

Lorain City School District
Lorain County, Ohio

Audited Financial Statements

For the Fiscal Year Ended June 30, 2011



Dave Yost • 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, 2010 through June 30, 2011. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Lorain City School District is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Dave Yost".

Dave Yost
Auditor of State

April 2, 2012

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LORAIN CITY SCHOOL DISTRICT
Lorain County, Ohio
Audited Financial Statements
For the Year Ended June 30, 2011
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LORAIN CITY SCHOOL DISTRICT
Lorain County, Ohio
Audited Financial Statements
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February 24, 2012

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, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of Lorain City School District, Lorain County, (the School District), as of and for the year ended June 30, 2011, 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 0.71 percent, 8.24 percent, and 0.15 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 provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the School District, as of June 30, 2011, and the respective changes in financial position and the 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 February 24, 2012 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 11 are not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for the purposes of additional analysis as required by the U. S. Office of Management and Budget Circular A-133, Audit of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hea & Associates, Inc.

Lorain City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011

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, 2011. 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 2011 are as follows:

- ❑ General Revenues accounted for \$91.7 million in revenue or 79% of all revenues. Program specific revenues in the form of charges for services and sales, grants, and contributions accounted for \$24.9 million or 21% of total revenues of \$116.6 million. This is a decrease of \$92,000 from fiscal year 2010.
- ❑ Total program expenses were \$122.0 million, which is an increase of \$1.6 million over fiscal year 2010.
- ❑ Net assets decreased \$5.5 million from fiscal year 2010.
- ❑ The School District issued a tax anticipation note for \$4.8 million in fiscal year 2011. The School District made principal payments of \$1.1 million and \$1.3 million for notes and bonds payable, respectively.
- ❑ Construction of school buildings continued adding \$18.4 million to construction in progress and capitalizing \$15.0 million in completed buildings. Depreciation amounted to \$2.4 million in fiscal year 2011 for a net increase in capital assets of \$15.5 million over fiscal year 2010.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the School District as a financial whole, or as an entire operating entity.

The statement of net assets and the 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 a greater 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 a single column. For the School District, the general, debt service and classroom facilities funds are the most significant funds.

Lorain City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011

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 2011?" 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.

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 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 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.

Lorain City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011

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 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.

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 21.

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 24.

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, 2011

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 2011 compared to 2010:

Table 1
Net Assets

	2011	Restated 2010
Assets		
Current and Other Assets	\$ 151,749,902	\$ 170,133,608
Capital Assets	122,289,654	106,751,555
Total Assets	274,039,556	276,885,163
Liabilities		
Long-Term Liabilities	51,264,548	48,919,331
Other Liabilities	40,270,481	39,994,408
Total Liabilities	91,535,029	88,913,739
Net Assets		
Invested in Capital		
Assets Net of Debt	85,978,758	69,648,692
Restricted	105,740,274	123,605,757
Unrestricted (Deficit)	(9,214,505)	(5,283,025)
Total Net Assets	\$ 182,504,527	\$ 187,971,424

Current assets decreased \$18.4 million mostly through a \$19.5 million decrease in the Ohio School Facilities grant receivable from drawdowns to construct school buildings. Additional construction in progress of \$18.4 million along with depreciation expense of \$2.4 million contributed to the \$15.5 million increase in capital assets. Long term liabilities increased \$2.3 million partially due to \$3.3 million in additional retirement incentives and \$1.3 million in payments of principal and related liabilities in fiscal year 2011. A \$2.7 million decrease in construction contracts payable for the new school buildings helped offset the increases. These changes resulted in a decrease in net assets from fiscal year 2010 of 2.9% or \$5.5 million.

Lorain City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011

Table 2 shows the changes in net assets for fiscal year 2011 and 2010 and will help further explain the change from the prior year.

Table 2
Governmental Activities

	2011	2010 *
Revenues		
<i>Program Revenues:</i>		
Charges for Services	\$ 1,837,286	\$ 2,242,000
Operating Grants	22,775,096	23,350,499
Capital Grants	299,694	413,907
<i>General Revenue:</i>		
Property Taxes	19,338,639	18,438,527
Grants and Entitlements not Restricted to Specific Programs	71,935,169	70,956,355
Other	397,153	1,273,543
<i>Total Revenues</i>	116,583,037	116,674,831
Program Expenses		
Instruction	75,933,585	74,986,044
Support Services	37,798,374	36,564,189
Operation of Non-Instructional	5,218,392	5,847,547
Extracurricular Activities	1,451,884	1,856,981
Interest and Fiscal Charges	1,647,699	1,742,592
<i>Total Expenses</i>	122,049,934	120,997,353
<i>Increase (Decrease) in Net Assets</i>	\$ (5,466,897)	\$ (4,322,522)

*Excludes the activities of a portion of the special trust special revenue fund reclassified to private purpose trust and a portion of the rotary special revenue fund reclassified to an agency fund with the implementation of GASB 54 (See Note 2T). Amounts are insignificant and would not impact the analysis of the governmental funds.

Total net assets decreased by \$5.5 million from fiscal year 2010. Total revenues are \$92,000 below fiscal year 2010. Although program revenues decreased \$1.1 million from fiscal year 2010, unrestricted grants and entitlements increased \$1.0 million through an increase in the fiscal stabilization grant. Taxes also showed an increase of \$1.0 million. Delinquent real estate taxes increased \$.5 million and taxes available for advance at year end increased \$.7 million, both of which are recognized as revenue. Other revenues, which include interest income, decreased \$.9 million from fiscal year 2010. Expenses increased \$1.1 million over fiscal year 2010. Retirement incentives and increased costs for maintaining the facilities have contributed to the increases in instructional and support services expenses.

Lorain City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011

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 \$116.6 million and expenses of \$123.1 million in fiscal year 2011.

Table 3
Governmental Activities

	2011		2010 *	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Instruction	\$ 75,933,585	\$ 65,516,780	\$ 74,986,044	\$ 65,162,279
Support Services:				
Pupil and Instructional Staff	13,448,243	5,942,448	12,494,931	4,628,502
Board of Education, Administration Fiscal and Business	10,272,546	8,815,978	11,160,852	9,027,937
Operation and Maintenance of Plant	9,697,330	9,672,450	8,846,505	8,843,746
Pupil Transportation and Central	4,380,255	4,222,822	4,061,901	3,574,855
Operation of Non-Instructional	5,218,392	(31,849)	5,847,547	374,611
Extracurricular Activities	1,451,884	1,351,530	1,856,981	1,636,425
Interest and Fiscal Charges	1,647,699	1,647,699	1,742,592	1,742,592
Total Expenses	\$ 122,049,934	\$ 97,137,858	\$ 120,997,353	\$ 94,990,947

*Excludes the activities of a portion of the special trust special revenue fund reclassified to private purpose trust and a portion of the rotary special revenue fund reclassified to an agency fund with the implementation of GASB 54 (See Note 2T). Amounts are insignificant and would not impact the analysis of the governmental funds.

Instruction and pupil and instructional staff comprise 73% of governmental program expenses. Interest and fiscal charges were 1%. Interest expense was attributable to the outstanding bonds and notes and fiscal expenses, which include payments to the County Auditor(s) for administrative fees. Operation and maintenance of plant and pupil transportation and central account for 12% of governmental program expenses. Slight increases in program revenues in the auxiliary and title I funds, contributed to covering operation of non-instructional expenses in fiscal year 2011.

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, 2011

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 \$55.9 million, which is \$1.9 million over last year's balance of \$54.0 million. The most significant changes within the School District's major funds were reported in the classroom facilities fund with an increase in fund balance of \$.9 million.

Major Funds

The general fund is the main operating fund of the School District. At the end of fiscal year 2011, the general fund had a deficit fund balance of \$.3 million, which is an increase of \$.1 million over fiscal year 2010. There is no individually significant item accounting for this increase.

The debt service fund is the School District fund that accumulates tax revenues to pay general obligation bonds. At the end of fiscal year 2011, the fund balance in the debt service fund was \$2.1 million, which is a decrease of \$.1 million from fiscal year 2010. 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 2011, the fund balance in the classroom facilities fund was \$48.8 million, which is an increase of \$.9 million over fiscal year 2010 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 \$4.4 million between the final budget basis revenue and other financing sources of \$89.2 million, and the original budget basis revenue and other financing sources of \$84.8 million. The final budget reflected the \$4.8 million tax anticipation note. The original budgeted expenditures and other financing uses of \$90.2 million were \$.6 million more the final budget amount of \$89.6 million. Advances out were originally estimated to be \$.5 million more than the final budget.

Lorain City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2011, the School District governmental activities had \$122.3 million invested in land, construction in progress, land improvements, buildings and improvements, furniture and equipment, vehicles and textbooks. Table 4 shows fiscal year 2011 balances compared with 2010.

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

	Governmental Activities	
	2011	2010
Land, Buildings and Improvements	\$ 95,493,483	\$ 81,077,949
Furniture and Equipment	1,312,345	1,409,728
Vehicles	91,060	110,368
Textbooks	272,869	604,016
Construction in Progress	25,119,897	23,549,494
Totals	\$ 122,289,654	\$ 106,751,555

Construction continued on the Irving and Whittier school buildings while the Lincoln and Hawthorne buildings were completed and capitalized accounting for the net increase in construction in progress of \$1.6 million. Depreciation expense for fiscal year 2011 amounted to \$2.4 million. See Note 9 for further information regarding capital assets of the School District.

