal and interest requirements to retire the note payable at June 30, 2008 are as follows:

Fiscal Year Ending June 30,	Revenue Anticipation Note		
	Principal	Interest	Total
2009	\$ 1,080,000	\$ 179,550	\$ 1,259,550
2010	1,080,000	128,250	1,208,250
2011	1,080,000	76,950	1,156,950
2012	1,080,000	25,650	1,105,650
Totals	<u>\$ 4,320,000</u>	<u>\$ 410,400</u>	<u>\$ 4,730,400</u>

**Note 15 - Deferred Revenue**

Deferred revenue at June 30, 2008, consisted of the following:

	Statement of Net Assets	Balance Sheet
Property Taxes Receivable	\$ 18,621,939	\$ 20,952,400
Grants Receivable	0	92,003,274
Deferred Revenue	<u>\$ 18,621,939</u>	<u>\$ 112,955,674</u>

**Note 16 - Interfund Transfers**

Transfers for the year ended June 30, 2008 consisted of the following:

	Transfers In	Transfers Out
General Fund	\$ 0	\$ 2,110,423
Non Major Governmental Funds	2,110,423	0
	<u>\$ 2,110,423</u>	<u>\$ 2,110,423</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the fund collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**LORAIN CITY SCHOOL DISTRICT**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2008*

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**Note 17 - Interfund Balances**

Interfund balances at June 30, 2008 consisted of the following:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 481,731	\$ 0
Nonmajor Governmental Funds	<u>0</u>	<u>481,731</u>
Total	<u><u>\$ 481,731</u></u>	<u><u>\$ 481,731</u></u>

As of June 30, 2008, the food service special revenue fund reported an unencumbered negative cash balance of \$130,218. As a result, an interfund loan was made by the general fund to eliminate the negative balances. Other advances were made to cover expenditures until expected revenues were received. All interfund loans will be repaid in fiscal year 2009 with monies to be received from reimbursable expenditures incurred during fiscal year 2008.

Advances to/from other funds as of June 30, 2008 consisted of the following:

	<u>Advances to Other Funds</u>	<u>Advances from Other Funds</u>
General Fund	\$ 1,555,359	\$ 0
Nonmajor Governmental Funds	<u>0</u>	<u>1,555,359</u>
	<u><u>\$ 1,555,359</u></u>	<u><u>\$ 1,555,359</u></u>

The general fund advanced monies to the special revenue funds to cover expenditures until revenue was received. It is the intention of the School District to repay the advances, however, it is not known at this time when repayment will take place.

**LORAIN CITY SCHOOL DISTRICT**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2008*

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**Note 18 - Contractual Commitments**

As of June 30, 2008, the School District had contractual commitments for the following:

	Contractual Commitment	Expended	Balance 06/30/08
Lincoln Demolition			
Dore and Associates	\$ 166,700	\$ 153,064	\$ 13,636
Moderalli Excavation	156,350	120,520	35,830
	\$ 323,050	\$ 273,584	\$ 49,466

**Note 19 - Jointly Governed Organizations**

The School District has chosen to use the services of the Educational Service Center of Lorain County. Those services include the following:

- Lorain County Purchasing Association – LERC
- Speech and Language Supervisory Services
- Audiologist Services
- Gifted/Talented Supervisory Services
- Parent Mentor Services
- Lorain County Long Distance Learning Consortium

*A. Lake Erie Educational 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, 2008, the School District paid \$197,418 to LEECA.

## LORAIN CITY SCHOOL DISTRICT

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2008*

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### *B. Lake Erie Regional Council*

The Lake Erie Regional Council (LERC) is a jointly governed organization among thirteen districts. The jointly governed organization was formed for the purpose of promoting cooperative agreements and activities among its members in dealing with problems of mutual concern such as a media center, gas consumption, driver education, food service and insurance. Each member 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, 2008 the School District paid \$131,820 to LERC.

### *C. Ohio Schools Council*

The School District participates in a group life insurance program with Horace Mann as the third party representative. Further information is available by contacting Horace Mann Company, Attn: C104-SFA, #1 Horace Mann Plaza, Springfield, Illinois, 62715, or by calling 217-788-8503.

### *D. Ohio Department of Administrative Services*

Under section 125.04 of the Ohio Revised Code, the School District participates in contracts for the purchase of supplies and services, into which the Ohio Department of Administrative Services has entered. This service allows the School District to participate in some lower cost supplies and services as negotiated by the state of Ohio. Further information can be researched at <http://procure.ohio.gov/proc/index.asp>.

