

Lorain City School District

Audited Basic Financial Statements

June 30, 2010



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Lorain City School District, Lorain County, prepared by Rea & Associates, Inc., for the audit period July 1, 2009 through June 30, 2010. 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 black ink that reads "Dave Yost".

Dave Yost
Auditor of State

February 14, 2011

This Page is Intentionally Left Blank.

LORAIN CITY SCHOOL DISTRICT

For the year Ended June 30, 2010

Table of Contents

| | Page |
|---|-------------|
| Independent Auditor's Report..... | 1 |
| Management's Discussion and Analysis..... | 3 |
| Basic Financial Statements: | |
| Government-wide Financial Statements: | |
| Statement of Net Assets | 13 |
| Statement of Activities | 14 |
| Fund Financial Statements: | |
| Balance Sheet – Governmental Funds..... | 16 |
| Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds | 18 |
| Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual – General Fund | 20 |
| Statement of Fund Net Assets – Proprietary Funds | 21 |
| Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds | 22 |
| Statement of Cash Flows – Proprietary Funds | 23 |
| Statement of Fiduciary Assets and Liabilities – Fiduciary Funds | 24 |
| Notes to the Basic Financial Statements | 25 |
| Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance with Government Auditing Standards..... | 55 |
| Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133 | 57 |
| Schedule of Expenditures of Federal Awards – Cash Basis | 59 |
| Notes to Schedule of Expenditures of Federal Awards – Cash Basis..... | 61 |
| Schedule of Findings OMB Circular A-133 | 62 |



Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

Focused on Your Future.

December 22, 2010

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

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of Lorain City School District (the School District), as of and for the year ended June 30, 2010, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the component unit for the Jointly Administered Trust Fund for the Benefit of Lorain City School District Employees, which represents 0.19 percent, 0.26 percent, and 0.55 percent, respectively, of the assets, net assets, and revenues of the related consolidated totals. The financial statement was audited by another auditor whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Jointly Administered Trust Fund for the Benefit of Lorain City School District Employees is based on the report of the other auditor.

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

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the School District, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2010, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 11 are not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We and other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Hea & Associates, Inc.

Lorain City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010

The discussion and analysis of the Lorain City School District's (the "School District") financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2010. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2010 are as follows:

- ❑ General Revenues accounted for \$90.7 million in revenue or 78% of all revenues. Program specific revenues in the form of charges for services and sales, grants, and contributions accounted for \$26.0 million or 22% of total revenues of \$116.7 million.
- ❑ Total program expenses were \$121.0 million, which is an increase of 9% or \$9.8 million from fiscal year 2009.
- ❑ Net assets decreased \$4.3 million from fiscal year 2009.
- ❑ The School District did not issue any new debt and continued to pay down its outstanding bonds, notes and related liabilities for a decrease of \$2.2 million in debt obligations from fiscal year 2009.
- ❑ The School District had a valuation of capital assets performed in fiscal year 2010 which increased the value by \$4.8 million. Construction of school buildings continued adding \$17.5 million to construction in progress which exceeded depreciation increasing net capital assets by \$14.8 million over fiscal year 2009.

Using this Annual Report

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

The statement of net assets and the statement of activities provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances.

Fund financial statements provide a greater level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds, with all other nonmajor funds presented in total in a single column. For the School District, the general, debt service and classroom facilities funds are the most significant funds.

Lorain City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010

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 2010?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School District's *net assets* and *changes in those assets*. This change in net assets is important because it tells the reader that, for the School District as a whole, the *financial position* of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School District's property tax base, current property tax laws in Ohio, which restrict revenue growth, facility conditions, required educational programs, and other factors.

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

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

The government-wide financial statements begin on page 13.

Reporting the School District's Most Significant Funds

Fund Financial Statements

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

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

Lorain City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010

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

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

The governmental fund financial statements begin on page 16.

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

The proprietary fund financial statements begin on page 21.

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

The fiduciary fund financial statements begin on page 24.

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 25.

