

**LORAIN CITY SCHOOL DISTRICT**

BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2004





**Auditor of State  
Betty Montgomery**

Board of Trustees  
Lorain City School District

We have reviewed the Independent Auditor's Report of the Lorain City School District, Lorain County, prepared by Rea & Associates, Inc. for the audit period July 1, 2003 through June 30, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

BETTY MONTGOMERY  
Auditor of State

January 12, 2005

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**LORAIN CITY SCHOOL DISTRICT**

*For the year Ended June 30, 2004*

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# Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

November 19, 2004

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

## INDEPENDENT AUDITOR'S REPORT

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lorain City School District, as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the component units of the Digital Academies or the Jointly Administered Trust Fund for the Benefit of Lorain City School District Employees, others audited those financial statements. They furnished their report thereon to us, and we base our opinion insofar as it relates to the amounts included for the Digital Academies and the Jointly Administered Trust Fund for the Benefit of Lorain City School District Employees on the report of the other auditors.

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

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Lorain City School District as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 19, 2004, on our consideration of Lorain City School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

*Rea & Associates, Inc.*

**Lorain City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2004*  
*Unaudited*

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The discussion and analysis of the Lorain City School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

***Financial Highlights***

Key financial highlights for 2004 are as follows:

- ❑ General Revenues accounted for \$80.3 million in revenue or 73% of all revenues. Program specific revenues in the form of charges for services and sales, grants, and contributions accounted for \$29.6 million or 27% of total revenues of \$109.9 million.
- ❑ Total program expenses were \$102.8 million.
- ❑ In total, net assets increased \$7.2, which is a 3.8% increase from 2003
- ❑ Outstanding debt decreased from \$45,042,607 to \$42,827,173 through the payment of principal.

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

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

*Statement of Net Assets and the Statement of Activities*

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2004?" 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.

**Lorain City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2004*  
*Unaudited*

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

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

The government-wide financial statements begin on page 11.

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

*Fund Financial Statements*

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

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

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and permanent improvement capital projects fund, both 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 14.

**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.

**Lorain City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2004*  
*Unaudited*

The proprietary fund financial statements begin on page 20.

**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 23.

**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 25.

**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 2004 compared to 2003:

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

	Governmental Activities	
	2004	2003
<b>Assets</b>		
Current and Other Assets	\$ 246,663,490	\$ 259,201,246
Capital Assets	36,723,425	18,420,780
Total Assets	283,386,915	277,622,026
<b>Liabilities</b>		
Long-Term Liabilities	49,308,263	53,255,988
Other Liabilities	36,415,454	33,882,520
Total Liabilities	85,723,717	87,138,508
<b>Net Assets</b>		
Invested in Capital		
Assets Net of Debt	19,357,574	15,149,019
Restricted	203,904,774	218,337,362
Unrestricted (Deficit)	(25,599,150)	(43,002,863)
Total Net Assets	\$ 197,663,198	\$ 190,483,518

**Lorain City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2004*  
*Unaudited*

Total net assets increased by \$7.2 million. An increase of approximately \$18.3 million in total capital assets reflects additional construction in progress. Total liabilities decreased by \$1.4 million.

Table 2 shows the changes in net assets for fiscal year 2004 and 2003 and will help further explain the change from the prior year.

**(Table 2)**  
**Governmental and Business-Type Activities**

	Governmental Activities	
	2004	2003
<b>Revenues</b>		
<i>Program Revenues:</i>		
Charges for Services	\$ 3,306,173	\$ 1,677,715
Operating Grants	26,331,302	21,142,008
<i>General Revenue:</i>		
Property Taxes	23,607,038	15,010,867
Grants and Entitlements	55,762,423	55,615,481
Other	948,585	1,861,299
<i>Total Revenues</i>	109,955,521	95,307,370
<b>Program Expenses</b>		
Instruction	64,016,698	63,321,394
Support Services	28,982,228	28,284,398
Operation of Non-Instructional	6,098,471	5,588,680
Extracurricular Activities	1,982,756	1,604,191
Interest and Fiscal Charges	1,695,688	1,688,654
<i>Total Expenses</i>	102,775,841	100,487,317
<i>Increase (Decrease) in Net Assets</i>	\$ 7,179,680	\$ (5,179,947)

**Lorain City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2004*  
*Unaudited*

**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 funds had total revenues of \$109.9 million and expenditures of \$102.1 million in 2004.

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

	2004		2003	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Instruction	\$ 64,016,698	\$ 46,679,244	\$ 63,321,394	\$ 50,351,022
Support Services:				
Pupil and Instructional Staff	7,844,392	3,848,263	9,633,547	6,458,466
Board of Education, Administration Fiscal and Business	11,958,399	9,972,359	8,842,389	7,896,986
Operation and Maintenance of Plant	6,419,009	6,375,888	7,135,163	7,031,750
Pupil Transportation and Central	2,760,428	2,665,170	2,673,299	2,342,738
Operation of Non-Instructional	6,098,471	164,770	5,588,680	569,551
Extracurricular Activities	1,982,756	1,736,984	1,604,191	1,328,427
Interest and Fiscal Charges	1,695,688	1,695,688	1,688,654	1,688,654
	<u>\$ 102,775,841</u>	<u>\$ 73,138,366</u>	<u>\$ 100,487,317</u>	<u>\$ 77,667,594</u>
Total Expenses	<u>\$ 102,775,841</u>	<u>\$ 73,138,366</u>	<u>\$ 100,487,317</u>	<u>\$ 77,667,594</u>

Instruction and student support services comprise 70% of governmental program expenses. Interest/fiscal charges were nearly 2%. Interest expense was attributable to the outstanding bonds and fiscal expenses, which include payments to the County Auditor(s) for administrative fees. Pupil transportation and the operation/maintenance of facilities accounts for 9% of governmental program expenses.

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

**Lorain City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2004*  
*Unaudited*

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**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

The School District received a one-time revenue payment of \$1.3 million from the State of Ohio due to the recalculation of valuations regarding School District bankruptcy issues.

**Capital Assets and Debt Administration**

**Capital Assets**

At the end of fiscal year 2004, the School District governmental activities had \$36.7 million invested in land, buildings, equipment, and construction in progress. Table 4 shows fiscal year 2004 balances compared with 2003.

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

	Governmental Activities	
	2004	2003
Land, Buildings and Improvements	\$ 8,357,350	\$ 8,813,437
Furniture and Equipment	5,275,089	4,257,775
Vehicles	117,691	153,603
Textbooks	1,337,869	1,543,695
Construction in Progress	21,635,426	3,652,270
Totals	\$ 36,723,425	\$ 18,420,780

Most of the \$18 million increase in capital assets was attributable to additional construction in progress.

A change in Ohio law required school districts to set aside 3% of certain revenues for capital improvements and an additional 3% for textbooks. For fiscal year 2004, this amounted to \$1,542,306 for each set aside. The School District has qualifying disbursements or offsets exceeding these requirements for capital improvements and textbooks.

**Lorain City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2004*  
*Unaudited*

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**Debt**

At June 30, 2004, the School District had \$40,405,429 in bonds outstanding with \$936,203 due within one year and notes payable of \$2,421,744 with \$1,168,515 due within one year. During fiscal year 2004, \$1,125,666 of general obligation bonds and \$1,089,768 of notes were retired. Table 5 summarizes debt outstanding.

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

	Governmental Activities 2004	Governmental Activities 2003
General Obligation Bonds:		
1993 Energy Conservation Bonds	\$ 336,453	\$ 437,119
2003 Classroom Facilities Bonds	40,068,976	41,093,976
	40,405,429	41,531,095
Notes:		
Revenue Anticipation Notes	\$ 2,421,744	\$ 3,511,512
Total Debt	\$ 42,827,173	\$ 45,042,607

***School District Outlook***

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

The financial future of the district is not without its challenges. Internal challenges will continue to exist as the district must rely on local property taxes to fund some of its operations. Several levies are due to expire in fiscal year 2006.

External challenges continue to evolve as the State of Ohio determines the amount of funding they will allocate to education through its budgeting process.