### **Note 20 - Contingencies**

The School District 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 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 School District at June 30, 2008.

**LORAIN CITY SCHOOL DISTRICT**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2008*

**Note 21 - Set-Asides**

The School 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 acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years.

The following cash basis information describes the change in the year end set-aside amounts for textbooks and capital improvements. Disclosure of this information is required by State statute.

	Capital Improvement Reserve	Textbook Instructional Materials Reserve
Set-Aside Cash Balance as of June 30, 2007	\$ 0	\$ 0
Set-Aside Carryover Balance as of June 30, 2007	0	(2,956,026)
Current Year Set-Aside Requirement	1,437,819	1,437,819
Qualifying Disbursements	(274,781)	(342,917)
Current Year Offset	(1,163,038)	0
Total	<u>\$ 0</u>	<u>\$ (1,861,124)</u>
Balance Carried Forward to Fiscal Year 2009	<u>\$ 0</u>	<u>\$ (1,861,124)</u>

The School District may use any negative amount in the textbooks set-aside to reduce set-aside requirements of future fiscal years. Amounts remaining at the fiscal year-end are represented by a reserve fund balance presented on the balance sheet. The offsetting disbursements represent classroom facilities bond proceeds in excess of the capital improvement requirement used to offset the set-aside.

**Note 22– Discretely Presented Component Units**

The School District has determined that the Lorain Alternative Academy, the Lorain Elementary Digital Academy, the Lorain K-8 Digital Academy, and the Lorain High School Digital Academy are discrete component units. Each digital academy is not significant, therefore, they have been combined into one fund on the basic financial statements. Each digital academy issues a publicly available, stand-alone financial report that includes financial statements. The reports may be obtained by writing to each academy at 2350 Pole Avenue, Lorain, Ohio, 44052.





# Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

*Focused on Your Future.*

December 29, 2008

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

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Lorain City School District as of and for the year ended June 30, 2008, which collectively comprise the School District's basic financial statements and have issued our report thereon dated December 29, 2008, in which we noted the financial statement for the Jointly Administered Trust Fund for the Benefit of Lorain City School District Employees was audited by another auditor. 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.

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 opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Lorain City School District  
Report on Internal Control over Financial  
Reporting and on Compliance and Other  
Matters in Accordance with GAS  
Page 2 of 2

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weakness, as described above. However, we noted certain internal control matters that we reported to the management of Lorain City School District in a separate letter dated December 29, 2008.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lorain City School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2008-001 and 2008-002.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to management of Lorain City School District in a separate letter dated December 29, 2008.

The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the District's responses and, accordingly, we express no opinion on them.

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

*Hea & Associates, Inc.*



## Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

*Focused on Your Future.*

December 29, 2008

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

### **INDEPENDENT AUDITOR'S 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, 2008. 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 its major federal program 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 its major federal programs for the year ended June 30, 2008.

### **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 but, not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Lorain City School Districts' internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by any entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as described above.

### **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 the Lorain City School District as of and for the year ended June 30, 2008, which collectively comprise the School District's basic financial statements and have issued our report thereon dated December 29, 2008, in which we noted the financial statement of the Jointly Administered Trust Fund for the Benefit of Lorain City School District Employees was audited by another auditor. Our audit was performed for the purpose of forming an opinion on the 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 financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education, audit committee, 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.