Lorain City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010

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 2010 compared to 2009:

Table 1
Net Assets

| | 2010 | Restated 2009 |
|--------------------------|----------------|------------------|
| Assets | | |
| Current and Other Assets | \$ 170,271,059 | \$ 186,922,217 |
| Capital Assets | 106,751,555 | 91,968,146 |
| Total Assets | 277,022,614 | 278,890,363 |
| Liabilities | | |
| Long-Term Liabilities | 51,079,331 | 53,620,340 |
| Other Liabilities | 37,834,408 | 32,838,626 |
| Total Liabilities | 88,913,739 | 86,458,966 |
| Net Assets | | |
| Invested in Capital | | |
| Assets Net of Debt | 69,648,692 | 53,985,817 |
| Restricted | 123,743,208 | 142,680,289 |
| Unrestricted (Deficit) | (5,283,025) | (4,234,709) |
| Total Net Assets | \$ 188,108,875 | \$ 192,431,397 |

Current assets decreased \$16.7 million mostly through a \$17.3 million decrease in the Ohio School Facilities grant receivable from drawdowns to construct school buildings. Additional construction in progress of \$17.5 million along with depreciation expense of \$2.5 million contributed to the \$14.8 million increase in capital assets. Long term liabilities decreased \$2.5 million through payments of principal and related liabilities. A \$2.8 million increase in construction contracts payable for the new school buildings and increases in accrued wages and benefits though normal pay increases account for most of the \$5.0 million increase in other liabilities. These changes resulted in a decrease in net assets from fiscal year 2009 of 2% or \$4.3 million.

Lorain City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010

Table 2 shows the changes in net assets for fiscal year 2010 and 2009 and will help further explain the change from the prior year.

Table 2
Governmental Activities

| | 2010 | 2009 |
|--|----------------|--------------|
| Revenues | | |
| <i>Program Revenues:</i> | | |
| Charges for Services | \$ 2,242,000 | \$ 2,161,104 |
| Operating Grants | 23,350,499 | 35,409,839 |
| Capital Grants | 413,907 | 1,078,792 |
| <i>General Revenue:</i> | | |
| Property Taxes | 18,438,527 | 19,395,770 |
| Grants and Entitlements not Restricted to Specific Programs | 70,956,355 | 56,193,166 |
| Other | 1,273,543 | 681,893 |
| <i>Total Revenues</i> | 116,674,831 | 114,920,564 |
| Program Expenses | | |
| Instruction | 74,986,044 | 66,527,561 |
| Support Services | 36,564,189 | 35,220,893 |
| Operation of Non-Instructional | 5,847,547 | 5,865,989 |
| Extracurricular Activities | 1,856,981 | 1,795,164 |
| Interest and Fiscal Charges | 1,742,592 | 1,821,038 |
| <i>Total Expenses</i> | 120,997,353 | 111,230,645 |
| <i>Increase (Decrease) in Net Assets</i> | \$ (4,322,522) | \$ 3,689,919 |

Total net assets decreased by \$4.3 million from fiscal year 2009. Total revenues are 1.5% or \$1.8 million more than fiscal year 2009. Although operating grants decreased \$12.1 million from fiscal year 2009, unrestricted grants and entitlement increased \$14.8 million. The poverty aid grant program was discontinued losing the School District \$8.4 million in operating grants, however, the fiscal stabilization grant, stimulus grants, reimbursements for tax losses and other unrestricted grants and entitlements increased over 2009. Expenses increased \$9.8 million from fiscal year 2009, with instructional expenses accounting for most of that amount. Instructional expenses increased nearly \$8.5 million through annual pay and step increases.

Lorain City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010

Governmental Activities

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements. All governmental activities had total revenues of \$116.7 million and expenses of \$121.0 million in fiscal year 2010.

Table 3
Governmental Activities

| | 2010 | | 2009 | |
|------------------------------------|--------------------------|------------------------|--------------------------|------------------------|
| | Total Cost of Service | Net Cost of Service | Total Cost of Service | Net Cost of Service |
| Instruction | \$ 74,986,044 | \$ 65,162,279 | \$ 66,527,561 | \$ 48,811,681 |
| Support Services: | | | | |
| Pupil and Instructional Staff | 12,494,931 | 4,628,502 | 10,634,175 | 1,361,900 |
| Board of Education, Administration | | | | |
| Fiscal and Business | 11,160,852 | 9,027,937 | 10,603,451 | 7,436,988 |
| Operation and Maintenance of Plant | 8,846,505 | 8,843,746 | 10,396,060 | 7,867,712 |
| Pupil Transportation and Central | 4,061,901 | 3,574,855 | 3,587,207 | 3,299,922 |
| Operation of Non-Instructional | 5,847,547 | 374,611 | 5,865,989 | 331,399 |
| Extracurricular Activities | 1,856,981 | 1,636,425 | 1,795,164 | 1,650,270 |
| Interest and Fiscal Charges | 1,742,592 | 1,742,592 | 1,821,038 | 1,821,038 |
| Total Expenses | \$ 120,997,353 | \$ 94,990,947 | \$ 111,230,645 | \$ 72,580,910 |

Instruction and pupil and instructional staff comprise 72% of governmental program expenses. Interest and fiscal charges were 1%. Interest expense was attributable to the outstanding bonds and fiscal expenses, which include payments to the County Auditor(s) for administrative fees. Operation and maintenance of plant and pupil transportation account for 11% 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, 2010

Financial Analysis of the Government's Funds

Governmental Funds

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

The School District's governmental funds (as presented on the balance sheet on page 16) reported a total fund balance of \$56.3 million, which is \$3.5 million under last year's balance of \$59.8 million. The most significant changes within the School District's major funds were reported in the general fund with a decrease in fund balance of \$1.8 million.