**Lorain City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2004*  
*Unaudited*

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***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 James E. Estle, Treasurer/CFO Lorain City Schools; 2350 Pole Avenue; Lorain, Ohio, 44052

**Lorain City School District**  
*Statement of Net Assets*  
June 30, 2004

	Governmental Activities	Component Units Digital Academies
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$ 67,963,187	\$ 154,741
Cash and Cash Equivalents:		
With Fiscal Agents	167,866	0
Investments		
In Segregated Accounts	338,358	0
Receivables:		
Taxes	23,860,781	0
Accounts	179,442	0
Intergovernmental	149,664,125	600,000
Prepaid and Deferred Expenses	4,424,731	0
Deposits	65,000	0
Nondepreciable Capital Assets	23,655,028	0
Depreciable Capital Assets (Net)	13,068,397	55,785
<i>Total Assets</i>	<u>283,386,915</u>	<u>810,526</u>
<b>Liabilities</b>		
Accounts Payable	1,921,157	352
Contracts Payable	4,248,577	0
Accrued Wages and Benefits	4,393,963	0
Severance Payable	54,138	0
Retainage Payable	357,451	0
Intergovernmental Payable	2,531,667	0
Deferred Revenue	19,885,458	0
Due to Others	693,109	0
Accrued Interest Payable	55,591	0
Claims Payable	707,944	0
Cost Sharing Payable	1,566,399	0
Long Term Liabilities:		
Due Within One Year	2,999,488	0
Due Within More Than One Year	46,308,775	0
<i>Total Liabilities</i>	<u>85,723,717</u>	<u>352</u>
<b>Net Assets</b>		
Invested in Capital Assets, Net of Related Debt	19,357,574	55,785
Restricted for:		
Capital Projects	198,065,603	0
Debt Service	2,373,434	0
Other Purposes	3,465,737	0
Unrestricted	(25,599,150)	754,389
<i>Total Net Assets</i>	<u>\$ 197,663,198</u>	<u>\$ 810,174</u>

See accompanying notes to the basic financial statements.

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**Lorain City School District**  
*Statement of Activities*  
For the Fiscal Year Ended June 30, 2004

	Program Revenues		
	Expenses	Charges for Services and Sales	Operating Grants and Contributions
<b>Governmental Activities:</b>			
Current:			
Instruction:			
Regular	\$ 35,567,545	\$ 947,055	\$ 5,672,069
Special	16,993,454	83,542	9,651,503
Vocational	5,193,670	3,849	319,061
Adult Continuing	367,305	28,412	275,177
Other	5,894,724	0	356,786
Support services:			
Pupils	3,407,377	1,455	1,016,528
Instructional Staff	4,437,015	26,105	2,952,041
Board of Education	490,164	0	0
Administration	9,080,046	367,454	1,396,399
Fiscal	1,780,503	39,537	174,403
Business	607,686	245	8,002
Operation and Maintenance of Plant	6,419,009	421	42,700
Pupil Transportation	2,066,571	0	1,484
Central	693,857	413	93,361
Operation of Non-Instructional Services:			
Food Service Operation	4,461,057	867,976	3,324,389
Community Services	1,637,414	695,564	1,045,772
Extracurricular Activities	1,982,756	244,145	1,627
Interest and Fiscal Charges	1,695,688	0	0
<i>Total Governmental Activities</i>	<u>102,775,841</u>	<u>3,306,173</u>	<u>26,331,302</u>
<b>Component Units</b>			
Digital Academies	949,521	0	1,476,835
<i>Total Component Units</i>	<u>949,521</u>	<u>0</u>	<u>1,476,835</u>
<i>Totals</i>	<u>\$ 103,725,362</u>	<u>\$ 3,306,173</u>	<u>\$ 27,808,137</u>

**General Revenues**

Property Taxes Levied for:  
General Purposes  
Debt Service  
Grants and Entitlements not Restricted  
to Specific Programs  
Investment Earnings  
Miscellaneous

Total General Revenues

Change in Net Assets

Net Assets Beginning of Year

Net Assets End of Year

See accompanying notes to the basic financial statements.

Net (Expense) Revenue  
and Changes in Net Assets

Governmental Activities	Component Units
\$ (28,948,421)	\$ 0
(7,258,409)	0
(4,870,760)	0
(63,716)	0
(5,537,938)	0
(2,389,394)	0
(1,458,869)	0
(490,164)	0
(7,316,193)	0
(1,566,563)	0
(599,439)	0
(6,375,888)	0
(2,065,087)	0
(600,083)	0
(268,692)	0
103,922	0
(1,736,984)	0
(1,695,688)	0
(73,138,366)	0
0	527,314
0	527,314
(73,138,366)	527,314
21,242,665	0
2,364,373	0
55,762,423	0
786,083	0
162,502	0
80,318,046	0
7,179,680	527,314
190,483,518	282,860
\$ 197,663,198	\$ 810,174

**Lorain City School District**

*Balance Sheet  
Governmental Funds  
June 30, 2004*

	General	Debt Service	Classroom Facilities	Other Governmental Funds
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$ 1,658,723	\$ 1,999,026	\$ 56,428,769	\$ 4,702,590
Cash and Cash Equivalents:				
With Fiscal Agents	0	0	167,866	0
Receivables:				
Taxes	21,048,178	2,499,182	0	313,421
Accounts	0	0	900	161,288
Interfund	2,139,942	0	0	6,000
Intergovernmental	9,036	0	146,409,915	3,245,174
<i>Total Assets</i>	<u>\$ 24,855,879</u>	<u>\$ 4,498,208</u>	<u>\$ 203,007,450</u>	<u>\$ 8,428,473</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts Payable	\$ 361,510	\$ 0	\$ 354,078	\$ 1,198,220
Contracts Payable	0	0	4,248,577	0
Accrued Wages and Benefits	3,487,695	0	0	906,268
Severance Payable	54,138	0	0	0
Retainage Payable	0	0	357,451	0
Interfund Payable	0	0	0	2,145,942
Intergovernmental Payable	1,247,314	0	0	379,599
Deferred Revenue	18,690,631	2,197,216	146,287,000	2,590,521
Due to Others	0	0	0	693,109
Notes Payable	2,421,744	0	0	0
<i>Total Liabilities</i>	26,263,032	2,197,216	151,247,106	7,913,659
<b>Fund Balances</b>				
Fund Balance:				
Reserved for Encumbrances	118,068	0	39,953,730	293,877
Reserved for Tax Revenue Unavailable for Appropriation	2,357,547	301,966	0	34,891
Unreserved:				
Undesignated, Reported in:				
General Fund	(3,882,768)	0	0	0
Special Revenue Funds	0	0	0	1,069,760
Debt Service Fund	0	1,999,026	0	0
Capital Projects Funds	0	0	11,806,614	(883,714)
<i>Total Fund Balances</i>	<u>(1,407,153)</u>	<u>2,300,992</u>	<u>51,760,344</u>	<u>514,814</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 24,855,879</u>	<u>\$ 4,498,208</u>	<u>\$ 203,007,450</u>	<u>\$ 8,428,473</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, 2004*

Total Governmental Funds	Total Governmental Fund Balances	\$ 53,168,997
	<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
\$ 64,789,108	Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.	36,723,425
167,866	Other long-term assets are not available to pay for current-period expenditures and therefore, are deferred in the funds.	
23,860,781	Grants	148,598,991
162,188	Prepaid and Deferred Expenses	4,378,837
2,145,942	Delinquent Property Taxes	1,280,919
149,664,125		154,258,747
<u>\$ 240,790,010</u>	An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	1,100,395
\$ 1,913,808	Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds.	
4,248,577	General Obligation Bonds	40,405,429
4,393,963	Compensated Absences	6,481,090
54,138	Intergovernmental Payable	646,256
357,451	Accrued Interest Payable	55,591
2,145,942		(47,588,366)
1,626,913		
169,765,368	Net Assets of Governmental Activities	<u>\$ 197,663,198</u>
693,109		
2,421,744		
187,621,013		
40,365,675		
2,694,404		
(3,882,768)		
1,069,760		
1,999,026		
10,922,900		
53,168,997		
<u>\$ 240,790,010</u>		