Debt

At June 30, 2011, the School District had \$39.2 million in bonds outstanding with \$1.4 million due within one year. During fiscal year 2011, \$1.3 million of general obligation bonds 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, 2011

Table 5
Outstanding Debt, at June 30

	Governmental Activities	
	2011	Restated 2010
General Obligation Bonds:		
2003 Classroom Facilities Bonds	\$ 15,950,000	\$ 17,225,000
Capital Appreciation Bonds	3,623,976	3,623,976
Accretion	1,000,788	869,995
2006 Classroom Facilities Bonds Refunding	3,945,000	3,985,000
Capital Appreciation Bonds	64,995	64,995
Accretion	107,912	73,759
Premium on Debt Issuance	303,945	334,339
Refunding Loss	(239,748)	(263,723)
2007 Classroom Facilities Bonds Refunding	8,860,000	8,860,000
Premium on Debt Issuance	798,699	851,946
Refunding Loss	(617,317)	(658,472)
Qualified Zone Academy Bonds	5,400,000	5,400,000
 Total Debt	\$ 39,198,250	\$ 40,366,815

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 December 2006 the School District issued \$4.2 million in refunding bonds and in March 2007 the School District issued refunding bonds for \$9.0 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.

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.

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Lorain City School District

Statement of Net Assets

June 30, 2011

	Governmental Activities	Component Unit Digital Academy
Assets		
Equity in Pooled Cash and Investments	\$ 17,728,026	\$ 572,289
Cash and Investments:		
In Segregated Accounts	49,726,876	0
With Fiscal Agents	7,087,908	0
Investments:		
In Segregated Accounts	608,844	0
Receivables:		
Taxes	21,237,979	0
Accounts	17,878	0
Accrued Interest	151,791	0
Intergovernmental	51,198,191	0
Prepaid and Deferred Expenses	3,992,409	0
Nondepreciable Capital Assets	32,023,538	0
Depreciable Capital Assets (Net)	90,266,116	38,966
<i>Total Assets</i>	<u>274,039,556</u>	<u>611,255</u>
Liabilities		
Accounts Payable	1,326,536	3,937
Contracts Payable	941,444	0
Accrued Wages and Benefits	8,131,989	0
Retainage Payable	920,375	0
Intergovernmental Payable	3,332,538	0
Deferred Revenue	17,407,831	0
Accrued Interest Payable	115,166	0
Notes Payable	5,873,000	0
Claims Payable	984,194	0
Cost Sharing Payable	1,237,408	0
Long Term Liabilities:		
Due Within One Year	4,863,053	0
Due in More Than One Year	46,401,495	0
<i>Total Liabilities</i>	<u>91,535,029</u>	<u>3,937</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	85,978,758	38,966
Restricted for:		
Capital Projects	96,666,795	0
Debt Service	2,364,674	0
Other Purposes	6,708,805	29,279
Unrestricted	(9,214,505)	539,073
<i>Total Net Assets</i>	<u>\$ 182,504,527</u>	<u>\$ 607,318</u>

See accompanying notes to the basic financial statements.

Lorain City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2011

	Program Revenues			
	Expenses	Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants, Contributions and Interest
Governmental Activities				
Instruction:				
Regular	\$ 43,940,871	\$ 1,276,044	\$ 7,990,711	\$ 299,694
Special	9,230,831	0	613,448	0
Vocational	3,355,449	0	126,176	0
Student Intervention	137,385	0	23,466	0
Other	19,269,049	0	87,266	0
Support services:				
Pupils	4,798,399	0	1,704,539	0
Instructional Staff	8,649,844	0	5,801,256	0
Board of Education	305,691	0	0	0
Administration	7,910,106	118,381	605,730	0
Fiscal	1,603,684	42,822	689,001	0
Business	453,065	634	0	0
Operation and Maintenance of Plant	9,697,330	0	24,880	0
Pupil Transportation	2,781,304	184	98,488	0
Central	1,598,951	0	58,761	0
Operation of Non-Instructional Services:				
Food Service Operation	4,330,961	273,955	4,040,918	0
Community Services	887,431	26,284	909,084	0
Extracurricular Activities	1,451,884	98,982	1,372	0
Interest and Fiscal Charges	1,647,699	0	0	0
<i>Total Governmental Activities</i>	<u>122,049,934</u>	<u>1,837,286</u>	<u>22,775,096</u>	<u>299,694</u>
Component Unit				
Digital Academy	566,343	0	64,424	0
<i>Total Component Unit</i>	<u>566,343</u>	<u>0</u>	<u>64,424</u>	<u>0</u>
<i>Totals</i>	<u>\$ 122,616,277</u>	<u>\$ 1,837,286</u>	<u>\$ 22,839,520</u>	<u>\$ 299,694</u>

General Revenues

Property Taxes Levied for:

General Purposes
Debt Service
Classroom Facilities Maintenance
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 2T)

Net Assets End of Year

See accompanying notes to the basic financial statements.

Net (Expense) Revenue
and Changes in Net Assets

<u>Governmental Activities</u>	<u>Component Unit</u>
\$ (34,374,422)	\$ 0
(8,617,383)	0
(3,229,273)	0
(113,919)	0
(19,181,783)	0
(3,093,860)	0
(2,848,588)	0
(305,691)	0
(7,185,995)	0
(871,861)	0
(452,431)	0
(9,672,450)	0
(2,682,632)	0
(1,540,190)	0
(16,088)	0
47,937	0
(1,351,530)	0
(1,647,699)	0
<u>(97,137,858)</u>	<u>0</u>
<u>0</u>	<u>(501,919)</u>
<u>0</u>	<u>(501,919)</u>
<u>(97,137,858)</u>	<u>(501,919)</u>
16,718,043	0
2,359,312	0
261,284	0
71,935,169	611,454
154,621	0
<u>242,532</u>	<u>191</u>
<u>91,670,961</u>	<u>611,645</u>
(5,466,897)	109,726
<u>187,971,424</u>	<u>497,592</u>
<u>\$ 182,504,527</u>	<u>\$ 607,318</u>

See accompanying notes to the basic financial statements.

Lorain City School District
Balance Sheet
Governmental Funds
June 30, 2011

	General	Debt Service	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Investments	\$ 7,234,070	\$ 1,891,701	\$ 1,130,282	\$ 6,095,011	\$ 16,351,064
Cash and Investments:					
In Segregated Accounts	0	0	48,450,514	0	48,450,514
With Fiscal Agents	4,301,220	0	920,375	1,866,313	7,087,908
Receivables:					
Taxes	18,399,372	2,556,106	0	282,501	21,237,979
Accounts	2,595	0	0	15,283	17,878
Interfund	499,371	0	0	0	499,371
Accrued Interest	1,108	0	150,140	543	151,791
Intergovernmental	466,969	0	46,010,971	4,720,251	51,198,191
Advances to Other Funds	1,427,663	0	0	0	1,427,663
<i>Total Assets</i>	<u>\$ 32,332,368</u>	<u>\$ 4,447,807</u>	<u>\$ 96,662,282</u>	<u>\$ 12,979,902</u>	<u>\$ 146,422,359</u>
Liabilities and Fund Balances					
Liabilities					
Accounts Payable	\$ 967,616	\$ 0	\$ 0	\$ 350,612	\$ 1,318,228
Contracts Payable	0	0	941,444	0	941,444
Accrued Wages and Benefits	6,190,789	0	0	1,941,200	8,131,989
Retainage Payable	0	0	920,375	0	920,375
Interfund Payable	0	0	0	499,371	499,371
Intergovernmental Payable	2,644,783	0	112	542,622	3,187,517
Deferred Revenue	16,982,702	2,338,256	46,010,971	2,902,519	68,234,448
Notes Payable	5,873,000	0	0	0	5,873,000
Advances from Other Funds	0	0	0	1,427,663	1,427,663
<i>Total Liabilities</i>	32,658,890	2,338,256	47,872,902	7,663,987	90,534,035
Fund Balances					
Restricted	0	2,109,551	48,789,380	6,887,398	57,786,329
Unassigned	(326,522)	0	0	(1,571,483)	(1,898,005)
<i>Total Fund Balances</i>	<u>(326,522)</u>	<u>2,109,551</u>	<u>48,789,380</u>	<u>5,315,915</u>	<u>55,888,324</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 32,332,368</u>	<u>\$ 4,447,807</u>	<u>\$ 96,662,282</u>	<u>\$ 12,979,902</u>	<u>\$ 146,422,359</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, 2011*

Total Governmental Fund Balances	\$	55,888,324
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.		122,289,654
Other long-term assets are not available to pay for current-period expenditures and therefore, are deferred in the funds.		
Grants and Other Revenues	\$ 48,742,647	
Delinquent Property Taxes	2,083,970	
Prepaid Expenses	3,733,746	54,560,363
Bond issuance costs reported as an expenditure in the funds are allocated as an expense over the life of the debt on an accrual basis.		194,261
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.		951,639
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds.		
General Obligation Bonds and Notes Payable	34,155,000	
Capital Appreciation Bonds	4,797,671	
Bond Premium	1,102,644	
Loss on Refunding	(857,065)	
Compensated Absences	11,964,335	
Accrued Interest Payable	115,166	
Long Term Intergovernmental Payable	101,963	(51,379,714)
Net Assets of Governmental Activities		\$ 182,504,527