Major Funds

The general fund is the main operating fund of the School District. At the end of fiscal year 2010, the general fund had a fund balance of \$1.8 million, which is a decrease of \$1.8 million from fiscal year 2009. There was a \$5.2 million increase in state foundation money over fiscal year 2009, however, there was also an increase in expenditures of \$11.5 million. This increase was primarily in instructional expenses.

The debt service fund is the School District fund that accumulates tax revenues to pay general obligation bonds. At the end of fiscal year 2010, the fund balance in the debt service fund was \$2.2 million, which is a decrease of \$.2 million from fiscal year 2009. There is no individually significant item responsible for this change.

The classroom facilities fund is the School District fund that accounts for the construction and equipping of buildings and classrooms. At the end of fiscal year 2010, the fund balance in the classroom facilities fund was \$47.9 million, which is a decrease of \$1.3 million from fiscal year 2009 primarily due to the timing of revenues received for construction projects and the actual expenditures for the construction costs.

General Fund Budgeting Highlights

The School District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the general fund.

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

For the general fund, there was a difference of \$1.6 million between the final budget basis revenue and other financing sources of \$86.3 million, and the original budget basis revenue and other financing sources of \$87.8 million. The original budget anticipated more intergovernmental revenue and tuition and fees revenues than the final budget. The original budgeted expenditures and other financing uses of \$94.5 million were \$3.5 million more the final budget amount of \$91.0 million. The original budget anticipated larger instructional and operation and maintenance expenses than the final budget.

Lorain City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2010, the School District governmental activities had \$106.8 million invested in land, construction in progress, land improvements, buildings and improvements, furniture and equipment, vehicles and textbooks. Table 4 shows fiscal year 2010 balances compared with 2009.

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

| | Governmental Activities | |
|----------------------------------|-------------------------|------------------|
| | 2010 | Restated 2009 |
| Land, Buildings and Improvements | \$ 81,077,949 | \$ 82,204,964 |
| Furniture and Equipment | 1,409,728 | 1,552,212 |
| Vehicles | 110,368 | 105,644 |
| Textbooks | 604,016 | 935,163 |
| Construction in Progress | 23,549,494 | 7,170,163 |
| Totals | \$ 106,751,555 | \$ 91,968,146 |

Construction continued on the Irving, Whittier, Lincoln and Hawthorne school buildings which increased construction in progress by \$16.4 million. Depreciation expense for fiscal year 2010 amounted to \$2.5 million. The School District had a professional valuation done which resulted in an increase of \$4.8 million in the fiscal year 2009 capital assets. See Note 3 for the restatement. See Note 9 for further information regarding capital assets of the School District.

Debt

At June 30, 2010, the School District had \$33.8 million in bonds outstanding with \$1.3 million due within one year, notes payable of \$2.2 million, with \$1.1 million due within one year and \$5.4 million in a Qzab loan. During fiscal year 2009, \$1.2 million of general obligation bonds and \$1.1 million in notes payable were retired. Table 5 summarizes debt outstanding. See Note 14 for further information regarding long term liabilities of the School District.

Lorain City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010

Table 5
Outstanding Debt, at June 30

| | Governmental Activities | |
|---|-------------------------|---------------|
| | 2010 | 2009 |
| General Obligation Bonds: | | |
| 2003 Classroom Facilities Bonds | \$ 17,225,000 | \$ 18,415,000 |
| Capital Appreciation Bonds | 3,623,976 | 3,623,976 |
| Accretion | 869,995 | 742,901 |
| 2006 Classroom Facilities Bonds Refunding | 3,985,000 | 4,020,000 |
| Capital Appreciation Bonds | 64,995 | 64,995 |
| Accretion | 73,759 | 46,352 |
| Premium on Debt Issuance | 334,339 | 364,733 |
| Refunding Loss | (263,723) | (287,698) |
| 2007 Classroom Facilities Bonds Refunding | 8,860,000 | 8,860,000 |
| Premium on Debt Issuance | 851,946 | 905,193 |
| Refunding Loss | (658,472) | (699,627) |
| | 34,966,815 | 36,055,825 |
| Revenue Anticipation Notes | 2,160,000 | 3,240,000 |
| QZAB Loan | 5,400,000 | 5,400,000 |
| | \$ 42,526,815 | \$ 44,695,825 |