**Lorain City School District**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2004*

	General	Debt Service	Classroom Facilities	Other Governmental Funds
<b>Revenues:</b>				
Taxes	\$ 19,823,165	\$ 2,357,574	\$ 0	\$ 281,876
Intergovernmental	52,801,206	303,846	26,935,561	25,583,269
Investment Income	190,697	0	535,519	42,195
Tuition and Fees	884,568	0	0	94,594
Extracurricular Activities	0	0	0	1,437,111
Charges for Services	0	0	0	868,464
Rentals	21,436	0	0	0
Gifts and Donations	0	0	0	1,184,910
Miscellaneous	146,821	0	900	14,781
<i>Total Revenues</i>	<u>73,867,893</u>	<u>2,661,420</u>	<u>27,471,980</u>	<u>29,507,200</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular	29,937,501	0	0	5,841,944
Special	6,355,432	0	0	9,260,838
Vocational	4,060,561	0	0	362,486
Adult Continuing	0	0	0	358,763
Other	5,539,937	0	0	337,062
Support Services:				
Pupils	2,109,246	0	0	1,108,050
Instructional Staff	4,970,296	0	0	3,076,938
Board of Education	457,517	0	0	0
Administration	6,642,124	0	0	2,018,470
Fiscal	1,531,148	44,322	0	229,826
Business	624,355	0	0	9,414
Operation and Maintenance of Plant	7,014,334	0	0	46,689
Pupil Transportation	2,056,321	0	0	1,702
Central	535,340	0	0	138,010
Operation of Non-Instructional Services				
Food Service	0	0	0	4,465,396
Community Services	0	0	0	1,603,025
Extracurricular Activities	1,468,065	0	0	489,422
Capital outlay	44,692	0	18,879,295	0
Debt Service:				
Principal Retirement	0	1,125,666	0	0
Interest and Fiscal Charges	207,858	1,573,810	0	0
<i>Total Expenditures</i>	<u>73,554,727</u>	<u>2,743,798</u>	<u>18,879,295</u>	<u>29,348,035</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	313,166	(82,378)	8,592,685	159,165
<b>Other Financing Sources (Uses):</b>				
Proceeds From Sales of Fixed Assets	32,767	0	0	0
Transfers In	0	122,294	0	409,169
Transfers Out	(528,173)	0	0	(3,290)
<i>Total Financing Sources and (Uses)</i>	<u>(495,406)</u>	<u>122,294</u>	<u>0</u>	<u>405,879</u>
<i>Net Change in Fund Balance</i>	(182,240)	39,916	8,592,685	565,044
<i>Fund Balance (Deficit) at Beginning of Year</i>	<u>(1,224,913)</u>	<u>2,261,076</u>	<u>43,167,659</u>	<u>(50,230)</u>
<i>Fund Balance (Deficit) at End of Year</i>	<u>\$ (1,407,153)</u>	<u>\$ 2,300,992</u>	<u>\$ 51,760,344</u>	<u>\$ 514,814</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, 2004*

Total Governmental Funds	Net Change in Fund Balances - Total Governmental Funds	\$ 9,015,405
	<i>Amounts reported for governmental activities in the statement of activities are different because:</i>	
\$ 22,462,615	Governmental funds report capital outlays as expenditures,	
105,623,882	however, in the statement of activities, the cost of those	
768,411	assets is allocated over their estimated useful lives as	
979,162	depreciation expense. This is the amount by which	
1,437,111	depreciation exceeded capital outlay in the current period.	
868,464	Capital Asset Additions	20,432,904
21,436	Current Year Depreciation	<u>(2,084,442)</u>
1,184,910		18,348,462
162,502	Net effect of transactions involving sale of capital	
	assets are not reflected in the funds.	(45,817)
133,508,493	Revenues in the statement of activities that do not provide	
	current financial resources are not reported as revenues	
	in the funds.	
	Grants	(22,535,757)
35,779,445	Delinquent Property Taxes	(1,035,939)
15,616,270	Prepaid and Deferred Expenses	<u>642,447</u>
4,423,047		(22,929,249)
358,763	Repayment of bond principal is an expenditure in the governmental	
5,876,999	funds, but the repayment reduces long-term liabilities in the	
	statement of net assets.	
3,217,296	Bond Principal	1,125,666
8,047,234	In the statement of activities interest is accrued on outstanding	
457,517	bonds, whereas in governmental funds, interest is expensed	
8,660,594	when due.	85,980
1,805,296	Some expenses reported in the statement of net activities do not	
633,769	use the current financial resources and therefore, are not reported	
7,061,023	as expenditures in governmental funds.	
2,058,023	Compensated Absences	1,255,823
673,350	Pension Obligation	<u>(87,593)</u>
4,465,396		1,168,230
1,603,025	The internal service fund used by management to charge the costs	
1,957,487	of insurance to individual funds is not reported in the district-wide	
18,923,987	statement of activities. The net revenue (expense) of internal service	
	funds is reported with governmental activities.	<u>411,003</u>
1,125,666		
1,781,668		
124,525,855	Change in Net Assets of Governmental Activities	<u>\$ 7,179,680</u>
8,982,638		
32,767		
531,463		
(531,463)		
32,767		
9,015,405		
44,153,592		
\$ 53,168,997		

**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, 2004*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Taxes	\$ 25,877,611	\$ 23,947,615	\$ 20,001,593	\$ (3,946,022)
Intergovernmental	52,611,759	54,628,046	52,801,206	(1,826,840)
Investment Income	142,022	290,104	279,396	(10,708)
Tuition and Fees	538,090	1,099,136	1,058,568	(40,568)
Rentals	21,436	21,436	21,436	0
Miscellaneous	192,881	416,344	400,186	(16,158)
<i>Total Revenues</i>	<u>79,383,799</u>	<u>80,402,681</u>	<u>74,562,385</u>	<u>(5,840,296)</u>
<b>Expenditures:</b>				
<b>Current</b>				
Instruction	50,613,745	50,613,745	48,537,075	2,076,670
Support Services				
Pupils	2,087,467	2,087,467	2,009,175	78,292
Instructional Staff	4,941,544	4,941,544	4,756,209	185,335
Board of Education	483,408	483,408	465,279	18,129
Administration	6,966,825	6,966,825	6,705,531	261,294
Fiscal	1,431,242	1,431,242	1,377,563	53,679
Business	661,258	661,258	636,457	24,801
Operation and Maintenance of Plant	7,284,638	7,284,638	7,011,424	273,214
Pupil Transportation	2,140,314	2,140,314	2,060,040	80,274
Central	588,594	588,594	566,518	22,076
Extracurricular Activities	1,527,304	1,527,304	1,470,022	57,282
Capital Outlay	46,373	46,373	44,634	1,739
Debt Service				
Principal Retirement	1,140,466	1,140,466	1,089,768	50,698
Interest and Fiscal Charges	211,272	211,272	211,272	0
<i>Total Expenditures</i>	<u>80,124,450</u>	<u>80,124,450</u>	<u>76,940,967</u>	<u>3,183,483</u>
Excess of Revenues Over (Under) Expenditures	(740,651)	278,231	(2,378,582)	(2,656,813)
<b>Other Financing Sources (Uses):</b>				
Proceeds from Sale of Assets	0	32,767	32,767	0
Advances In	863,615	863,615	863,615	0
Advances Out	(646,440)	(646,440)	(646,440)	0
Transfers Out	(528,173)	(528,173)	(528,173)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(310,998)</u>	<u>(278,231)</u>	<u>(278,231)</u>	<u>0</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	(1,051,649)	0	(2,656,813)	(2,656,813)
<i>Fund Balance (Deficit) at Beginning of Year</i>	3,275,277	3,275,277	3,275,277	0
Prior Year Encumbrances Appropriated	880,909	880,909	880,909	0
<i>Fund Balance (Deficit) at End of Year</i>	<u>\$ 3,104,537</u>	<u>\$ 4,156,186</u>	<u>\$ 1,499,373</u>	<u>\$ (2,656,813)</u>

See accompanying notes to the basic financial statements.