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, 2011

	General	Debt Service	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	\$ 16,557,608	\$ 2,287,602	\$ 0	\$ 254,622	\$ 19,099,832
Intergovernmental	66,526,989	377,750	19,514,601	28,136,350	114,555,690
Investment Income	154,621	0	299,693	8,850	463,164
Tuition and Fees	1,155,567	0	0	0	1,155,567
Extracurricular Activities	153,170	0	0	97,071	250,241
Charges for Services	115,491	0	0	273,823	389,314
Rentals	24,385	0	0	0	24,385
Gifts and Donations	2,183	0	0	660,639	662,822
Miscellaneous	235,881	0	4,000	2,783	242,664
<i>Total Revenues</i>	<u>84,925,895</u>	<u>2,665,352</u>	<u>19,818,294</u>	<u>29,434,138</u>	<u>136,843,679</u>
Expenditures:					
Current:					
Instruction:					
Regular	28,455,111	0	0	10,508,932	38,964,043
Special	8,847,763	0	0	632,991	9,480,754
Vocational	3,346,919	0	0	90,707	3,437,626
Student Intervention	4,853	0	0	29,242	34,095
Other	18,306,752	0	0	959,964	19,266,716
Support Services:					
Pupils	1,977,954	0	0	2,768,998	4,746,952
Instructional Staff	2,042,944	0	0	6,079,280	8,122,224
Board of Education	410,015	0	0	0	410,015
Administration	6,848,865	0	0	694,444	7,543,309
Fiscal	1,138,782	39,762	0	353,027	1,531,571
Business	427,367	0	0	193	427,560
Operation and Maintenance of Plant	7,470,499	0	0	845,812	8,316,311
Pupil Transportation	2,642,112	0	0	108,390	2,750,502
Central	1,306,975	0	0	190,000	1,496,975
Operation of Non-Instructional Services:					
Food Service	0	0	0	4,122,845	4,122,845
Community Services	129,160	0	0	832,062	961,222
Extracurricular Activities	951,053	0	0	459,883	1,410,936
Capital Outlay	57,755	0	18,897,970	173,703	19,129,428
Debt Service:					
Principal Retirement	0	1,315,000	0	0	1,315,000
Interest and Fiscal Charges	76,950	1,414,669	0	0	1,491,619
<i>Total Expenditures</i>	<u>84,441,829</u>	<u>2,769,431</u>	<u>18,897,970</u>	<u>28,850,473</u>	<u>134,959,703</u>
<i>Excess (Deficiency) of Revenues Over (Under) Exp</i>	484,066	(104,079)	920,324	583,665	1,883,976
Other Financing Sources (Uses):					
Proceeds From Sales of Capital Assets	8,252	0	0	0	8,252
Transfers In	0	0	0	389,816	389,816
Transfers Out	(389,816)	0	0	0	(389,816)
<i>Total Financing Sources and (Uses)</i>	<u>(381,564)</u>	<u>0</u>	<u>0</u>	<u>389,816</u>	<u>8,252</u>
<i>Net Change in Fund Balance</i>	102,502	(104,079)	920,324	973,481	1,892,228
<i>Fund Balance (Deficit) at Beginning of Year, Restated (See Note 2T)</i>	<u>(429,024)</u>	<u>2,213,630</u>	<u>47,869,056</u>	<u>4,342,434</u>	<u>53,996,096</u>
<i>Fund Balance (Deficit) at End of Year</i>	<u>\$ (326,522)</u>	<u>\$ 2,109,551</u>	<u>\$ 48,789,380</u>	<u>\$ 5,315,915</u>	<u>\$ 55,888,324</u>

See accompanying notes to the basic financial statements.

Lorain City School District
Reconciliation of the Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2011

Net Change in Fund Balances - Total Governmental Funds	\$	1,892,228
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
 Governmental funds report capital outlays as expenditures, however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.		
Capital Asset Additions Less CIP Disposals	\$ 17,978,448	
Current Year Depreciation	<u>(2,431,487)</u>	15,546,961
 Net effect of transactions involving sale of capital assets are not reflected in the funds.		
		(8,862)
 Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Grants and Other Charges	(20,096,295)	
Delinquent Property Taxes	238,807	
Prepaid and Deferred Expenses	<u>(1,044,256)</u>	(20,901,744)
 Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
Bond and Note Principal		1,315,000
 In the statement of activities interest is accrued on outstanding bonds, whereas in governmental funds, interest is expensed when due.		
		5,446
 Some expenses reported in the statement of activities do not use the current financial resources and therefore, are not reported as expenditures in governmental funds.		
(Increase) Decrease in Compensated Absences	(3,615,744)	
Bond Accretion	(164,946)	
Amortization of Loss on Refunding	(65,130)	
Amortization of Bond Premium	83,641	
Amortization of Bond Issuance Costs	(15,090)	
Long Term Intergovernmental Payable	<u>101,962</u>	(3,675,307)
 The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. The net revenue (expense) of internal service funds is reported with governmental activities.		
		<u>359,381</u>
 Change in Net Assets of Governmental Activities	 \$	 <u><u>(5,466,897)</u></u>

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, 2011*

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Taxes	\$ 15,577,095	\$ 15,963,905	\$ 15,963,905	\$ 0
Intergovernmental	66,515,873	66,360,825	66,360,825	0
Investment Income	140,000	14,691	14,691	0
Tuition and Fees	1,126,000	1,145,037	1,145,037	0
Extracurricular Activities	0	18,437	18,437	0
Charges for Services	85,000	59,512	59,512	0
Rentals	52,000	24,385	24,385	0
Miscellaneous	284,769	293,148	293,148	0
<i>Total Revenues</i>	<u>83,780,737</u>	<u>83,879,940</u>	<u>83,879,940</u>	<u>0</u>
Expenditures:				
Current:				
Instruction	60,745,109	60,701,322	60,701,322	0
Support Services:				
Pupils	1,994,626	1,999,065	1,999,065	0
Instructional Staff	1,499,658	1,499,982	1,499,982	0
Board of Education	768,735	769,067	769,067	0
Administration	6,818,950	6,839,075	6,839,075	0
Fiscal	1,558,929	1,581,605	1,581,605	0
Business	426,022	434,776	434,776	0
Operation and Maintenance of Plant	8,057,557	8,001,574	8,001,574	0
Pupil Transportation	3,053,924	3,040,074	3,040,074	0
Central	1,286,885	1,325,622	1,325,622	0
Operation of Non-Instructional Services	85,000	96,638	96,638	0
Extracurricular Activities	1,070,786	1,120,988	1,120,988	0
Capital Outlay	61,401	66,783	66,783	0
Debt Service				
Principal Retirement	1,080,000	1,080,000	1,080,000	0
Interest and Fiscal Charges	76,950	76,950	76,950	0
<i>Total Expenditures</i>	<u>88,584,532</u>	<u>88,633,521</u>	<u>88,633,521</u>	<u>0</u>
Excess of Revenues Over (Under) Expenditures	(4,803,795)	(4,753,581)	(4,753,581)	0
Other Financing Sources (Uses):				
Proceeds of Notes	0	4,793,000	4,793,000	0
Proceeds from Sale of Assets	0	8,252	8,252	0
Advances In	1,000,000	480,308	480,308	0
Advances Out	(1,000,000)	(469,127)	(469,127)	0
Transfers Out	(625,000)	(505,249)	(505,249)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(625,000)</u>	<u>4,307,184</u>	<u>4,307,184</u>	<u>0</u>
<i>Change in Fund Balance</i>	(5,428,795)	(446,397)	(446,397)	0
<i>Fund Balance (Deficit) at Beginning of Year</i>	1,964,067	1,964,067	1,964,067	0
Prior Year Encumbrances Appropriated	3,372,278	3,372,278	3,372,278	0
<i>Fund Balance (Deficit) at End of Year</i>	<u>\$ (92,450)</u>	<u>\$ 4,889,948</u>	<u>\$ 4,889,948</u>	<u>\$ 0</u>

See accompanying notes to the basic financial statements.