In 2003, the School District passed a bond issue providing \$41.1 million for renovations and construction of buildings in the School District. In 2005, the School District issued \$5.4 million in Qualified Zone Academy Bonds for purchase of computer equipment. In 2006, the School District issued a tax anticipation note for \$5.4 million. In December 2006 the School District also issued \$4.2 million in refunding bonds and in March 2007 the School District issued refunding bonds for \$9.0 million. The proceeds were used to refund a portion of the 2003 Classroom Facilities Bonds. More information about the long-term obligations is in Note 14 to the basic financial statements.

Contacting the School District's Financial Management

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

This page intentionally left blank

Lorain City School District
Statement of Net Assets
June 30, 2010

| | Governmental Activities | Component Unit Digital Academy |
|---|----------------------------|--------------------------------------|
| Assets | | |
| Equity in Pooled Cash and Cash Equivalents | \$ 16,705,820 | \$ 484,370 |
| In Segregated Accounts | 49,012,255 | 0 |
| With Fiscal Agents | 6,863,683 | 0 |
| Investments: | | |
| In Segregated Accounts | 506,797 | 0 |
| Receivables: | | |
| Taxes | 21,175,100 | 0 |
| Accounts | 29,035 | 0 |
| Accrued Interest | 203,383 | 0 |
| Intergovernmental | 70,710,762 | 0 |
| Prepaid and Deferred Expenses | 5,064,224 | 0 |
| Nondepreciable Capital Assets | 29,365,063 | 0 |
| Depreciable Capital Assets (Net) | 77,386,492 | 53,202 |
| <i>Total Assets</i> | <u>277,022,614</u> | <u>537,572</u> |
| Liabilities | | |
| Accounts Payable | 1,341,971 | 39,980 |
| Contracts Payable | 3,607,374 | 0 |
| Accrued Wages and Benefits | 9,027,504 | 0 |
| Retainage Payable | 365,958 | 0 |
| Intergovernmental Payable | 3,709,046 | 0 |
| Deferred Revenue | 18,276,495 | 0 |
| Accrued Interest Payable | 120,612 | 0 |
| Claims Payable | 1,168,530 | 0 |
| Cost Sharing Payable | 200,988 | 0 |
| Matured Compensated Absences | 15,930 | 0 |
| Long Term Liabilities: | | |
| Due Within One Year | 4,815,510 | 0 |
| Due in More Than One Year | 46,263,821 | 0 |
| <i>Total Liabilities</i> | <u>88,913,739</u> | <u>39,980</u> |
| Net Assets | | |
| Invested in Capital Assets, Net of Related Debt | 69,648,692 | 53,202 |
| Restricted for: | | |
| Capital Projects | 115,381,398 | 0 |
| Debt Service | 2,397,042 | 0 |
| Other Purposes | 5,964,768 | 17,296 |
| Unrestricted | (5,283,025) | 427,094 |
| <i>Total Net Assets</i> | <u>\$ 188,108,875</u> | <u>\$ 497,592</u> |

See accompanying notes to the basic financial statements.

Lorain City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2010

| | Program Revenues | | | |
|--|-----------------------|--------------------------------------|--|--|
| | Expenses | Charges for Services and Sales | Operating Grants, Contributions and Interest | Capital Grants, Contributions and Interest |
| Governmental Activities | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | \$ 44,691,860 | \$ 1,168,453 | \$ 7,329,811 | \$ 413,907 |
| Special | 8,765,969 | 0 | 642,584 | 0 |
| Vocational | 3,460,181 | 0 | 110,202 | 0 |
| Student Intervention | 1,471,288 | 0 | 154,940 | 0 |
| Other | 16,596,746 | 0 | 3,868 | 0 |
| Support services: | | | | |
| Pupils | 4,731,766 | 0 | 1,767,077 | 0 |
| Instructional Staff | 7,763,165 | 516 | 6,098,836 | 0 |
| Board of Education | 260,180 | 0 | 0 | 0 |
| Administration | 8,124,562 | 116,182 | 1,054,172 | 0 |
| Fiscal | 2,307,542 | 71,930 | 890,625 | 0 |
| Business | 468,568 | 0 | 6 | 0 |
| Operation and Maintenance of Plant | 8,846,505 | 0 | 2,759 | 0 |
| Pupil Transportation | 2,718,093 | 0 | 345,376 | 0 |
| Central | 1,343,808 | 0 | 141,670 | 0 |
| Operation of Non-Instructional Services: | | | | |
| Food Service Operation | 4,393,196 | 360,516 | 4,075,407 | 0 |
| Community Services | 1,454,351 | 309,068 | 727,945 | 0 |
| Extracurricular Activities | 1,856,981 | 215,335 | 5,221 | 0 |
| Interest and Fiscal Charges | 1,742,592 | 0 | 0 | 0 |
| <i>Total Governmental Activities</i> | <u>120,997,353</u> | <u>2,242,000</u> | <u>23,350,499</u> | <u>413,907</u> |
| Component Unit | | | | |
| Digital Academy | 581,876 | 0 | 51,197 | 0 |
| <i>Total Component Unit</i> | <u>581,876</u> | <u>0</u> | <u>51,197</u> | <u>0</u> |
| <i>Totals</i> | <u>\$ 121,579,229</u> | <u>\$ 2,242,000</u> | <u>\$ 23,401,696</u> | <u>\$ 413,907</u> |