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**Lorain City School District**  
*Statement of Net Assets*  
*Proprietary Funds*  
*June 30, 2004*

		Governmental Activities Internal Service Fund
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$	3,174,079
Investments		
In Segregated Accounts		338,358
Receivables:		
Accounts		17,254
Prepaid Items		45,894
Deposits		65,000
		3,640,585
<i>Total Assets</i>		
<b>Liabilities</b>		
Accounts Payable		7,349
Intergovernmental Payable		258,498
Claims Payable		707,944
Cost Sharing Payable		1,566,399
		2,540,190
<i>Total Liabilities</i>		
<b>Net Assets</b>		
Unrestricted		1,100,395
		1,100,395
<i>Total Net Assets</i>		\$ 1,100,395

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, 2004*

		Governmental Activities Internal Service Fund
<hr/>		
<b>Operating Revenues:</b>		
Charges for Services	\$	8,944,453
Other Operating Revenues		89,406
		<hr/>
<i>Total Operating Revenues</i>		9,033,859
		<hr/>
<b>Operating Expenses:</b>		
Purchased Services		669,827
Claims		7,970,701
		<hr/>
<i>Total Operating Expenses</i>		8,640,528
		<hr/>
Operating Income (Loss)		393,331
		<hr/>
<b>Non-Operating Revenues (Expenses):</b>		
Interest		17,672
		<hr/>
<i>Total Non-Operating Revenues (Expenses)</i>		17,672
		<hr/>
<i>Change in Net Assets</i>		411,003
		<hr/>
<i>Net Assets (Deficit) Beginning of Year</i>		689,392
		<hr/>
<i>Net Assets (Deficit) End of Year</i>	\$	1,100,395
		<hr/> <hr/>

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, 2004

		Governmental Activities Internal Service Fund
<hr/> <hr/>		
<b>Cash Flows From Operating Activities:</b>		
Cash Received from Interfund Services	\$	9,059,232
Cash Paid for Goods and Services		(525,143)
Cash Paid for Claims		(6,772,551)
		<hr/>
<i>Net Cash Provided By (Used For) Operating Activities</i>		1,761,538
		<hr/>
<b>Cash Flows From Investing Activities:</b>		
Interest on Investments		17,672
Redemption of Investments		8,908
		<hr/>
<i>Net Cash Provided By (Used For) Investing Activities</i>		26,580
		<hr/>
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>		1,788,118
		<hr/>
<i>Cash and Cash Equivalents at Beginning of Year</i>		1,385,961
		<hr/>
<i>Cash and Cash Equivalents at End of Year</i>	\$	3,174,079
		<hr/> <hr/>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:</b>		
Operating Income (Loss)	\$	393,331
Adjustments:		
(Increase) Decrease Assets		
Accounts Receivable		25,373
Prepaid Items		2,052
Increase (Decrease) in Liabilities		
Accounts Payable		(15,370)
Due to Other Governments		158,002
Claims Payable		(368,249)
Cost Sharing Payable		1,566,399
		<hr/>
<i>Total Adjustments</i>		1,368,207
		<hr/>
<i>Net Cash Provided By (Used For) Operating Activities</i>	\$	1,761,538
		<hr/> <hr/>

See accompanying notes to the basic financial statements.

**Lorain City School District**  
*Statement of Fiduciary Assets and Liabilities*  
*Fiduciary Funds*  
*June 30, 2004*

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	<u>Agency</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$ 74,854</u>
<b>Liabilities</b>	
Undistributed Monies	\$ 50,245
Due to Students	<u>24,609</u>
<i>Total Liabilities</i>	<u>\$ 74,854</u>

See accompanying notes to the basic financial statements.

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**LORAIN CITY SCHOOL DISTRICT**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2004*

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

The Lorain City School District (the School District) was established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The School District is a city school district as defined by Section 3311.02 of the Ohio Revised Code. The School District operates under an elected Board of Education consisting of five members and is responsible for providing public education to residents of the School District. Average daily membership on, or as of, October 1, 2003 was 10,086. The School District employs 983 certificated and 528 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 9 to the financial statements.

Financial information for the Trust's year ended December 31, 2003 is presented in these financial statements as an Internal Service Fund. Complete financial statements for the Trust may be obtained by contacting the Plan Administrator at 10045 College Park, Concord, Ohio 44060.

## LORAIN CITY SCHOOL DISTRICT

### *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004*

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

- Lorain Alternative Academy
- Lorain Elementary Digital Academy
- Lorain Middle School Digital Academy
- Lorain High School Digital Academy

See Note 22 for additional information.

The following entities which perform activities within the School District's boundaries for the benefit of its residents are excluded from the accompanying financial statements because the School District is not financially accountable for the entities nor are they fiscally dependent on the School District.

*Lake Erie Educational Computer Association* – The Lorain City School District participates in the Lake Erie Educational Computer Association (LEECA). LEECA provides data services needed by the participating school districts. This is a jointly governed organization. The School District's participation is disclosed in Note 19 of the financial statements.

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

*Lorain Public Library* – The library is a distinct political subdivision of the State of Ohio governed by a board of trustees. Although the Board of Education appoints new members to the board of trustees, the appointment is based upon the recommendation of the board of trustees. The board of trustees possesses its own contracting and budgeting authority, hires and fires personnel and does not depend on the School District for operational subsidies. The School District does serve as the taxing authority for the library which is not considered part of the School District and its operations are not included within the accompanying financial statements.

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

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

### ***A. Basis of Presentation***

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

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

## LORAIN CITY SCHOOL DISTRICT

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2004*

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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 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.

***Classroom Facilities Commission Fund*** The classroom facilities commission fund is used to account for monies received and expended in connection with contracts entered into by the School District and the Ohio Department of Education for the building and equipping of classroom facilities.

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

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## LORAIN CITY SCHOOL DISTRICT

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2004*

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***Proprietary Fund Type*** Proprietary fund reporting focuses on the determination of operating income, changes in net asset, 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.

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

### ***C. Measurement Focus***

***Government-wide Financial Statements*** The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the statement of net assets.

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

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

### ***D. Basis of Accounting***

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

***Revenues - Exchange and Non-Exchange Transactions*** Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the

**LORAIN CITY SCHOOL DISTRICT**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2004*

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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 6) 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, 2004, but which were levied to finance fiscal year 2005 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 measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

***E. Cash and Cash Equivalents***

Cash received by the School District is deposited in one central bank account with individual fund balance integrity maintained through School District records. Monies for all funds are maintained in this account or temporarily transferred to the State Treasurer's investment pool (STAROhio) or other short term investments. Under existing Ohio statutes, interest earnings are allocated to funds based on average monthly cash balances. Interest income earned for the year ended June 30, 2004 totaled \$768,411.

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.

**LORAIN CITY SCHOOL DISTRICT**  
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The School District has invested in the State Treasury Asset Reserve of Ohio (STAROhio) during the year. STAROhio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on June 30, 2004.

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

***F. Restricted Assets***

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include amounts required by statute to be set-aside for the purchase of textbooks and other instructional material and to create a reserve for budget stabilization. See Note 21 for additional information regarding set asides.

***G. Capital Assets***

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

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

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

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**LORAIN CITY SCHOOL DISTRICT**  
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***H. Interfund Balances***

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

***I. Compensated Absences***

The School District reports compensated absences in accordance with the provisions of GASB No. 16, "Accounting for Compensated Absences". Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

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

During the year, the School District changed its assumption in estimating sick leave liability. The change in estimate reduced the liability by approximately \$1,000,000.

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.

***J. Accrued Liabilities and Long-term Obligations***

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

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

***K. 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

**LORAIN CITY SCHOOL DISTRICT**  
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adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

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

***L. Fund Balance Reserves***

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

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute. The reserve for budget stabilization represents money required to be set-aside by statute to protect against cyclical changes in revenues and expenditures.

***M. 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 tuition for adult education classes, supplemental education, sales for food service and uniform school supplies. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund.

***N. Interfund Activity***

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

***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 2004.

***P. 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.

**LORAIN CITY SCHOOL DISTRICT**  
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***Q. 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. Throughout the fiscal year, the primary level of budgetary control was at the function level within the general fund. For all other funds, the legal level of control was at the fund level. Budgetary modifications may only be made by resolution of the Board of Education.

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

***Estimated Resources*** The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the School District by March 1. As part of the certification, the School District receives the official certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the School District must revise its budget ensuring that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. On or about July 1, the certificate of estimated resources is amended to include any unencumbered balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the amended certificate when the original 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 2004.