Lorain City School District
Statement of Fund Net Assets
Proprietary Funds
June 30, 2011

	Governmental Activities Internal Service Fund
Assets	
Current Assets:	
Equity in Pooled Cash and Investments	\$ 1,376,962
Cash and Cash Equivalents in Segregated Accounts	1,276,362
Investments in Segregated Accounts	608,844
Prepaid Items	64,402
<i>Total Assets</i>	3,326,570
Liabilities	
Current Liabilities:	
Accounts Payable	8,308
Intergovernmental Payable	145,021
Claims Payable	984,194
Cost Sharing Payable	1,237,408
<i>Total Current Liabilities</i>	2,374,931
Net Assets	
Unrestricted	951,639
Total Net Assets	\$ 951,639

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, 2011

	Governmental Activities Internal Service Fund
Operating Revenues:	
Charges for Services	\$ 10,221,437
<i>Total Operating Revenues</i>	10,221,437
Operating Expenses:	
Fringe Benefits	387,707
Purchased Services	2,104,939
Claims	7,383,132
<i>Total Operating Expenses</i>	9,875,778
Operating Income (Loss)	345,659
Non-Operating Revenues (Expenses):	
Interest	13,722
<i>Change in Net Assets</i>	359,381
<i>Net Assets (Deficit) Beginning of Year</i>	592,258
<i>Net Assets (Deficit) End of Year</i>	\$ 951,639

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, 2011

		Governmental Activities Internal Service Fund
<hr/> <hr/>		
Cash Flows From Operating Activities:		
Cash Received from Interfund Services	\$	10,248,565
Cash Paid for Goods and Services		(1,720,025)
Cash Paid for Claims		(7,567,468)
		<hr/>
<i>Net Cash Provided By (Used For) Operating Activities</i>		<u>961,072</u>
Cash Flows From Investing Activities:		
Interest on Investments		13,722
Redemption of Investments		(102,047)
		<hr/>
<i>Net Cash Provided By (Used For) Investing Activities</i>		<u>(88,325)</u>
<i>Cash and Cash Equivalents at Beginning of Year</i>		<u>1,780,577</u>
<i>Cash and Cash Equivalents at End of Year</i>	\$	<u><u>2,653,324</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:		
Operating Income (Loss)	\$	345,659
Adjustments:		
(Increase) Decrease Assets		
Accounts Receivable		27,128
Prepaid Items		12,469
Increase (Decrease) in Liabilities		
Accounts Payable		(18,750)
Intergovernmental Payable		(257,518)
Claims Payable		(184,336)
Cost Sharing Payable		1,036,420
		<hr/>
<i>Total Adjustments</i>		<u>615,413</u>
<i>Net Cash Provided By (Used For) Operating Activities</i>	\$	<u><u>961,072</u></u>

See accompanying notes to the basic financial statements.

Lorain City School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2011

	Private Purpose Trust Fund	Agency
Assets		
Equity in Pooled Cash and Investments	\$ 115,343	\$ 98,964
Liabilities		
Undistributed Monies	0	\$ 71,607
Due to Students	0	27,357
<i>Total Liabilities</i>	0	\$ 98,964
Net Assets		
Held in Trust for Scholarships	115,343	
<i>Total Net Assets</i>	\$ 115,343	

See accompanying notes to the basic financial statements.

Lorain City School District
Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Fiscal Year Ended June 30, 2011

	Private Purpose Trust
	Scholarship
Additions	
Contributions	\$ 80,626
Interest	178
Total Additions	80,804
Deductions	
Payments in Accordance with Trust Agreements	100,431
<i>Change in Net Assets</i>	(19,627)
<i>Net Assets Beginning of Year, Restated (See Note 2T)</i>	134,970
<i>Net Assets End of Year</i>	\$ 115,343

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, 2011

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. The School District employs 574 certificated and 333 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, 2011

Financial information for the Trust's year ended December 31, 2010, 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 one discretely presented component unit, Lorain K-12 Digital Academy, which is on the governmental financial statements. See Note 23 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.

Ohio Schools Council – The Ohio Schools Council 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 applies generally accepted accounting principles that were issued prior to November 30, 1989 by the Financial Accounting Standards Board ("FASB") to its governmental and proprietary funds provided they do not conflict with or contradict GASB pronouncements. The FASB has codified its standards and the standards issued prior to November 30, 1989 are included in the codification.

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.

Lorain City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

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:

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.

Lorain City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

Classroom Facilities Fund The classroom facilities 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 to which the School District is bound to observe constraints imposed upon the use of the resources.

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 fiduciary funds are private purpose trust and agency funds. The School District's agency funds account for student activities and the private purpose trusts disburse scholarships to students.

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.

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.

The private purpose trust fund is reported using the economic resources measurement focus. All assets and liabilities associated with the operation of this fund are included on the statement of fiduciary net assets. The

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For the Fiscal Year Ended June 30, 2011

statement of changes in fiduciary net assets presents increases (i.e. revenues) and decreases (i.e. expenses) in total net assets.

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, 2011, but which were levied to finance fiscal year 2012 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.

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

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amount is reported on the statement of activities as an expense with a like amount reported within the “operating grants, contributions and interest” 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 Investments

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 2011 amounted to \$154,621, which includes \$84,071 assigned from other School District funds.

The School District has segregated bank accounts for monies held separately from the School District’s central bank account. These depository accounts are presented on the financial statements as “equity in pooled cash and cash equivalents in segregated accounts” since they are not required to be deposited into the School District’s treasury.

The School District has escrow accounts for construction retainage and annual payments for the Qualified Zone Academy Bonds. The balances in these accounts are presented on the financial statements as “equity in pooled cash and cash equivalents with fiscal agents” and represent monies held for the School District.

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 may include amounts required by statute to be set-aside for the purchase of textbooks and other instructional material and to create a reserve for capital improvements. 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.

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All capital assets are capitalized at cost or fair market value 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.

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:

Description	Governmental Activities Estimated Lives
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, long-term interfund loans are classified as “advances to/from other funds”. 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 assets in both government-wide and fund financial statements. These amounts are reflected as an expenditure/expense in the year in which the services are consumed.

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'

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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. These amounts are recorded in the account "matured compensated absences" in the fund from which the employees who have accumulated unpaid leave is paid.

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 and compensated absences 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 resources for classroom facilities maintenance and regular 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

In accordance with Governmental Accounting Standards Board Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*," the School District classifies its fund balance based on the purpose for which the resources were received and the level of constraint placed on the resources. The classifications are as follows:

Nonspendable – The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable, as well as property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed or assigned.

Lorain City School District
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Restricted – Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or is imposed by law through constitutional provisions.

Committed – The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the School District Board of Education. Those committed amounts cannot be used for any other purpose unless the School District Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned – Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the School District Board of Education.

Unassigned – Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed or assigned.

The School District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

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 non-operating 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.

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 2011.

Lorain City School District
Notes to the Basic Financial Statements
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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 are primarily 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 type. 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 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 2011.

Lorain City School District
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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 an assigned fund balance for subsequent-year expenditures for governmental funds. An assignment 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. Changes in Accounting Principles

For the year ended June 30, 2011, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 54, “*Fund Balance Reporting and Governmental Fund Type Definitions*” and GASB Statement No. 59, “*Financial Instruments Omnibus*.”

GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The requirements of this statement classify fund balance as nonspendable, restricted, committed, assigned and/or unassigned.

GASB Statement No. 59 updated and improved existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. Implementation of this GASB statement did not affect the presentation of the financial statements of the School District.

Lorain City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

T. Restatement of Fund Balances/Net Assets

On July 1, 2010, the School District implemented Governmental Accounting Standards Board Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions”. As a result, the Public School Support Fund, previously reported as a Special Revenue Fund, was reclassified to the General Fund for GAAP reporting purposes. In addition several special cost centers from the Special Trust Fund, previously recorded as a Special Revenue Fund, were reclassified to General Fund and others were reclassified to Private Purpose Trust Funds. Several special cost centers from the Rotary Fund, previously recorded as a Special Revenue fund were also reclassified to General Fund and others were reclassified as Agency Funds.

In addition, management determined that a tax anticipation note that was recorded as a long term liability should be recorded a fund liability in the general fund.

The following is the effect of those changes in fund balance:

	General Fund	Bond Retirement Fund	Classroom Facilities Fund	Other Governmental Funds	Total Governmental Funds
Fund Balance June 30, 2010	\$ 1,758,134	\$ 2,213,630	\$ 47,869,056	\$ 4,452,727	\$ 56,293,547
Fund Reclassification	(27,158)	0	0	(110,293)	(137,451)
Tax Anticipation Note	(2,160,000)	0	0	0	(2,160,000)
Restated Fund Balance July 1, 2010	<u>\$ (429,024)</u>	<u>\$ 2,213,630</u>	<u>\$ 47,869,056</u>	<u>\$ 4,342,434</u>	<u>\$ 53,996,096</u>

The following is the effect of those changes in net assets:

	Governmental Activities	Private Purpose Trust Fund
Net Assets June 30, 2010	\$ 188,108,875	\$ 0
Fund Reclassification	(137,451)	134,970
Restated Net Assets July 1, 2010	<u>\$ 187,971,424</u>	<u>\$ 134,970</u>

The following is the effect of those changes in Agency Fund assets and liabilities:

	Rotary	Student Activities	Total
Assets and Liabilities, June 30, 2010	\$ 0	\$ 97,210	\$ 97,210
Fund Reclassification	2,481	0	2,481
Restated Assets and Liabilities, July 1, 2010	<u>\$ 2,481</u>	<u>\$ 97,210</u>	<u>\$ 99,691</u>

Lorain City School District
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Note 3 – Fund Deficits

Fund balances at June 30, 2011, included the following individual fund deficits:

	Deficit Fund Balance
General Fund	\$ 326,522
NonMajor Governmental Funds:	
Food Service	515,463
EMIS	4,492
Public Preschool	644
Vocational Education	39,230
Preschool Grant	8,015
Title II-R	87,639
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.

Note 4 – Fund Balance

Fund balance can be classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in governmental funds.

The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented as follows:

	General Fund	Bond Retirement Fund	Classroom Facilities Fund	Other Governmental Funds	Total
Restricted for:					
Debt Service	\$ 0	\$ 2,109,551	\$ 0	\$ 0	\$ 2,109,551
Capital Outlay	0	0	48,789,380	1,866,444	50,655,824
Extracurricular	0	0	0	1,079	1,079
Special Education	0	0	0	442,692	442,692
Targeted Academic Assistance	0	0	0	341,900	341,900
Capital Maintenance	0	0	0	3,408,203	3,408,203
Other Purposes	0	0	0	827,080	827,080
Total Restricted	0	2,109,551	48,789,380	6,887,398	57,786,329
Unassigned	(326,522)	0	0	(1,571,483)	(1,898,005)
Total Fund Balance (Deficit)	\$ (326,522)	\$ 2,109,551	\$ 48,789,380	\$ 5,315,915	\$ 55,888,324

Lorain City School District
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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).
5. Some funds are included in the general fund (GAAP), but have separate legally adopted budgets (budget).