General Revenues

Property Taxes Levied for:

General Purposes

Debt Service

Grants and Entitlements not Restricted

to Specific Programs

Investment Earnings

Miscellaneous

Total General Revenues

Change in Net Assets

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

Net Assets End of Year

See accompanying notes to the basic financial statements.

| Net (Expense) Revenue and Changes in Net Assets | |
|--|-------------------|
| Governmental Activities | Component Unit |
| \$ (35,779,689) | \$ 0 |
| (8,123,385) | 0 |
| (3,349,979) | 0 |
| (1,316,348) | 0 |
| (16,592,878) | 0 |
| (2,964,689) | 0 |
| (1,663,813) | 0 |
| (260,180) | 0 |
| (6,954,208) | 0 |
| (1,344,987) | 0 |
| (468,562) | 0 |
| (8,843,746) | 0 |
| (2,372,717) | 0 |
| (1,202,138) | 0 |
| 42,727 | 0 |
| (417,338) | 0 |
| (1,636,425) | 0 |
| (1,742,592) | 0 |
| (94,990,947) | 0 |
| 0 | (530,679) |
| 0 | (530,679) |
| (94,990,947) | (530,679) |
| 16,249,975 | 0 |
| 2,188,552 | 0 |
| 70,956,355 | 589,507 |
| 422,966 | 0 |
| 850,577 | 208 |
| 90,668,425 | 589,715 |
| (4,322,522) | 59,036 |
| 192,431,397 | 438,556 |
| \$ 188,108,875 | \$ 497,592 |

See accompanying notes to the basic financial statements.

Lorain City School District
Balance Sheet
Governmental Funds
June 30, 2010

| | General | Debt Service | Classroom Facilities | Other Governmental Funds |
|--|----------------------|---------------------|-------------------------|--------------------------------|
| Assets | | | | |
| Equity in Pooled Cash and Cash Equivalents | \$ 5,335,633 | \$ 2,085,176 | \$ 2,644,752 | \$ 5,241,367 |
| In Segregated Accounts | 0 | 0 | 48,630,570 | 0 |
| With Fiscal Agents | 3,761,586 | 0 | 365,958 | 2,736,139 |
| Receivables: | | | | |
| Taxes | 18,429,107 | 2,467,235 | 0 | 278,758 |
| Accounts | 0 | 0 | 0 | 1,907 |
| Interfund | 498,745 | 0 | 0 | 0 |
| Accrued Interest | 1,519 | 0 | 201,108 | 756 |
| Intergovernmental | 175,830 | 0 | 65,122,418 | 5,412,514 |
| Advances to Other Funds | 1,555,359 | 0 | 0 | 0 |
| <i>Total Assets</i> | <u>\$ 29,757,779</u> | <u>\$ 4,552,411</u> | <u>\$ 116,964,806</u> | <u>\$ 13,671,441</u> |
| Liabilities and Fund Balances | | | | |
| Liabilities | | | | |
| Accounts Payable | \$ 701,574 | \$ 0 | \$ 0 | \$ 613,339 |
| Contracts Payable | 0 | 0 | 3,607,374 | 0 |
| Accrued Wages and Benefits | 7,107,414 | 0 | 0 | 1,920,090 |
| Retainage Payable | 0 | 0 | 365,958 | 0 |
| Interfund Payable | 0 | 0 | 0 | 498,745 |
| Intergovernmental Payable | 2,624,793 | 0 | 0 | 681,714 |
| Deferred Revenue | 17,549,934 | 2,338,781 | 65,122,418 | 3,949,467 |
| Advances from Other Funds | 0 | 0 | 0 | 1,555,359 |
| Matured Compensated Absences | 15,930 | 0 | 0 | 0 |
| <i>Total Liabilities</i> | 27,999,645 | 2,338,781 | 69,095,750 | 9,218,714 |
| Fund Balances | | | | |
| Reserved for Encumbrances | 2,184,347 | 0 | 23,276,152 | 1,030,750 |
| Reserved for Tax Revenue Unavailable for Appropriation | 910,596 | 128,454 | 0 | 14,392 |
| Reserved for Advances | 1,555,359 | 0 | 0 | 0 |
| Unreserved, Undesignated, Reported in: | | | | |
| General Fund | (2,892,168) | 0 | 0 | 0 |
| Special Revenue Funds | 0 | 0 | 0 | 1,933,661 |
| Debt Service Fund | 0 | 2,085,176 | 0 | 0 |
| Capital Projects Funds | 0 | 0 | 24,592,904 | 1,473,924 |
| <i>Total Fund Balances</i> | <u>1,758,134</u> | <u>2,213,630</u> | <u>47,869,056</u> | <u>4,452,727</u> |
| <i>Total Liabilities and Fund Balances</i> | <u>\$ 29,757,779</u> | <u>\$ 4,552,411</u> | <u>\$ 116,964,806</u> | <u>\$ 13,671,441</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, 2010