***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 or alter total function appropriations within a fund, or alter object appropriations within functions, 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

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supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds other than agency funds, consistent with statutory provisions.

**Encumbrances** As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On fund financial statements, encumbrances outstanding at year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds. A reserve for encumbrances is not reported on government-wide financial statements.

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

**Note 3 - Fund Deficits**

Fund balances/net assets at June 30, 2004 included the following individual fund deficits:

	Deficit	
	Fund Balance	Net Assets
General Fund	\$ 1,407,153	\$ 1,468,286
NonMajor Funds:		
Food Service	473,367	473,367
Adult Education	0	1,000
ROTC	170,579	223,302
Public Preschool	4,505	7,582
EMIS	700	9,475
DPIA	34,682	536,044
Alternative Education	0	132,083
Student Intervention	134,444	134,444
Title VI-B	0	9,232
Vocational Education	1,681	15,380
Preschool Handicapped	2,366	3,570
Building Fund	916,000	916,000

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

**LORAIN CITY SCHOOL DISTRICT**  
*Notes to the Basic Financial Statements*  
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**Note 4 - 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).

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

**Net Change in Fund Balance**

	<u>General</u>
GAAP Basis	\$ (182,240)
Net Adjustment for Revenue Accruals	872,867
Advance In	863,615
Advance Out	(646,440)
Net Adjustment for Expenditure Accruals	(3,316,564)
Adjustment for Encumbrances	<u>(248,051)</u>
Budget Basis	<u>\$ (2,656,813)</u>

**Note 5 - 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.

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

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

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 two 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;
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.

**LORAIN CITY SCHOOL DISTRICT**

*Notes to the Basic Financial Statements*

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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.

**Cash on Hand** At year end, the School District had \$26,600 in undeposited cash on hand which is included on the financial statements of the School District as part of equity in pooled cash and cash equivalents.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements".

**Deposits** At fiscal year-end, the carrying amount of the School District's deposits was \$28,306,694 and the bank balance was \$29,859,113. \$167,866 was held by a third party for retainers payable to contractors. Of the bank balance:

1. \$450,000 of the bank balance was covered by depository insurance; and
2. \$29,409,113 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.

**Investments** GASB Statement No. 3 requires the School District's investments to be categorized to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. STAROhio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

	Category		Carrying Value	Fair Value
	1	3		
Certificates of Deposit	\$ 13,000,000	\$ 0	\$ 13,000,000	\$ 13,000,000
Repurchase Agreements	21,719,997	0	21,719,997	21,719,997
U.S. Treasury Notes	0	338,358	338,358	338,358
U.S. Government Securities	0	5,073,449	5,073,449	4,984,750
	<u>\$ 34,719,997</u>	<u>\$ 5,411,807</u>	<u>\$ 40,131,804</u>	<u>\$ 40,043,105</u>

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**LORAIN CITY SCHOOL DISTRICT**

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

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

	Cash Equivalents	Investments
GASB Statement No. 9	\$ 68,544,265	\$ 0
Cerfificates of Deposit	(13,000,000)	13,000,000
Repurchase Agreement	(21,719,997)	21,719,997
U.S. Treasury Notes	(338,358)	338,358
U.S. Government Securities	(4,984,750)	4,984,750
Cash Held by Fiscal Agents	(167,866)	0
Petty Cash	(26,600)	0
GASB Statement No. 3	<u>\$ 28,306,694</u>	<u>\$ 40,043,105</u>

**Note 6 - Property Taxes**

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

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the School District. Property tax revenue received during calendar 2004 for real and public utility property taxes represents collections of calendar 2003 taxes. Property tax revenue received during calendar 2004 for tangible personal property (other than public utility property) is for calendar 2004 taxes.

2004 real property taxes are levied after April 1, 2004, on the assessed value listed as of the prior January 1, the lien date. Assessed values are established by State law at 35% of appraised market value.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35% of true value. 2004 public utility property taxes became a lien December 31, 2003, are levied after April 1, 2004 and are collected in 2005 with real property taxes.

2004 tangible personal property taxes are levied after April 1, 2004, on the value as of December 31, 2003. Collections are made in 2004. Tangible personal property assessments are 25% of true value.

The property valuation consisted of:

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	<b>2003 Second Half Collections</b>		<b>2004 First Half Collections</b>	
	<b>Amount</b>	<b>%</b>	Amount	%
Real Estate				
Residential/Agricultural	\$ 457,690,950	64.12%	\$ 507,397,660	71.34%
Commercial/Industrial	100,203,040	14.04%	106,266,200	14.94%
Tangible Personal Property				
Public Utilities	915,180	0.13%	1,008,680	0.14%
Personal Property	154,945,840	21.71%	96,565,250	13.58%
	<u>\$ 713,755,010</u>	<u>100.00%</u>	<u>\$ 711,237,790</u>	<u>100.00%</u>

Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Lorain County. The County Auditor periodically advances to the School District their portion of the taxes collected. Second-half real property tax payments collected by the Counties by June 30, 2004, are available to finance fiscal year 2004 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, 2004 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, 2004, was \$2,694,404 and is recognized as revenue. \$2,357,547 was available to the general fund and \$301,966 was available to the bond retirement debt service fund and \$34,891 was available to the classroom facilities maintenance fund.

**Note 7 - Receivables**

Receivables at June 30, 2004, consisted of taxes, accounts (student fees), interfund, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds.

**LORAIN CITY SCHOOL DISTRICT**  
*Notes to the Basic Financial Statements*  
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**Note 8 - Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	Balance 6/30/03	Additions	Reductions	Balance 6/30/04
<b>Governmental Activities</b>				
<i>Capital Assets, not being depreciated:</i>				
Land	\$ 2,019,602	\$ 0	\$ 0	\$ 2,019,602
Construction in Progress	3,652,270	17,983,156	0	21,635,426
	<u>5,671,872</u>	<u>17,983,156</u>	<u>0</u>	<u>23,655,028</u>
<i>Capital Assets, being depreciated:</i>				
Land Improvements	5,305,332	0	(1,308,096)	3,997,236
Buildings and Improvements	25,299,580	0	0	25,299,580
Furniture and Equipment	18,956,962	2,430,167	(884,203)	20,502,926
Vehicles	547,113	19,581	0	566,694
Textbooks	4,116,518	0	0	4,116,518
Total Capital Assets, being depreciated	<u>54,225,505</u>	<u>2,449,748</u>	<u>(2,192,299)</u>	<u>54,482,954</u>
Less Accumulated Depreciation:				
Land Improvements	(5,173,103)	(6,714)	1,308,096	(3,871,721)
Buildings and Improvements	(18,637,974)	(449,373)	0	(19,087,347)
Furniture and Equipment	(14,699,187)	(1,367,036)	838,386	(15,227,837)
Vehicles	(393,510)	(55,493)	0	(449,003)
Textbooks	(2,572,823)	(205,826)	0	(2,778,649)
Total Accumulated Depreciation	<u>(41,476,597)</u>	<u>(2,084,442)</u>	<u>2,146,482</u>	<u>(41,414,557)</u>
Total Capital Assets being depreciated, net	<u>12,748,908</u>	<u>365,306</u>	<u>(45,817)</u>	<u>13,068,397</u>
Governmental Activities Capital Assets, Net	<u>\$ 18,420,780</u>	<u>\$ 18,348,462</u>	<u>\$ (45,817)</u>	<u>\$ 36,723,425</u>

**LORAIN CITY SCHOOL DISTRICT**  
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Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 1,277,466
Special	231,189
Vocational	169,477
Adult Continuing	3,521
Support Services:	
Pupil	39,007
Instructional Staff	27,814
Administration	26,318
Fiscal	2,000
Business	1,463
Operation and Maintenance of Plant	50,062
Pupil Transportaion	5,622
Central	55,635
Operation of Non-Instructional Services	179,916
Extracurricular Activities	<u>14,952</u>
Total Governmental Activities	<u>\$ 2,084,442</u>

**Note 9 - 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. During fiscal year 2004 (July 2003 through June 2004), the School District contracted with Somers Agency, Inc. with the following coverages:

<u>Type of Coverage</u>	<u>Per Occurance</u>	<u>Aggregate</u>
Professional Liability	\$ 1,000,000	\$ 1,000,000
Premises Liability	1,000,000	3,000,000
Automobile	1,000,000	0
Blanket Building/Contents	0	171,719,212

Settled claims have not exceeded this commercial coverage in any of the past three years.