*Hea & Associates, Inc.*

**LORAIN CITY SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CASH BASIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Federal Grantor/ Pass Through Grantor/ Program Title	CFDA Number	Grant Number	Federal Receipts	Federal Disbursements
<b>U. S. Department of Education</b>				
<i>Passed Through Ohio Department of Education:</i>				
Title I-A - Grants to LEA's	84.010	2008	3,544,928	3,166,932
Title I-A - Grants to LEA's	84.010	2007	<u>278,239</u>	<u>753,131</u>
Total Title I-A			3,823,167	3,920,063
Title II-A - Improving Teacher Quality	84.367	2008	787,337	702,774
Title II-A - Improving Teacher Quality	84.367	2007	<u>26,718</u>	<u>97,477</u>
Total Title II-A			814,055	800,251
Title III-A - English Language Acquisition	84.365	2008	42,659	40,084
IDEA B-611 - Special Education Grant	84.027	2008	2,055,489	2,055,489
IDEA B-611 - Special Education Grant	84.027	2007	0	301,501
IDEA B-619 - Special Education Grant	84.173	2008	62,049	62,049
IDEA B-619 - Special Education Grant	84.173	2007	<u>992</u>	<u>7,102</u>
Total Special Education Cluster			2,118,530	2,426,141
Title IV-A - Safe & Drug Free Schools and Communities	84.186	2008	57,992	44,105
Title IV-A - Safe & Drug Free Schools and Communities	84.186	2007	<u>1,540</u>	<u>7,485</u>
Total Title IV-A			59,532	51,590
Title V-A - State Grants for Innovative Programs	84.298	2008	26,045	6,384
Title V-A - State Grants for Innovative Programs	84.298	2007	<u>0</u>	<u>2,342</u>
Total Title V-A			26,045	8,726
Title I-B - Reading First	84.357	2007	81,513	129,522
Title I-B - Reading First	84.357	2006	<u>0</u>	<u>282,980</u>
Total Title I-B			81,513	412,502
Adult and Community Education	84.002	2008	212,941	208,889
Adult and Community Education	84.002	2007	<u>6,400</u>	<u>5,972</u>
Total Adult and Community Education			219,341	214,861
Title I - Vocational Education	84.048	2008	340,778	260,282
Title I - Vocational Education	84.048	2007	<u>0</u>	<u>25,788</u>
Total Title I - Vocational Education			340,778	286,070
Title II-D - Education Technology	84.318	2008	40,043	40,485
Title V-D - JAVITS Gifted & Talented Students Education	84.206	2008	4,777	4,635
Title V-D - JAVITS Gifted & Talented Students Education	84.206	2007	<u>0</u>	<u>282</u>
Total Title V-D - JAVITS			4,777	4,917
NSTA NASA Grant	43.001	NCCS-742	<u>0</u>	<u>388</u>
<i>Total Passed Through Ohio Department of Education</i>			<u>7,570,440</u>	<u>8,206,078</u>
<i>Direct Award:</i>				
Gear-Up Year 1	84.334	P334A060093	102,239	100,609
Gear-Up Year 2	84.334	P334A060093	328,097	251,918
Gear-Up Year 2	84.334	P334A990314	104,161	103,183
Gear-Up Year 3	84.334	P334A990314	<u>341,858</u>	<u>267,571</u>
Total Gear Up			876,355	723,281
Title V-C - Magnet Schools Assistance	84.165A	U165A070072	1,864,296	1,644,316
Smaller Learning Communities Year 1	84.215L	S215L060173	128,405	127,101
Smaller Learning Communities Year 2	84.215L	S215L060173	<u>263,644</u>	<u>151,754</u>
Total Smaller Learning Communities			392,049	278,855

**LORAIN CITY SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CASH BASIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Federal Grantor/ Pass Through Grantor/ Program Title	CFDA Number	Grant Number	Federal Receipts	Federal Disbursements
Early Literacy Year 1	84.359	S359B060061	66,045	62,824
Early Literacy Year 2	84.359	S359B060061	943,821	780,790
Total Early Literacy			1,009,866	843,614
Counseling Grant Year 1	84.215E	Q215E060384	53,768	52,464
Counseling Grant Year 2	84.215E	Q215E060384	244,554	242,289
Total Counseling Grant			298,322	294,753
<i>Total Direct Awards</i>			4,440,888	3,784,819
<b>Total U.S. Department of Education</b>			12,011,328	11,990,897
<b>U. S. Department of Health &amp; Human Services</b>				
Passed Through Lorain County Jobs and Family Services				
Title IV-A - Temporary Assistance for Needy Families	93.558	G996115	34,400	119,697
Title IV-A - Temporary Assistance for Needy Families	93.558	2007	9,107	0
Title IV-A - Temporary Assistance for Needy Families	93.558	2008	46,924	56,757
Title IV-A - Temporary Assistance for Needy Families	93.558	2007	12,002	0
Title IV-A - Temporary Assistance for Needy Families	93.558	2008	33,192	41,712
Total Title IV-A			135,625	218,166
<b>Total U.S. Department of Health &amp; Human Services</b>			135,625	218,166
<b>U. S. Department of Agriculture</b>				
Passed Through Ohio Department of Education:				
Child Nutrition Cluster:				
Non-Cash Assistance (Food Distribution):				
National School Lunch Program (A) (B)	10.555	2008	150,639	150,639
Cash Assistance:				
School Breakfast Program (B)	10.553	2008	1,183,604	1,183,604
National School Lunch Program (B)	10.555	2008	2,521,456	2,521,456
<i>Cash Assistance Subtotal</i>			3,705,060	3,705,060
Total Child Nutrition Cluster			3,855,699	3,855,699
<b>Total Department of Agriculture</b>			3,855,699	3,855,699
 <b>TOTAL FEDERAL FINANCIAL ASSISTANCE</b>			 <u>\$ 16,002,652</u>	 <u>\$ 16,064,762</u>

- (A) Government commodities are reported at the entitlement value of the commodities received and disbursed.  
 (B) Federal money commingled with state subsidy reimbursements. It is assumed federal moneys are expended first.