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

GAAP Basis	\$	102,502
Net Adjustment for Revenue Accruals		3,905,644
Advance In		480,308
Advance Out		(469,127)
Net Adjustment for Expenditure Accruals		(2,229,080)
Funds Budgeted Elsewhere		(48,029)
Adjustment for Encumbrances		<u>(2,188,615)</u>
Budget Basis	<u>\$</u>	<u>(446,397)</u>

** As part of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes the public school support fund, and certain special cost centers of the rotary fund and special trust fund.

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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
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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 \$14,445,000 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. Ohio law requires the market value of the securities subject to repurchase agreements must exceed the principal value of the securities subject to a repurchase agreement by 2%. 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.

Deposits At fiscal year-end, the carrying amount of the School District's deposits was \$42,175,696 and the bank balance was \$40,337,238. Of the bank balance:

1. \$18,622,690 of the bank balance was covered by depository insurance; and
2. \$21,714,548 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
For the Fiscal Year Ended June 30, 2011

Investments

Investments are reported at fair value. As of June 30, 2011, the district had the following investments:

Standard & Poor's	Investment	Fair Value	Investment Maturities (in years)			% Total Investments
			less than 1	1 - 2	More than 2	
N/A *	Repurchase Agreement	\$ 14,445,000	\$ 14,445,000	\$ 0	\$ 0	43.6%
AAA	Federal Farm Credit Bank	5,085,481	0	2,997,993	2,087,488	15.3%
AAA	Federal Home Loan Bank	13,050,940	1,003,800	1,019,300	11,027,840	39.3%
AAA	Treasury Notes	608,844	608,844	0	0	1.8%
		<u>\$ 33,190,265</u>	<u>\$ 16,057,644</u>	<u>\$4,017,293</u>	<u>\$ 13,115,328</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. The School District's investments in the federal agency securities that underlie the School District's repurchase agreement were rated Aaa by Moody's Investor Services.

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 and public utility property located in the School District. Property tax revenue received during calendar 2011 for real and public utility property taxes represents collections of calendar 2010 taxes.

2011 real property taxes are levied after April 1, 2011, 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 2011 represents collections of calendar year 2010 taxes. Public utility real property taxes received in calendar year 2011 became a lien December 31, 2009, were levied after April 1, 2010 and are collected in 2011 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.

Lorain City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

Tangible personal property tax revenues received in calendar year 2011 (other than public utility property) represent the collection of calendar year 2011 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, and furniture and fixtures is no longer levied and collected. The October 2008 tangible personal property tax settlement was the last property tax settlement for general personal property taxes. Tangible personal property taxes received from telephone companies in calendar year 2011 were levied after October 1, 2010, on the value as of December 31, 2010. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the 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 was eliminated in 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 School District due to the phasing out of the tax. In calendar years 2006-2010, the School District was fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

The property valuation consisted of:

	2010 Second		2011 First	
	Half Collections		Half Collections	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Real Estate				
Residential/Agricultural	\$ 529,367,861	80.38%	\$ 524,109,010	80.02%
Commercial/Industrial	117,398,400	17.82%	119,246,920	18.21%
Tangible Personal Property				
Public Utilities	<u>11,874,652</u>	<u>1.80%</u>	<u>11,590,880</u>	<u>1.77%</u>
	<u>\$ 658,640,913</u>	<u>100.00%</u>	<u>\$ 654,946,810</u>	<u>100.00%</u>
Tax Rate per \$1,000 of Assessed Valuation	\$ 59.57		\$ 60.08	

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.

Lorain City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

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, 2011, are available to finance fiscal year 2012 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes which became measurable as of June 30, 2011 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, 2011, was \$1,746,178 and is recognized as revenue. \$1,504,299 was available to the general fund and \$217,850 was available to the bond retirement debt service fund and \$24,029 was available to the classroom facilities maintenance fund.

Note 8 - Receivables

Receivables at June 30, 2011, consisted of taxes, accounts (student fees), interfund, accrued interest and intergovernmental grants and excess costs. 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 \$98,159, classroom facilities grant money of \$46,010,971 in the classroom facilities fund, \$4,652,495 of grants receivable in special revenue funds and miscellaneous receivables of \$368,810 in the general fund and \$67,756 in other governmental funds.

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Lorain City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

Note 9 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	Balance 6/30/10	Additions	Reductions	Balance 6/30/11
Governmental Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	\$ 5,815,569	\$ 1,088,072	\$ 0	\$ 6,903,641
Construction in Progress	23,549,494	18,416,944	(16,846,541)	25,119,897
Total Capital Assets, not being depreciated	<u>29,365,063</u>	<u>19,505,016</u>	<u>(16,846,541)</u>	<u>32,023,538</u>
<i>Capital Assets, being depreciated:</i>				
Land Improvements	889,187	230,932	0	1,120,119
Buildings and Improvements	94,380,749	15,006,982	0	109,387,731
Furniture and Equipment	3,662,156	82,059	(49,173)	3,695,042
Vehicles	455,391	0	0	455,391
Textbooks	4,722,608	0	0	4,722,608
Total Capital Assets, being depreciated	<u>104,110,091</u>	<u>15,319,973</u>	<u>(49,173)</u>	<u>119,380,891</u>
Less Accumulated Depreciation:				
Land Improvements	(827,974)	(19,698)	0	(847,672)
Buildings and Improvements	(19,179,582)	(1,890,754)	0	(21,070,336)
Furniture and Equipment	(2,252,428)	(170,580)	40,311	(2,382,697)
Vehicles	(345,023)	(19,308)	0	(364,331)
Textbooks	(4,118,592)	(331,147)	0	(4,449,739)
Total Accumulated Depreciation	<u>(26,723,599)</u>	<u>(2,431,487)</u>	<u>40,311</u>	<u>(29,114,775)</u>
Total Capital Assets being depreciated, net	<u>77,386,492</u>	<u>12,888,486</u>	<u>(8,862)</u>	<u>90,266,116</u>
Governmental Activities Capital Assets, Net	<u>\$ 106,751,555</u>	<u>\$ 32,393,502</u>	<u>\$ (16,855,403)</u>	<u>\$ 122,289,654</u>

Lorain City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 1,235,580
Special	78,603
Vocational	8,649
Support Services:	
Pupil	2,069
Instructional Staff	270,980
Administration	95,194
Business	5,541
Operation and Maintenance of Plant	494,510
Pupil Transportaion	11,408
Food Service Operations	205,356
Operation of Non-Instructional Services	2,786
Extracurricular Activities	<u>20,811</u>
Total Governmental Activities	<u><u>\$ 2,431,487</u></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	259,155,170

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.

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 37 percent discounted premiums to the BWC for 10 years and incurs the liability dollar-to-dollar on all claim costs. Estimated premiums for 2011 are \$385,000. The School District will only pay 37 percent of the premium and all claim expenses. The firm of CompManagement, Inc. provides administrative, cost control services, and is the third party administrator of the School District.

Lorain City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

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 drug 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 \$984,194 at June 30, 2011, 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
2010	\$ 1,328,909	\$7,482,122	\$(7,642,501)	\$ 1,168,530
2011	\$ 1,168,530	\$7,383,132	\$(7,567,468)	\$ 984,194

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 120 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 30 through 70 days, depending on the individual contract.

Lorain City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

The School District provides an early retirement incentive plan for employees. Employees who enroll in the early retirement incentive plan must have declared their intention to retire before June 30, 2011. Certified employees that retire by June 30, 2011 have the option to receive an incentive of \$80,000 paid in four annual installments of \$20,000 in March of each subsequent year, or the employee may receive an STRS service credit buyout for a maximum of two years. Classified employees who retire by June 30, 2011 will receive an incentive equivalent to sixty percent of their annual base salary. This will be paid in two equal annual installments.

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, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under *Employers/Audit Resources*.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District 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 2011 11.81 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2010 the amount was 12.78 percent and for fiscal year 2009 the amount was 9.09 percent. The contributions to SERS for pension obligations for the fiscal years ended June 30, 2011, 2010, and 2009 were \$1,808,766, \$1,705,288 and \$1,048,924, respectively; 58 percent has been contributed for fiscal year 2011 and 100 percent for the fiscal years 2010 and 2009. \$904,878 represents the unpaid contribution for fiscal year 2011, 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 (888) 227-7877, or by visiting the STRS Ohio Web site at 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 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

Lorain City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

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. 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, 2011, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2010, 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, 2011, 2010, and 2009 were \$5,565,834, \$6,332,081 and \$5,500,055, respectively. 82 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009. \$1,010,374 represents the unpaid contribution for fiscal year 2011, and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal year 2011 were \$127,144 made by the School District and \$90,817 made by the plan members.

Note 13 - Postemployment Benefits

A. 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 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, 2011, the health care allocation was 1.43 percent, at June 30, 2010 and 2009, the health care allocations were .76 percent and 4.16 percent, respectively. The School District's contributions for the years ended June 30, 2011, 2010 and 2009 were \$219,012, \$61,380 and \$480,036, respectively; 58 percent has been contributed for 2011 and 100 percent has been contributed for 2010 and 2009.