| | | |
|--------------------------------|--|-----------------------|
| Total Governmental Funds | Total Governmental Fund Balances | \$ 56,293,547 |
| | <i>Amounts reported for governmental activities in the statement of net assets are different because:</i> | |
| \$ 15,306,928 | Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds. | 106,751,555 |
| 48,630,570 | | |
| 6,863,683 | | |
| 21,175,100 | Other long-term assets are not available to pay for current-period expenditures and therefore, are deferred in the funds. | |
| 1,907 | Grants and Other Revenues | \$ 68,838,942 |
| 498,745 | Delinquent Property Taxes | 1,845,163 |
| 203,383 | Prepaid and Deferred Charges | <u>4,778,002</u> |
| 70,710,762 | | <u>75,462,107</u> |
| 1,555,359 | Bond issuance costs reported as an expenditure in the funds are allocated as an expense over the life of the debt on an accrual basis. | 209,351 |
| <u>\$ 164,946,437</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. | 592,258 |
| \$ 1,314,913 | | |
| 3,607,374 | | |
| 9,027,504 | Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds. | |
| 365,958 | General Obligation Bonds and Notes Payable | 37,630,000 |
| 498,745 | Capital Appreciation Bonds | 4,632,725 |
| 3,306,507 | Bond Premium | 1,186,285 |
| 88,960,600 | Loss on Refunding | (922,195) |
| 1,555,359 | Compensated Absences | 8,348,591 |
| 15,930 | Accrued Interest Payable | 120,612 |
| 108,652,890 | Long Term Intergovernmental Payable | <u>203,925</u> |
| | | <u>(51,199,943)</u> |
| 26,491,249 | | |
| 1,053,442 | Net Assets of Governmental Activities | <u>\$ 188,108,875</u> |
| 1,555,359 | | |
| (2,892,168) | | |
| 1,933,661 | | |
| 2,085,176 | | |
| 26,066,828 | | |
| 56,293,547 | | |
| <u>\$ 164,946,437</u> | | |

See accompanying notes to the basic financial statements.