**LORAIN CITY SCHOOL DISTRICT**  
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***B. Workers' Compensation***

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

The School District pays 30% discounted premiums to the BWC for 10 years and incurs the liability dollar-to-dollar on all claim cost. Estimated premiums for 2005 are \$602,000. The School District will only pay 30% of the premium and all claims expenses. The firm of CompManagement, Inc. provides administrative, cost control services, and is the third party administrator of the School District.

***C. Health Insurance***

In order to minimize the annual cost of medical insurance, the Lorain City School District Board of Education and unions that represent its employees have entered into a Jointly Administered Trust Fund for the Benefit of Lorain City School District Employees (the Trust). The Trust provides health care, dental, vision and prescription benefits for full time employees, their spouses and dependents, and for other persons who, according to Board of Education policy, are eligible for them. Health care benefits are paid by the Trust until certain coverage limits are reached. At that point, expenses are paid through "stop-loss" insurance coverage. The Trust has hired Medical Mutual of Ohio to process claims for benefits. The Trust purchases "stop-loss" coverage from Medical Mutual of Ohio. Additionally, the Trust purchases or pays for benefit coverage for dental care, vision care and prescription drugs expenses through other companies. Dental care and vision care are provided through Direct Reimbursement Services, and prescription drugs are provided through National Prescription Administrators (NPA), a division of Express Scripts.

Contributions by the Lorain City School District Board of Education fund benefits are limited by provisions in the union contracts with its employees. Those union contracts require the Plan Trustees to devise cost containment measures in an event that benefit expenditures exceed money contributions that the Board of Education is required to make. Thus, in future years, contributions from employees may be required, or other cost containing measures may be implemented.

The claims liability of \$707,944 at June 30, 2004, 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
2003	\$ 1,011,247	\$ 7,717,990	\$ (7,653,044)	\$ 1,076,193
2004	\$ 1,076,193	\$ 6,404,302	\$ (6,772,551)	\$ 707,944

**LORAIN CITY SCHOOL DISTRICT**  
*Notes to the Basic Financial Statements*  
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**Note 10 - Compensated Absences**

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

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

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

**Note 11 - Defined Benefit Pension Plans**

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

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

Plan members are required to contribute 10% 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% of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$1,594,656, \$1,162,949, and, \$1,097,500, respectively; 66% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$543,936 represents the unpaid contribution for fiscal year 2004, and is recorded as a liability within the respective funds.

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

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

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

**LORAIN CITY SCHOOL DISTRICT**  
*Notes to the Basic Financial Statements*  
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contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC 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 Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2004, plan members were required to contribute 10% of their annual covered salaries. The School District was required to contribute 14%; 13% was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2004, 2003, and 2002 were \$6,865,453, \$6,878,741, and \$6,913,100, respectively; 82% has been contributed for fiscal year 2004 and 100% for fiscal years 2003 and 2002. Contributions to the DC and Combined Plans for fiscal year 2004 were \$8,555 made by the School District and \$66,987 made by the plan members. \$1,274,320 represents the unpaid contribution for fiscal year 2004, and is recorded as a liability within the respective funds.

***C. Social Security System***

Members of the Board of Education have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2004, two members of the Board of Education have elected Social Security. The Board's liability is 6.2% of wages paid.

**Note 12 - Postemployment Benefits**

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

**LORAIN CITY SCHOOL DISTRICT**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2004*

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All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of health care costs in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate; currently 14% of covered payroll. For the fiscal year ended June 30, 2004, the STRS Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$490,659 during the 2004 fiscal year.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2003, (the latest information available) the balance in the Fund was \$2.8 billion. For the year ended June 30, 2003, the health care costs paid by STRS were \$352,301,000 and STRS had 108,294 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. Retirees whose household income falls below federal poverty levels receive a 50% premium reduction. For the fiscal year, ended June 30, 2004, employer contributions to fund health care benefits were 4.91% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$24,500. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$878,363.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004, were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS had approximately 62,000 participants currently receiving health care benefits.

**LORAIN CITY SCHOOL DISTRICT**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2004*

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**Note 13 - Long - Term Obligations**

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

	Outstanding 6/30/03	Additions	Reductions	Outstanding 6/30/04	Amounts Due in One Year
<b>Governmental Activities:</b>					
<i>Notes Payable:</i>					
1996 Revenue Anticipation Notes 7.00% though 2006	\$ 3,511,512	\$ 0	\$ 1,089,768	\$ 2,421,744	\$ 1,168,515
<i>General Obligation Bonds Payable:</i>					
1993 Energy Conservation Bonds 5.95% though 2006	437,119	0	100,666	336,453	106,203
2003 Classroom Facilities Bonds 1.45%-5.25% through 2025	41,093,976	0	1,025,000	40,068,976	830,000
Total	41,531,095	0	1,125,666	40,405,429	936,203
Compensated Absences	8,213,381	292,602	2,024,893	6,481,090	894,770
Total Governmental Activities Long-Term Liabilities	\$ 53,255,988	\$ 292,602	\$ 4,240,327	\$ 49,308,263	\$ 2,999,488

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

In 2003, the School District issued \$41,094,096 in general obligation bonds for renovation, construction, and equipping school facilities. The bonds mature in December 2025.

Notes payable will be repaid from the general fund and general obligation bonds will be paid from the debt service fund. Compensated absences will be paid from various governmental funds from which employees' salaries are paid.

**LORAIN CITY SCHOOL DISTRICT**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2004*

Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2004 are as follows:

Fiscal Year Ending June 30,	General Obligation Bonds		
	Principal	Interest	Total
2005	\$ 936,202	\$ 1,668,481	\$ 2,604,683
2006	1,002,044	1,646,525	2,648,569
2007	1,073,206	1,620,311	2,693,517
2008	1,030,000	1,592,688	2,622,688
2009	1,105,000	1,563,275	2,668,275
2010 - 2014	6,583,428	7,505,332	14,088,760
2015 - 2019	8,355,549	7,098,183	15,453,732
2020 - 2024	13,485,000	3,341,106	16,826,106
2025 - 2026	6,835,000	330,007	7,165,007
Totals	<u>\$ 40,405,429</u>	<u>\$ 26,365,908</u>	<u>\$ 66,771,337</u>

**Note 14 – Operating Leases**

The School District is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore, the results of the lease agreements are not reflected in the School District's accounts. During 2004, expenditures for operating leases totaled \$314,404. The following is a schedule of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2004.

Year	Amount
2005	\$ 252,276
2006	4,588
Total minimum lease payments	<u>\$ 256,864</u>

**LORAIN CITY SCHOOL DISTRICT**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2004*

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**Note 15 - Deferred Revenue**

Deferred revenue at June 30, 2004 consisted of the following:

	Statement of Net Assets	Balance Sheet
	<u>                    </u>	<u>                    </u>
Property Taxes Receivable	\$ 19,885,458	\$ 21,166,377
Grants Receivable	0	148,598,991
	<u>                    </u>	<u>                    </u>
Deferred Revenue	<u>\$ 19,885,458</u>	<u>\$ 169,765,368</u>

**Note 16 - Interfund Transfers**

Transfers for the year ended June 30, 2004 consisted of the following:

	Transfers In	Transfers Out
	<u>                    </u>	<u>                    </u>
General Fund	\$ 0	\$ 528,173
Debt Service	122,294	0
Non Major Governmental Funds	409,169	3,290
	<u>                    </u>	<u>                    </u>
	<u>\$ 531,463</u>	<u>\$ 531,463</u>

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

**LORAIN CITY SCHOOL DISTRICT**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2004*

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**Note 17 - Interfund Balances**

Interfund balances at June 30, 2004 consisted of the following:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 2,139,942	\$ 0
Nonmajor Governmental Funds	<u>6,000</u>	<u>2,145,942</u>
	<u>\$ 2,145,942</u>	<u>\$ 2,145,942</u>

Interfund receivables and payables resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, or (3) payments between funds are made. As of June 30, 2004, all interfund payables outstanding are anticipated to be repaid in fiscal year 2005.