Lorain City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

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 2011, the minimum compensation level was established at \$35,800. For the School District during fiscal year 2011 this amounted to \$209,998.

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 2011, the actuarially required allocation was .76 percent. The actuarially required allocation for fiscal years 2010 and 2009 was .76 percent and .75 percent, respectively. The School District contributions for the fiscal years 2011, 2010 and 2009 were \$116,398, \$101,410 and \$86,545, respectively; 58 percent has been contributed for 2011 and 100 percent has been contributed for 2010 and 2009.

B. 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 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. 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, 2011, 2010 and 2009. The School District's contributions for health care for fiscal years ended June 30, 2011, 2010 and 2009 were \$449,307, \$468,352 and \$424,583, respectively; 82 percent has been contributed for 2011, and 100 percent has been contributed for 2010 and 2009.

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Lorain City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

Note 14 - Long - Term Obligations

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

	Restated Outstanding 6/30/10	Additions	Reductions	Outstanding 6/30/11	Amounts Due in One Year
Governmental Activities:					
<i>General Obligation Bonds Payable:</i>					
<i>Qualified Zone Academy Bonds:</i>					
Due 2018	\$ 5,400,000	\$ 0	\$ 0	\$ 5,400,000	\$ 0
2003 Classroom Facilities Bonds					
1.45%-5.25% through 2025	17,225,000	0	1,275,000	15,950,000	1,395,000
Capital Appreciation Bonds	3,623,976	0	0	3,623,976	0
Accretion on CABs	869,995	130,793	0	1,000,788	0
2006 Classroom Facilities Bonds Refunding					
3.50%-4.25% through 2020	3,985,000	0	40,000	3,945,000	40,000
Capital Appreciation Bonds	64,995	0	0	64,995	0
Accretion on CABs	73,759	34,153	0	107,912	0
Premium on Debt Issuance	334,339	0	30,394	303,945	0
Refunding Loss	(263,723)	0	(23,975)	(239,748)	0
2007 Classroom Facilities Bonds Refunding					
4.00%-5.50% through 2025	8,860,000	0	0	8,860,000	0
Premium on Debt Issuance	851,946	0	53,247	798,699	0
Refunding Loss	(658,472)	0	(41,155)	(617,317)	0
Total	40,366,815	164,946	1,333,511	39,198,250	1,435,000
CAFS Overpayment Payable	203,925	0	101,962	101,963	101,963
Compensated Absences	8,348,591	7,757,606	4,141,862	11,964,335	3,326,090
Total Governmental Activities					
Long-Term Liabilities	\$ 48,919,331	\$ 7,922,552	\$ 5,577,335	\$ 51,264,548	\$ 4,863,053

2003 Classroom Facilities Bonds

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, \$1,705,000 and \$1,760,000, respectively. For fiscal year 2011, \$130,793 was accreted to update the liability to \$4,624,764 at June 30, 2011.

2005 Qualified Zone Academy Bonds

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 made seven annual payments, which were deposited into an escrow account that will earn an investment rate of 3.45 percent. The last

Lorain City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

payment was made 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 \$5,400,000 bonds mature in June 2018.

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, 2011, \$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, 2011. 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 \$580,000. For fiscal year 2011, \$34,153 was accreted for a liability of \$172,907.

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, 2011, \$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 amortization of \$53,247 recorded for June 30, 2011. 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.

Lorain City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

CAFS Overpayment Payable

During fiscal year 2010, the School District entered into an agreement with the State of Ohio to pay back excess CAFS monies. The agreement calls for the School District to make thirty-six equal monthly payments through June 30, 2012.

General obligation bonds will be repaid from 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. The CAFS liability will be paid from general fund.

Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2011, are as follows:

Fiscal Year Ending June 30,	General Obligation Bonds		Capital Appreciation Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
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	45,000	1,232,222	1,203,427	446,573	1,248,427	1,678,795
2015	50,000	1,230,381	1,208,402	496,598	1,258,402	1,726,979
2016	50,000	1,228,412	1,212,147	547,853	1,262,147	1,776,265
2017 - 2021	10,110,000	4,952,514	64,995	515,005	10,174,995	5,467,519
2022 - 2026	15,505,000	1,857,131	0	0	15,505,000	1,857,131
Totals	<u>\$ 28,755,000</u>	<u>\$ 13,118,848</u>	<u>\$ 3,688,971</u>	<u>\$ 2,006,029</u>	<u>\$ 32,443,971</u>	<u>\$ 15,124,877</u>

Note 15 – Tax Anticipation Notes

In 2006, the School District issued a tax anticipation note in the amount of \$5,400,000 at 4.75 percent, maturing December 1, 2011. In 2011, the School District issued a tax anticipation note in the amount of \$4,793,000 at 2.90 percent, maturing December 1, 2016. These notes will be paid from the general fund.

	Restated Outstanding 6/30/10	Additions	Reductions	Outstanding 6/30/11
2006 Tax Anticipation Note 4.75% though 2011	\$ 2,160,000	\$ 0	\$ 1,080,000	\$ 1,080,000
2011 Tax Anticipation Note 2.90% though 2016	0	4,793,000	0	4,793,000
Total	<u>\$ 2,160,000</u>	<u>\$ 4,793,000</u>	<u>\$ 1,080,000</u>	<u>\$ 5,873,000</u>

Lorain City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

Principal and interest requirements to retire the notes payable at June 30, 2011 are as follows:

Fiscal Year Ending June 30,	Tax Anticipation Notes		
	Principal	Interest	Total
2012	\$ 1,080,000	\$ 156,153	\$ 1,236,153
2013	958,600	125,098	1,083,698
2014	958,600	97,298	1,055,898
2015	958,600	69,498	1,028,098
2016	958,600	41,700	1,000,300
2017	958,600	13,899	972,499
Totals	<u>\$ 5,873,000</u>	<u>\$ 503,646</u>	<u>\$ 6,376,646</u>

Note 16 - Interfund Transfers

Transfers for the year ended June 30, 2011 consisted of the following:

	Transfers In	Transfers Out
General Fund	\$ 0	\$ 389,816
Nonmajor Governmental Funds	389,816	0
	<u>\$ 389,816</u>	<u>\$ 389,816</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.

Note 17 - Interfund Balances

Interfund balances at June 30, 2011 consisted of the following:

	Interfund Receivable	Interfund Payable
General Fund	\$ 499,371	\$ 0
Nonmajor Governmental Funds	0	499,371
Total	<u>\$ 499,371</u>	<u>\$ 499,371</u>

Lorain City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

The general fund advanced monies to nonmajor governmental funds to cover expenditures until expected revenues were received. All interfund loans will be repaid in fiscal year 2012 with monies to be received from reimbursable expenditures incurred during fiscal year 2011.

Advances to/from other funds as of June 30, 2011 consisted of the following:

	Advances to Other Funds	Advances from Other Funds
General Fund	\$ 1,427,663	\$ 0
Nonmajor Governmental Funds	0	1,427,663
	\$ 1,427,663	\$ 1,427,663

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.

Note 18 - Contractual Commitments

As of June 30, 2011, the School District had contractual commitments for the following:

	Contractual Commitment	Expended	Balance 6/30/2011
Irving Elementary	\$ 7,169,777	\$ 6,689,813	\$ 479,964
Whittier Middle School	11,969,186	10,532,922	1,436,264
	\$ 19,138,963	\$ 17,222,735	\$ 1,916,228

Note 19 - Jointly Governed Organizations

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

Lorain City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

of Lorain County, which serves as fiscal agent, located at 1885 Lake Avenue, Elyria, Ohio 44035. During the year ended June 30, 2011, the School District paid \$209,799 to LEECA.

B. Ohio Schools Council

By agreement between the Lake Erie Regional Council of Governments and the Ohio Schools Council (OSC), effective July 1, 2010, the two co-ops joined together as one under the name of the Ohio Schools Council's Cooperative Purchasing Program.

The OSC is a jointly governed organization among 157 school districts in 28 counties. 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 media center, gas consumption, food service and insurance. Each member provides operating resources to OSC on a per pupil or actual usage charge except for insurance.

OSC is governed by a board of directors chosen from the general membership. Financial information can be obtained by contacting the Executive Director at 6133 Rockside Road, Suite 10, Independence, Ohio 44131. For the 2010-11 school year, the School District paid \$2,093 for membership and services.

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, 2011.

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.

Lorain City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

	Capital Improvement Reserve	Textbook Instructional Materials Reserve
Set Aside Restricted Balance June 30, 2010	\$ 0	\$ 0
Current Year Set-Aside Requirement	1,171,508	1,171,508
Contributions in Excess of the Current Fiscal Year Set Aside Requirement	0	0
Current Year Qualifying Expenditures	(523,340)	(683,146)
Excess Qualified Expenditures from Prior Years	0	(488,362)
Current Year Offsets	0	0
Waiver Granted by the Department of Education	0	0
Prior Year Offset from Bond Proceeds	(648,168)	0
Total	<u>\$ 0</u>	<u>\$ 0</u>
Balance Carried Forward to Fiscal Year 2012	<u>\$ 0</u>	<u>\$ 0</u>
Set Aside Restricted Balance June 30, 2012	<u>\$ 0</u>	<u>\$ 0</u>

The School District had qualifying disbursements during the year that reduced the textbook reserve set-asides below zero. Effective July 1, 2011, textbook set-aside laws have been repealed.