Lorain City School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2010

| | General | Debt Service | Classroom Facilities | Other Governmental Funds |
|---|---------------|-----------------|-------------------------|--------------------------------|
| Revenues: | | | | |
| Taxes | \$ 16,274,911 | \$ 2,203,307 | \$ 0 | \$ 248,068 |
| Intergovernmental | 66,478,477 | 377,085 | 17,009,409 | 28,388,815 |
| Investment Income | 422,966 | 0 | 411,470 | 8,906 |
| Tuition and Fees | 1,168,453 | 0 | 0 | 197,507 |
| Extracurricular Activities | 0 | 0 | 0 | 240,376 |
| Charges for Services | 96,733 | 0 | 0 | 467,001 |
| Rentals | 71,930 | 0 | 0 | 0 |
| Gifts and Donations | 0 | 0 | 0 | 297,848 |
| Miscellaneous | 706,888 | 0 | 0 | 143,689 |
| <i>Total Revenues</i> | 85,220,358 | 2,580,392 | 17,420,879 | 29,992,210 |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 30,439,573 | 0 | 0 | 11,001,301 |
| Special | 8,155,006 | 0 | 0 | 610,609 |
| Vocational | 3,378,970 | 0 | 0 | 107,390 |
| Student Intervention | 1,421,397 | 0 | 0 | 200,442 |
| Other | 15,966,124 | 0 | 0 | 644,892 |
| Support Services: | | | | |
| Pupils | 2,913,236 | 0 | 0 | 2,003,947 |
| Instructional Staff | 876,221 | 0 | 0 | 6,495,859 |
| Board of Education | 57,755 | 0 | 0 | 0 |
| Administration | 6,890,525 | 0 | 0 | 1,419,237 |
| Fiscal | 1,393,056 | 42,180 | 0 | 495,436 |
| Business | 459,920 | 0 | 0 | 3,487 |
| Operation and Maintenance of Plant | 8,037,002 | 0 | 0 | 898,319 |
| Pupil Transportation | 2,577,585 | 0 | 0 | 131,357 |
| Central | 1,145,692 | 0 | 0 | 214,906 |
| Operation of Non-Instructional Services: | | | | |
| Food Service | 0 | 0 | 0 | 4,382,244 |
| Community Services | 92,849 | 0 | 0 | 1,334,102 |
| Extracurricular Activities | 1,451,948 | 0 | 0 | 394,493 |
| Capital outlay | 49,955 | 0 | 18,737,430 | 394,576 |
| Debt Service: | | | | |
| Principal Retirement | 1,080,000 | 1,225,000 | 0 | 0 |
| Interest and Fiscal Charges | 128,250 | 1,466,445 | 0 | 0 |
| <i>Total Expenditures</i> | 86,515,064 | 2,733,625 | 18,737,430 | 30,732,597 |
| <i>Excess (Deficiency) of Revenues Over (Under) Expenditures</i> | (1,294,706) | (153,233) | (1,316,551) | (740,387) |
| Other Financing Sources (Uses): | | | | |
| Transfers In | 0 | 0 | 0 | 521,416 |
| Transfers Out | (521,416) | 0 | 0 | 0 |
| <i>Total Financing Sources and (Uses)</i> | (521,416) | 0 | 0 | 521,416 |
| <i>Net Change in Fund Balance</i> | (1,816,122) | (153,233) | (1,316,551) | (218,971) |
| <i>Fund Balance (Deficit) at Beginning of Year (Restated, See Note 3)</i> | 3,574,256 | 2,366,863 | 49,185,607 | 4,671,698 |
| <i>Fund Balance (Deficit) at End of Year</i> | \$ 1,758,134 | \$ 2,213,630 | \$ 47,869,056 | \$ 4,452,727 |

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, 2010

| | | |
|--------------------------------|---|-----------------------|
| Total Governmental Funds | Net Change in Fund Balances - Total Governmental Funds | \$ (3,504,877) |
| | <i>Amounts reported for governmental activities in the statement of activities are different because:</i> | |
| \$ 18,726,286 | Governmental funds report capital outlays as expenditures, | |
| 112,253,786 | however, in the statement of activities, the cost of those | |
| 843,342 | assets is allocated over their estimated useful lives as | |
| 1,365,960 | depreciation expense. This is the amount by which | |
| 240,376 | depreciation exceeded capital outlay in the current period. | |
| 563,734 | Capital Asset Additions Less CIP Disposals | \$ 17,697,338 |
| 71,930 | Current Year Depreciation | <u>(2,470,913)</u> |
| 297,848 | | 15,226,425 |
| 850,577 | Net effect of transactions involving sale of capital | |
| | assets are not reflected in the funds. | (443,016) |
| 135,213,839 | Revenues in the statement of activities that do not provide | |
| | current financial resources are not reported as revenues | |
| | in the funds. | |
| | Grants and Other Charges | (18,591,043) |
| 41,440,874 | Delinquent Property Taxes | (248,643) |
| 8,765,615 | Prepaid and Deferred Expenses | <u>657,983</u> |
| 3,486,360 | | (18,181,703) |
| 1,621,839 | Repayment of bond principal is an expenditure in the governmental | |
| 16,611,016 | funds, but the repayment reduces long-term liabilities in the | |
| | statement of net assets. | |
| 4,917,183 | Bond Principal | 2,305,000 |
| 7,372,080 | | |
| 57,755 | In the statement of activities interest is accrued on outstanding | |
| 8,309,762 | bonds, whereas in governmental funds, interest is expensed | |
| 1,930,672 | when due. | 3,184 |
| 463,407 | | |
| 8,935,321 | Some expenses reported in the statement of activities do not | |
| 2,708,942 | use the current financial resources and therefore, are not reported | |
| 1,360,598 | as expenditures in governmental funds. | |
| | Decrease in Compensated Absences | 575,924 |
| 4,382,244 | Bond Accretion | (154,501) |
| 1,426,951 | Amortization of Loss on Refunding | (65,130) |
| 1,846,441 | Amortization of Bond Premium | 83,641 |
| 19,181,961 | Amortization of Bond Issuance Costs | (15,091) |
| | Long Term Intergovernmental Payable | <u>(203,925)</u> |
| 2,305,000 | | 220,918 |
| 1,594,695 | The internal service fund used by management to charge the costs | |
| | of insurance to individual funds is not reported in the district-wide | |
| 138,718,716 | statement of activities. The net revenue (expense) of internal service | |
| | funds is reported with governmental activities. | <u>51,547</u> |
| (3,504,877) | | |
| | Change in Net Assets of Governmental Activities | <u>\$ (4,322,522)</u> |
| 521,416 | | |
| (521,416) | | |
| 0 | | |
| (3,504,877) | | |
| 59,798,424 | | |
| \$ 56,293,547 | | |