**LORAIN CITY SCHOOL DISTRICT**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2004*

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**Note 18 - Contractual Commitments**

As of June 30, 2004, the School District had contractual commitments for the following:

	<u>Commitment</u>	<u>Expended</u>	<u>6/30/2004</u>
Telamon Construction			
Lakemoor Elementary	\$ 1,134,507	\$ 644,611	\$ 489,896
Washington Elementary	1,134,507	723,944	410,563
Charleston	3,201,125	2,707	3,198,418
RFC Contracting, Inc.			
Larkmoor Elementary	2,741,808	1,071,878	1,669,930
Washington Elementary	2,703,672	1,089,486	1,614,186
Price & James Heating			
Larkmoor Elementary	567,500	118,686	448,814
Washington Elementary	567,500	118,686	448,814
MW Mieke			
Larkmoor Elementary	89,440	20,810	68,630
Washington Elementary	106,560	21,810	84,750
Guenther Mechanical, Inc.			
Larkmoor Elementary	308,166	144,403	163,763
Washington Elementary	308,174	154,784	153,390
Longfellow Middle School	1,424,741	385,766	1,038,975
Washington Middle School	1,383,849	404,831	979,018
Charleston	918,228	793,195	125,033
Electrical Corp of America			
Larkmoor Elementary	892,190	126,432	765,758
Washington Elementary	945,217	152,922	792,295
Johnson Controls			
Larkmoor Elementary	91,453	23,155	68,298
Washington Elementary	91,453	23,155	68,298
Longfellow Middle School	146,500	8,415	138,085
Washington Middle School	139,500	8,370	131,130
Charleston	125,285	81,280	44,005
Carrier Corporation			
Washington Elementary	43,323	42,457	866
Steingass Mechanical			
Longfellow Middle School	132,000	11,000	121,000
Washington Middle School	143,000	11,460	131,540
RJ Martin Electric			
Washington Middle School	1,520,950	102,600	1,418,350
Mac Mechanical Corp			
Charleston	89,350	82,350	7,000
Interstate Welding			
Charleston	966,276	944,738	21,538

**LORAIN CITY SCHOOL DISTRICT**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2004*

	<u>Commitment</u>	<u>Expended</u>	<u>6/30/2004</u>
AW Farrell & Son, Inc. Charleston	329,959	303,963	25,996
Atlas Electrical Charleston	1,044,758	782,778	261,980
Trane Corporation Charleston	125,001	115,001	10,000
Interconnect Cabling Network Charleston	58,505	23,578	34,927
	<u>\$ 23,474,497</u>	<u>\$ 8,539,251</u>	<u>\$ 14,935,246</u>

**Note 19 - Jointly Governed Organizations**

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

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

*A. Lake Erie Educational Computer Association*

The Lake Erie Educational Computer Association (LEECA) is a jointly governed organization comprised of thirty school districts. The jointly governed organization was formed to provide data processing services for accounting, administrative and instructional functions of member districts. Each of the governments of these districts supports LEECA based upon a per pupil charge dependent upon the software packages utilized. The LEECA assembly consists of a superintendent or designated representative from each participating district and a representative from the fiscal agent.

LEECA is governed by a board of directors chosen from the general membership of the LEECA assembly. The board of directors consists of a representative from the fiscal agent, the chairman of each operating committee, and at least one assembly member from each county from which participating districts are located. Financial information can be obtained by contacting the Treasurer at the Educational Service Center of Lorain County, which serves as fiscal agent, located at 1885 Lake Avenue, Elyria, Ohio 44035. During the year ended June 30, 2004, the School District paid \$245,213 to LEECA.

*B. Lake Erie Regional Council*

The Lake Erie Regional Council (LERC) is a jointly governed organization among thirteen districts. The jointly governed organization was formed for the purpose of promoting cooperative agreements and activities among its members in dealing with problems of mutual concern such as a media center, gas consumption, driver education, food service and insurance. Each member provides operating resources to LERC on a per pupil or actual usage charge except for insurance.

## LORAIN CITY SCHOOL DISTRICT

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004*

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The LERC assembly consists of a superintendent or designed representative from each participating district and the fiscal agent. LERC is governed by a board of directors chosen from the general membership. The degree of control exercised by any participating district is limited to its representation on the board. Financial information can be obtained by contacting the Treasurer of the Educational Service Center of Lorain County located at 1885 Lake Avenue, Elyria, Ohio 44035. During the year ended June 30, 2004 the School District paid \$624,010 to LERC.

### *C. Ohio Schools Council*

The School District participates in a program called the HB 264 Energy Conservation. The School District borrowed \$437,119 in November 1996 to pay costs associated with installations, modifications, and remodeling of school buildings to conserve energy under the authority of and pursuant to the laws of the State of Ohio, particularly Sections 133.06 and 133.30 (B) of the Ohio Revised Code. Final principal and interest is to be repaid in December, 2006.

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

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

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

### **Note 20 - Contingencies**

The School District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2004.

### **Note 21 - Set-Asides**

Substitute House Bill 412, as amended, required the School District to “set aside” certain percentages of defined revenues for (1) textbook and instructional materials purchases, and (2) capital and maintenance expenditures. As of April 10, 2001, any money on hand in a School District’s budget reserve set-aside account may at the discretion of the Board be returned to the School District’s general fund or may be left in the account and used by the Board to offset any budget deficit the School District may experience in future years. The amendment places special conditions on any refunds or rebates from the Bureau of Workers’ Compensation. These monies are to be used to offset a budget deficit for school facility construction, renovation or repair, for the textbooks or instructional materials; for purchase of school buses; or for teachers’ professional development. It also required five year budget projections, amended the fiscal watch

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**LORAIN CITY SCHOOL DISTRICT**  
*Notes to the Basic Financial Statements*  
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and fiscal emergency statutes, created a school district solvency fund, and amended “spending reserve” provisions. During the fiscal year June 30, 2004, the reserve activity (cash basis) was as follows:

	BWC Reserve	Capital Improvement Reserve	Textbook Instructional Materials Reserve	Total
Set-Aside Cash Balance as of June 30, 2003	\$ 220,833	\$ 274,636	\$ 994,653	\$ 1,490,122
Set-Aside Carryover Balance as of June 30, 2003	0	0	0	0
Current Year Set-Aside Requirement	0	1,542,306	1,542,306	3,084,612
Qualifying Disbursements	0	(2,897,078)	(3,570,139)	(6,467,217)
Returned to General Fund	(220,833)	(2,897,078)	(3,570,139)	(6,688,050)
Total	<u>\$ 0</u>	<u>\$ (3,977,214)</u>	<u>\$ (4,603,319)</u>	<u>\$ (8,580,533)</u>
Amount to Reserve for Set-Asides	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Cash Balance Carried Forward to Fiscal Year 2005				<u>\$ 0</u>

The School District had qualifying disbursements during the year that reduced the capital improvements and textbook reserve set-asides below zero. These extra amounts may only be used to reduce the set-aside requirement of future years for the purchase of textbooks and/or instructional materials.

**Note 22 – Discretely Presented Component Units**

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

**Note 23 – Subsequent Event**

On July 28, 2004, the School District issued \$5.4 million of Qualified Zone Academy Bonds (QZAB) to finance the purchase of computer technology for the classrooms. The QZABs had an initial credit rate of 5.94% and an escrow investment rate of 3.45%.

QZABs are available for schools serving low income students. They reduce the burden of interest payments by giving financial institutions holding the bonds a tax credit in lieu of interest. The School District must still pay back the amount of money it initially borrowed, but does not have to pay any interest. The credit rates for QZABs sold on a given day are set by the Treasury Department.

The School District will make 7 annual payments which are deposited into an escrow account that will earn the stated escrow investment rate. The last payment is due on June 1, 2011 for a total of \$3.8 million. The remaining \$1.6 million due will accrue as interest in the escrow account until the bonds mature on June 1, 2018.