The capital improvement offsetting disbursements represent classroom facilities bond proceeds in excess of the capital improvement requirement used to offset the set-aside.

Note 22 – Related Party Transactions

During 2011, the School District provided accounting and fiscal services to the Lorain K-12 Digital Academy (the “Academy”), a discretely presented component unit of the School District. The School District acts as the Sponsor for the Academy. The School District and the Academy entered into a 5-year sponsorship agreement commencing on August 26, 2009. Pursuant to the Sponsor’s authority under section 3314.08(G) of the Ohio Revised Code to provide the Academy with services, the Sponsor shall be the fiscal agent of the Academy and shall direct the Sponsor’s treasurer to serve as the Academy’s fiscal officer.

Note 23 – Lorain K-12 Digital Academy

The School District has determined that the Lorain K-12 Digital Academy (the “Academy”) is a discrete component unit. The Academy issues a publicly available, stand-alone financial report that includes financial statements. The report may be obtained by writing to the Academy at 2350 Pole Avenue, Lorain, Ohio, 44052 or by visiting the Auditor of State’s website at www.auditor.state.oh.us.

Basis of Presentation

The Academy is accounted for using a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities are included on the statement of net assets. The Academy uses the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized at the time they are incurred.

Lorain City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

Deposits

As of June 30, 2011, the carrying amount the Academy's deposits was \$572,289. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2011, the Academy's bank balance of \$572,289 was covered by the Federal Deposit Insurance Corporation (FDIC).

Custodial credit risk is the risk that, in the event of bank failure, the Academy's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105 percent of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Academy. The Academy has no deposit policy for custodial credit risk beyond the requirement of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Academy to a successful claim by the FDIC.

Capital Assets

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	Balance 6/30/10	Additions	Disposals	Balance 6/30/2011
<i>Capital Assets Being Depreciated</i>				
Improvements	\$ 14,000	\$ 0	\$ 0	\$ 14,000
Furniture and Equipment	429,989	0	0	429,989
	443,989	0	0	443,989
<i>Accumulated Depreciation</i>				
Improvements	(3,397)	(933)	0	(4,330)
Furniture and Equipment	(387,390)	(13,303)	0	(400,693)
	(390,787)	(14,236)	0	(405,023)
Capital Assets, Net	<u>\$ 53,202</u>	<u>\$ (14,236)</u>	<u>\$ 0</u>	<u>\$ 38,966</u>

February 24, 2012

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, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of Lorain City School District (the "School District") as of and for the year ended June 30, 2011, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated February 24, 2012, in which we noted the financial statement for the Jointly Administered Trust Fund for the Benefit of the 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

Management of the School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's 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 *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the School District in a separate letter dated February 24, 2012.

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.

Rea & Associates, Inc.

February 24, 2012

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

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON 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 (the "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 could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The School District's major federal programs are identified in the summary of auditor's results section of the accompanying *Schedule of Findings and Questioned Costs*. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the School District's management. Our responsibility is to express an opinion on the 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 Circular 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 the 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 the School District's compliance with those requirements.

In our opinion, the School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and are described in the accompanying schedule of findings and questioned costs as items 2011-001, 2011-002 & 2011-003.

Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 2011-001, 2011-002 & 2011-003. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The School 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 School 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 these specified parties.

Rea & Associates, Inc.

Lorain City School District
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2011

Federal Grantor/Pass Through Grantor/ Program Title	CFDA Number	Grant Number	Federal Receipts	Federal Disbursements
U. S. Department of Education				
<i>Passed Through Ohio Department of Education:</i>				
<i>Title I Cluster:</i>				
Title I - School Improvement Grant	84.010	2010	\$ 276,000	\$ 198,467
Title I - School Improvement Grant	84.010	2011	598,289	202,699
Title I - Grants to LEA's	84.010	2010	555,047	766,217
Title I - Grants to LEA's	84.010	2011	3,704,455	3,524,592
ARRA - Title I: Grants to LEA's	84.389	2010	0	52,471
ARRA - Title I: Grants to LEA's	84.389	2011	2,131,152	2,221,556
<i>Total Title I Cluster</i>			<u>7,264,943</u>	<u>6,966,002</u>
<i>Special Education Cluster:</i>				
Special Education - Grants to States	84.027	2010	276,646	266,588
Special Education - Grants to States	84.027	2011	1,740,084	1,761,818
ARRA - Special Education - Grants to States	84.391	2010	110,000	122,127
ARRA - Special Education - Grants to States	84.391	2011	1,060,741	1,036,089
Total Special Education - Grants to States			<u>3,187,471</u>	<u>3,186,622</u>
Special Education - Preschool Grants	84.173	2010	1,375	1,569
Special Education - Preschool Grants	84.173	2011	42,348	41,550
ARRA - Special Education - Preschool Grants	84.392	2010	42,876	42,426
Total Special Education - Preschool Grants			<u>86,599</u>	<u>85,545</u>
<i>Total Special Education Cluster</i>			<u>3,274,070</u>	<u>3,272,167</u>
Title I - Vocational Education	84.048	2011	262,324	251,290
Title IV-A - Safe & Drug Free Schools and Communities	84.186	2009	9,079	6,623
Title IV-A - Safe & Drug Free Schools and Communities	84.186	2010	549	529
Total Title IV-A - Safe & Drug Free Schools and Communities			<u>9,628</u>	<u>7,152</u>
Twenty First Century Community Learning Centers	84.287	2010	10,462	23,719
Twenty First Century Community Learning Centers	84.287	2011	193,397	183,869
Twenty First Century Community Learning Centers	84.287	2010	9,742	25,468
Twenty First Century Community Learning Centers	84.287	2011	188,073	178,431
Twenty First Century Community Learning Centers	84.287	2010	10,100	31,385
Twenty First Century Community Learning Centers	84.287	2011	191,407	181,502
Twenty First Century Community Learning Centers	84.287	2011	174,553	145,021
Twenty First Century Community Learning Centers	84.287	2011	196,623	176,869
Total Twenty First Century Community Learning Centers			<u>974,357</u>	<u>946,264</u>
Title II-D - Education Technology	84.318	2011	13,068	9,219
Title II-D - Interactive Distance Learning	84.318	2011	40,458	6,546
Total Title II-D			<u>53,526</u>	<u>15,765</u>
School Improvement Grant	84.377	2010	182,233	195,254
Title III-A - English Language Acquisition	84.365	2010	13,878	13,418
Title III-A - English Language Acquisition	84.365	2011	47,452	47,269
Total Title III-A - English Language Acquisition			<u>61,330</u>	<u>60,687</u>
Title II-A - Improving Teacher Quality	84.367	2010	206,000	207,047
Title II-A - Improving Teacher Quality	84.367	2011	751,471	796,088
Total Title II-A - Improving Teacher Quality			<u>957,471</u>	<u>1,003,135</u>
ARRA - SFSF - Education State Grants	84.394	2010	0	459,300
ARRA - SFSF - Education State Grants	84.394	2011	5,032,962	4,469,037
			<u>5,032,962</u>	<u>4,928,337</u>
ARRA - SFSF - Race to the Top Incentive Grants	84.395	2011	35,889	25,984
ARRA - SFSF - Investing in Innovation (i3) Fund	84.396	2011	67,619	72,603
Education Jobs Fund	84.410	2011	2,190,371	2,189,080
<i>Total Passed Through Ohio Department of Education</i>			<u>\$ 20,366,723</u>	<u>\$ 19,933,720</u>

(Continued)

Lorain City School District
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2011
(continued)

Federal Grantor/Pass Through Grantor/ Program Title	CFDA Number	Grant Number	Federal Receipts	Federal Disbursements
U. S. Department of Education				
<i>Direct Awards:</i>				
Title V-C - Magnet Schools Assistance	84.165A	U165A070072	\$ 472,246	\$ 638,039
Title V-C - Magnet Schools Assistance	84.165A	U165A070072	<u>362,604</u>	<u>352,971</u>
Total Title V-C - Magnet Schools Assistance			834,850	991,010
Improvement for Education - Physical Education Program	84.215F	Q215F090228	59,836	92,432
Improvement for Education - Physical Education Program	84.215F	Q215F090228	275,313	275,313
Improvement for Education - Smaller Learning Communities	84.215L	S215L060173	58,736	73,736
Improvement for Education - Smaller Learning Communities	84.215L	S215L060173	<u>96,465</u>	<u>96,465</u>
Total Improvement for Education			490,350	537,946
Gear-Up 2 Year 4	84.334	P334A060093	38,941	86,083
Gear-Up 2 Year 5	84.334	P334A060093	396,748	396,748
Gear-Up 1 Year 4	84.334	P334A990314	105,981	151,634
Gear-Up 1 Year 5	84.334	P334A990314	<u>298,160</u>	<u>298,160</u>
Total Gear Up			839,830	932,625
Early Reading First	84.359	S359B060061	<u>59,876</u>	<u>182,718</u>
<i>Total Direct Awards</i>			<u>2,224,906</u>	<u>2,644,299</u>
Total U.S. Department of Education			<u>22,591,629</u>	<u>22,578,019</u>
U. S. Department of Agriculture				
<i>Passed Through Ohio Department of Education:</i>				
Fresh Fruit & Vegetable Program	10.582	2011	17,837	17,837
Child Nutrition Cluster:				
Non-Cash Assistance (Food Distribution):				
National School Lunch Program	10.555	2011	177,785	177,785
Cash Assistance:				
School Breakfast Program	10.553	2011	1,338,713	1,338,713
National School Lunch Program	10.555	2011	<u>2,404,521</u>	<u>2,404,521</u>
<i>Cash Assistance Subtotal</i>			<u>3,743,234</u>	<u>3,743,234</u>
Total Child Nutrition Cluster			3,921,019	3,921,019
Total U.S. Department of Agriculture			<u>3,938,856</u>	<u>3,938,856</u>
U. S. Department of Justice				
<i>Passed Through Ohio Department of Public Safety:</i>				
ARRA - Eward Byrne Memorial JAG Program	16.803	2010	<u>57,463</u>	<u>57,463</u>
Total U. S. Department of Justice			<u>57,463</u>	<u>57,463</u>
U. S. Department of Health & Human Services				
<i>Passed Through Lorain County Jobs and Family Services:</i>				
Substance Abuse & Mental Health Services - PRNS	93.243	2011	<u>15,212</u>	<u>35,253</u>
Total U.S. Department of Health & Human Services			<u>15,212</u>	<u>35,253</u>
Total Federal Financial Assistance			<u>\$ 26,603,160</u>	<u>\$ 26,609,591</u>