**LORAIN CITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A-133, Section .505  
JUNE 30, 2008**

<b>1. SUMMARY OF AUDITOR'S RESULTS</b>
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(d) (1) (i)	Type of Financial Statement Opinion	Unqualified
(d) (1) (ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (ii)	Were there any other significant deficiency conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (iii)	Were there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d) (1) (iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d) (1) (iv)	Were there any other significant deficiencies 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): Child Nutrition Cluster Magnet Grant Title II-A Improving Teacher Quality	10.553 & 10.555 84.165 84.367
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 481,943 Type B: All others
(d) (1) (ix)	Low Risk Auditee?	Yes

**LORAIN CITY SCHOOL DISTRICT  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 OMB CIRCULAR A-133, Section .505  
 JUNE 30, 2008**

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

**FINDING NUMBER 2008-001**

**Material Noncompliance**

**Ohio Rev. Code Section 5705.41(B)** states that no subdivision or taxing unit is to expend money unless it has been appropriated. At October 31, 2007, expenditures plus encumbrances exceeded appropriations in the following fund:

	Expenditures	Final Appropriations	Excess
<i>Other Funds:</i>			
Internal Service	4,261,350	\$ 1,523,018	\$ (2,738,332)

Keeping expenditures within the appropriated amount is not only required by statute but is a key control in the budgetary and disbursement process to assure that expenditures are properly appropriated for and mitigate the risk of misspending and/or exceeding the available resources. To improve controls over budgeting and disbursements and to help reduce the possibility of the District expending funds which are not appropriated, we recommend the District monitor appropriations versus actual expenditures and obtain an amended appropriation measure, if necessary.

**Management’s Response:** Management will implement additional monitoring procedures to prevent future occurrences and remain in compliance with the aforementioned statute.

**FINDING NUMBER 2008-002**

**Material Noncompliance**

**Ohio Rev. Code Section 5705.10(H)** requires money that is paid into a fund must be used only for purposes for which such fund has been established. As a result, a negative fund balance indicates that money from one fund was used to cover the expenditures of another fund. At December 2007, the district reported material negative fund balances in the following funds:

001	General	\$1,018,319
006	Lunchroom	541,925

Additionally, the food service fund reported a \$130,216 negative fund balance at year end. Maintaining positive cash balances is not only required by statute but is a key control in the revenue and disbursement process to assure that revenue is available to pay purchase commitments from the funds intended to pay the commitment. To improve controls over financial monitoring and to help reduce the possibility of the District’s funds being in a deficit balance, we recommend the District monitor fund activity to prevent future expenditures in excess of available resources. In those cases where additional funds are required, the resources should either be transferred or advanced to the fund in accordance with the Ohio Revised Code and Auditor of State Bulletin 97-003.

**Management’s Response:** Management will monitor fund balances more closely and consider advancing money when needed (if available) from the general fund in order to be in compliance with aforementioned statute.

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None noted.



**LORAIN CITY SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2008**

<b>Finding No.</b>	<b>Finding Summary</b>	<b>Fully Corrected?</b>	<b>Not Corrected, Partially Corrected, Significantly Different Corrective Action Taken or Finding No Longer Valid, Explain</b>
2007-001	Significant deficiency in internal control over financial reporting resulting in understatement of liabilities and overstatement of receivables, resulting in audit adjustments	Yes	
2007-002	Material non-compliance of ORC Section 5705.41(D). District failed to encumber funds for multiple expenditures during FY07	Yes	
2007-003	Material non-compliance of ORC Section 5705.39. Appropriations exceeded estimated resources by a material amount in the general fund	Yes	
2007-004	Material non-compliance of ORC Section 5705.10. District had multiple negative fund balances that were material to the funds.	No	Repeated as finding 2008-002





**Mary Taylor, CPA**  
Auditor of State

**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  
MARCH 19, 2009**