**LORAIN CITY SCHOOL DISTRICT**  
*Notes to the Basic Financial Statements*  
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**Note 24- State School Funding Decision**

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

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

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

# Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

November 19, 2004

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lorain City School District, as of and for the year ended June 30, 2004, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated November 19, 2004 in which we noted the financial statements of the Digital Academies and the Jointly Administered Trust Fund for the Benefit of Lorain City School District Employees were audited by other auditors. We have conducted our audit in accordance with auditing standards in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Compliance**

As part of obtaining reasonable assurance about whether Lorain City School District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted immaterial instances of non-compliance that we have reported to management of Lorain City School District in a separate letter dated November 19, 2004.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Lorain City School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design of operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Lorain City School District in a separate letter dated November 19, 2004.

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

*Rea & Associates, Inc.*

# Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

November 19, 2004

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

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

### **Compliance**

We have audited the compliance of Lorain City School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. Lorain City School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Lorain City School District's management. Our responsibility is to express an opinion on Lorain City School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circulars A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Lorain City School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Lorain City School District's compliance with those requirements.

In our opinion, Lorain City School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

### **Internal Control Over Compliance**

The management of Lorain City School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Lorain City School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted an immaterial instance of non-compliance that we have reported to management of Lorain City School District in a separate letter dated November 19, 2004.

### **Schedule of Expenditures of Federal Awards - Non GAAP Budgetary Basis**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lorain City School District, as of and for the year ended June 30, 2004, which collectively comprise the School District's basic financial statements and have issued our report thereon dated November 19, 2004, in which we noted the financial statements of the Digital Academies and the Jointly Administered Trust Fund for the Benefit of Lorain City School District Employees were audited by other auditors. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements of Lorain City School District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

*Rea & Associates, Inc.*

**LORAIN CITY SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CASH BASIS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Federal Grantor/ Pass Through Grantor/ Program Title	CFDA Number	Grant Number	Federal Receipts	Federal Disbursements	Non-Cash Disbursements
<b>U. S. Department of Education</b>					
<i>Passed Through Ohio Department of Education:</i>					
Title I	84.010	044263-C1S1-2004	\$ 4,006,102	\$ 3,801,143	\$ 0
Title I	84.010	044263-C1SK-2004	30,657	28,780	0
Title I	84.010	044263-C1-S1-2003	202,338	361,856	0
Title I	84.010	044263-C1-S1-2004	54,420	54,191	0
Total Title I			4,293,517	4,245,970	0
Title I-Comprehensive School Reform	84.332	044263-RF-S1-02	568,287	616,267	0
Title II-A - Improving Teacher Quality	84.367	044263-TRS1-2004	688,565	633,955	0
Title III - LEP Immigrant	84.365	044263-T3S1-2004	58,953	88,262	0
IDEA B - Grant	84.027	044263-6BSF-02P	0	662	0
IDEA B - Grant	84.027	044263-6BSF-2003-P	120,702	492,321	0
IDEA B - Grant	84.027	044263-6BSF-2004	1,418,164	1,393,898	0
Early Childhood Special Education	84.173	044263-PGS1-2003P	(667)	8,965	0
Early Childhood Special Education	84.173	044263-PGS1-2004	49,428	47,341	0
Total Special Education Cluster			1,587,627	1,943,187	0
Drug Free Schools	84.186	044263-DR-S1-2001	0	85	0
Drug Free Schools	84.186	044263-DRS1-2004	109,628	98,646	0
Drug Free Schools	84.186	044263-DR-S1-2003	5,470	13,097	0
Total Drug Free Schools			115,098	111,828	0
Title VI - Innovative Edu. Prog. Strategies	84.298	044263-C2S1-2001	0	246	0
Title VI - Innovative Edu. Prog. Strategies	84.298	044263-C2S1-2003	11,793	10,956	0
Title VI - Innovative Edu. Prog. Strategies	84.298	044263-C2S1-2004	88,173	81,814	0
Total Title VI			99,966	93,016	0
Reading First	84.357	044263-RSS1-2004	4,959,295	4,508,386	0
Adult and Community Education	84.002	044263-ABS1-2003	64,057	5,474	0
Adult and Community Education	84.002	044263-ABS1-2004	137,901	128,082	0
Total Adult and Community Education			201,958	133,556	0
Ohio HS Transformation	84.276	044263-G2S5-2001	(3,550)	0	0
Vocational Education Basic Grant	84.048	044263-20C1-2003	54,082	2,675	0
Vocational Education Basic Grant	84.048	044263-CDP111-53004-057	352,756	369,292	0
Total Vocational Education Basic Grant			406,838	371,967	0
Technology Literacy Challenge Fund Grant	84.318	044263-TJS1-2003	(915)	6,153	0
Technology Literacy Challenge Fund Grant	84.318	044263-TJS1-2004	40,595	38,715	0
Total Technology Literacy Challenge Fund Grant			39,680	44,868	0
NSTA NASA Grant	43.001	NCCS-742	10,000	5,502	0
Safe and Drug Free Community	84.184	044263-S1-04-158	25,824	2,953	0
Gear Up	84.334	P334A990314	118,612	125,883	0
Gear up	84.334	P334A990314	586,868	588,418	0
Total Gear Up			705,480	714,301	0
<i>Total Passed Through Ohio Department of Education</i>			13,757,538	13,514,018	0

**LORAIN CITY SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CASH BASIS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Federal Grantor/ Pass Through Grantor/ Program Title	CFDA Number	Grant Number	Federal Receipts	Federal Disbursements	Non-Cash Disbursements
<b>U. S. Department of Education (continued)</b>					
<i>Direct Award:</i>					
Teaching American History	84.215	5215X020147	246,939	246,939	0
<i>Total Direct Awards</i>			<u>246,939</u>	<u>246,939</u>	<u>0</u>
<b>Total U.S. Department of Education</b>			<u>14,004,477</u>	<u>13,760,957</u>	<u>0</u>
<b>U. S. Department of Health &amp; Human Services</b>					
<i>Passed Through State Department of MRDD:</i>					
School Readiness Program	93.558		35,221	42,970	0
School Readiness Program	93.558		<u>31,334</u>	<u>40,918</u>	<u>0</u>
Total School Readiness Program			66,555	83,888	0
Medical Assistance Program/CAFS	93.778		<u>136,377</u>	<u>136,377</u>	<u>0</u>
<b>Total U.S. Department of Health &amp; Human Services</b>			<u>202,932</u>	<u>220,265</u>	<u>0</u>
<b>U. S. Department of Agriculture</b>					
<i>Passed Through Ohio Department of Education:</i>					
<i>Nutrition Cluster</i>					
Food Distribution (A) (B)	10.550		192,857	0	192,857
School Breakfast Program (A)	10.553	044263-05PU-2004	721,158	721,158	0
National School Lunch Program (A)	10.555	044263-LLP4-2004	1,841,035	1,841,035	0
Summer Food Service Program	10.559	044263-24PU-2003	<u>13,414</u>	<u>13,414</u>	<u>0</u>
<b>Total Department of Agriculture - Nutrition Cluster</b>			<u>2,768,464</u>	<u>2,575,607</u>	<u>192,857</u>
<b>TOTAL FEDERAL FINANCIAL ASSISTANCE</b>			<u>\$ 16,975,873</u>	<u>\$ 16,556,829</u>	<u>\$ 192,857</u>

**LORAIN CITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A-133 , Section .505  
JUNE 30, 2004**

**1. SUMMARY OF AUDITOR'S RESULTS**

(d) (1) (i)	Type of Financial Statement Opinion	Unqualified
(d) (1) (ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (iii)	Was there any reported material non- compliance at the financial statement level (GAGAS)?	No
(d) (1) (iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d) (1) (iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d) (1) (v)	Type of Major Programs' Compliance Opinion	Unqualified
(d) (1) (vi)	Are there any reportable findings under Section .510?	No
(d) (1) (vii)	Major Programs (list):	Title VI-B IDEA Grant #84.027 Reading First Grant #84.357
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: > \$502,491 Type B: All others
(d) (1) (ix)	Low Risk Auditee?	Yes

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

None noted.

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

None noted.



**Auditor of State  
Betty Montgomery**

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**LORAIN CITY SCHOOL DISTRICT**

**LORAIN COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
FEBRUARY 10, 2005**