Lorain City School District
Notes to the Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2011

Note A – Significant Accounting Policies

The accompanying schedule of expenditures of federal awards is a summary of the activity of the School District's federal award programs. The schedule has been prepared on the cash basis of accounting. Consequently, certain revenues are recognized when received rather than when earned and certain expenditures are recognized when paid rather than when the obligation is incurred.

Note B - Child Nutrition Cluster

Federal monies commingled with state subsidy reimbursements. It is assumed federal moneys are expended first.

Note C – Food Distribution Program

Program regulations do not require the School District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This non-monetary assistance and related expenditures are reported in this schedule at the value of the commodities received as assessed by the U.S. Department of Agriculture (entitlement value).

Note D - Transfers

The School District generally must spend Federal assistance within 15 months of receipt (funds must be obligated by June 30 and spent by September 30). However, with Ohio Department of Education's (ODE) approval, a School District can transfer unspent Federal assistance to the succeeding year, thus allowing the School District a total of 27 months to spend the assistance. During fiscal year 2011, the ODE authorized the following transfers:

CFDA		Program		
Number	Program Title	Year	Transfer Out	Transfer In
84.027	Special Education - Grants to States	2010	\$ 22,848	
84.027	Special Education - Grants to States	2011		\$ 22,848
84.389	ARRA Title I	2010	127,684	
84.389	ARRA Title I	2011		127,684
84.318	Title II-D - Education Technology	2010	275	
84.318	Title II-D - Education Technology	2011		275
84.367	Title II-A - Improving Teacher Quality	2010	1,807	
84.367	Title II-A - Improving Teacher Quality	2011		1,807
84.391	ARRA - Special Education - Grants to States	2010	8,998	
84.367	ARRA - Special Education - Grants to States	2011		8,998

Lorain City School District
Schedule of Findings and Questioned Costs
OMB Circular A-133, Section .505
June 30, 2011

1. SUMMARY OF AUDITOR'S RESULTS

(d) (1) (i)	Type of Financial Statement Opinion	Unqualified
(d) (1) (ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (ii)	Were there any other significant deficiency conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d) (1) (iv)	Was 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?	Yes
(d) (1) (v)	Type of Major Programs' Compliance Opinion	Unqualified
(d) (1) (vi)	Are there any reportable findings under Section .510?	Yes
(d) (1) (vii)	Major Programs (list): Child Nutrition Cluster Title I Cluster Special Education Cluster Title V-C: Magnet Schools Assistance 21 st Century Community Learning Title II-A: Improving Teacher Quality State Fiscal Stabilization Fund Educational Jobs	#10.553 & 10.555 #84.010 & 84.389 #84.027, 84.173, 84.391, 84.392 #84.165 #84.287 #84.367 #84.394 #84.410
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: > \$798,288 Type B: All others
(d) (1) (ix)	Low Risk Auditee?	Yes

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

None Noted.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Finding Number	2011-001
CFDA Title and Number	State Fiscal Stabilization Fund – CFDA #84.394
Federal Award Number / Year	2011
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance/Significant Deficiency – Cash Management

Criteria:

34 CFR 80.20 (b)(7) states in part: “When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements.” The Ohio Department of Education (“ODE”) subsequently stated local agencies must have an internal control system in place to ensure advance SFSF payments are spent timely (i.e., within 30 days or month end).

Condition/Context:

Throughout the year, the School District’s management did not review available cash balances on hand and therefore did not spend all the advances by month end. The level of these balances allowed the School District to earn interest on these funds.

Effect:

The interest earned must be remitted to the U.S. Department of Education through ODE. ODE will review the calculation and determine if the amount remitted is correct. An amount of \$100 per entity may be retained under 34 CFR 80.21 for administrative expenses. During the fiscal year ended June 30, 2011, an amount due to ODE is calculated at \$3,112.

Recommendation:

Failure to timely expend federal funds and to monitor interest earnings could result in a reduction, loss, or return of federal funds. We recommend the School District implement a plan to monitor available cash balances in federal funds to ensure advances are spent timely.

Official’s Response/Corrective Action Plan:

Cash was not requested by the school district. Cash was sent to the school district in the foundation payment system. The funds were used to pay teachers who are on a “spread pay” system (paid through July and August when school is not in session and as part of the Collective Bargaining Agreement). If the school district had the ability to draw down cash as needed, this problem would not have occurred.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)

Finding Number	2011-002
CFDA Title and Number	Twenty First Century Community Learning Centers – CFDA #84.287
Federal Award Number / Year	2011
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance/Significant Deficiency – Cash Management

Criteria:

34 CFR 80.20 (b)(7) states in part: “When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements.” The Ohio Department of Education (“ODE”) subsequently stated local agencies must have an internal control system in place to ensure advance Twenty First Century payments are spent timely (i.e., within 30 days or month end).

Condition/Context:

Throughout the year, the School District management did not review available cash balances and therefore did not spend all the advances requested from ODE within 30 days. The level of these balances allowed the School District to earn interest on these funds.

Effect:

The interest earned must be remitted to the U.S. Department of Education through ODE. ODE will review the calculation and determine if the amount remitted is correct. An amount of \$100 per entity may be retained under 34 CFR 80.21 for administrative expenses. During the fiscal year ended June 30, 2011, an amount due to ODE is calculated at \$666.

Recommendation:

Failure to timely expend federal funds and to monitor interest earnings could result in a reduction, loss, or return of federal funds. We recommend the School District implement a plan to monitor available cash balances in federal funds to ensure advances are spent timely.

Official’s Response/Corrective Action Plan:

The Ohio Department of Education has a fiscal year end cut off date of early June for grant cash request issues for planned expenditures in July. ODE guidelines have typically required an early June request for July expenditures. The district was complying with ODE guidelines for these year end cash requests. I reference ODE CCIP note #247 dated May 12, 2011 for clarification. This is a fiscal year end issue and the district will investigate if any internal procedures can be changed to help rectify this situation, and will also work with the ODE in the process.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)

Finding Number	2011-003
CFDA Title and Number	Title I Cluster – CFDA #84.010/84.389
Federal Award Number / Year	2011
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance/Significant Deficiency – Allowable Costs

Criteria:

Under OMB guidance, Public Law (Pub. L.) No. 107-300, the Improper Payments Information Act of 2002, as amended by Pub. L. No. 111-204, the Improper Payments Elimination and Recovery Act, Executive Order 13520 on reducing improper payments, and the June 18, 2010 Presidential memorandum to enhance payment accuracy, Federal agencies are required to take actions to prevent improper payments, which include to mean: payments for goods or services not received.

Condition/Context:

We noted that the School District management did not monitor the invoices to determine whether services had been provided before the full payment was processed, therefore a prepayment for a service not provided at that point in time for training services to be administered to Title I teachers was processed before any training took place.

Effect:

Prepayments for services not provided could result in questioned costs if the service is canceled or not fully completed within the grant year. The vendor did provide the prepaid training to the Title I teachers throughout the fiscal year, but not at the time of payment, therefore resulting in no questioned costs.

Recommendation:

We recommend the School District monitor federal funding and expenditures to ensure that federal funds are not used to prepay for services not received which could result in questioned costs if certain services are never provided.

Official's Response/Corrective Action Plan:

The district discovered this deficiency during October 2011, and has implemented additional controls to strengthen the process.

**LORAIN CITY SCHOOL DISTRICT
LORAIN COUNTY, OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**Not Corrected, Partially
Corrected, Significantly
Different Corrective Action Taken
or Finding No Longer Valid
(Explain)**

Finding Number	Finding Summary	Fully Corrected?	<i>(Explain)</i>
2010-1	Audit adjustment to decrease contracts payable and construction in progress.	Yes	

Independent Accountant's Report on Applying Agreed-Upon Procedures

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

February 24, 2012

To the Board of Directors:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether the Lorain City School District (the School District) has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the School District amended its anti-harassment policy at its meeting on January 31, 2011, to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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

Rea & Associates, Inc.



Dave Yost • 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
APRIL 12, 2012