See accompanying notes to the basic financial statements.

Lorain City School District
*Statement of Revenues, Expenditures, and Changes in Fund Balance -
 Budget (Non-GAAP Basis) and Actual
 General Fund
 For the Fiscal Year Ended June 30, 2010*

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|--|-------------------|---------------------|---------------------|---|
| | Original | Final | | |
| Revenues: | | | | |
| Taxes | \$ 16,471,552 | \$ 16,517,069 | \$ 16,517,069 | \$ 0 |
| Intergovernmental | 67,557,584 | 66,478,477 | 66,478,477 | 0 |
| Investment Income | 36,144 | 30,724 | 30,724 | 0 |
| Tuition and Fees | 1,580,041 | 1,173,108 | 1,173,108 | 0 |
| Charges for Services | 113,796 | 96,733 | 96,733 | 0 |
| Rentals | 85,785 | 72,922 | 72,922 | 0 |
| Miscellaneous | 755,744 | 647,633 | 647,633 | 0 |
| <i>Total Revenues</i> | <u>86,600,646</u> | <u>85,016,666</u> | <u>85,016,666</u> | <u>0</u> |
| Expenditures: | | | | |
| Current | | | | |
| Instruction | 61,914,740 | 60,197,918 | 60,197,918 | 0 |
| Support Services | | | | |
| Pupils | 2,896,416 | 2,869,947 | 2,869,947 | 0 |
| Instructional Staff | 934,673 | 923,950 | 923,950 | 0 |
| Board of Education | 927,377 | 566,630 | 566,630 | 0 |
| Administration | 6,569,776 | 6,498,883 | 6,498,883 | 0 |
| Fiscal | 3,134,163 | 3,050,182 | 3,050,182 | 0 |
| Business | 492,300 | 487,547 | 487,547 | 0 |
| Operation and Maintenance of Plant | 10,451,325 | 9,580,135 | 9,580,135 | 0 |
| Pupil Transportation | 3,416,443 | 3,081,665 | 3,081,665 | 0 |
| Central | 1,161,446 | 1,145,451 | 1,145,451 | 0 |
| Operation of Non-Instructional Services | 92,348 | 91,519 | 91,519 | 0 |
| Extracurricular Activities | 1,547,516 | 1,478,451 | 1,478,451 | 0 |
| Capital Outlay | 56,151 | 55,201 | 55,201 | 0 |
| <i>Total Expenditures</i> | <u>93,594,674</u> | <u>90,027,479</u> | <u>90,027,479</u> | <u>0</u> |
| Excess of Revenues Over (Under) Expenditures | (6,994,028) | (5,010,813) | (5,010,813) | 0 |
| Other Financing Sources (Uses): | | | | |
| Advances In | 1,200,000 | 1,233,380 | 1,233,380 | 0 |
| Advances Out | (598,486) | (498,745) | (498,745) | 0 |
| Transfers Out | (350,000) | (521,416) | (521,416) | 0 |
| <i>Total Other Financing Sources (Uses)</i> | <u>251,514</u> | <u>213,219</u> | <u>213,219</u> | <u>0</u> |
| <i>Change in Fund Balance</i> | (6,742,514) | (4,797,594) | (4,797,594) | 0 |
| <i>Fund Balance (Deficit) at Beginning of Year</i> | 3,961,343 | 3,961,343 | 3,961,343 | 0 |
| Prior Year Encumbrances Appropriated | 2,800,318 | 2,800,318 | 2,800,318 | 0 |
| <i>Fund Balance (Deficit) at End of Year</i> | <u>\$ 19,147</u> | <u>\$ 1,964,067</u> | <u>\$ 1,964,067</u> | <u>\$ 0</u> |

See accompanying notes to the basic financial statements.

Lorain City School District
Statement of Fund Net Assets
Proprietary Funds
June 30, 2010

| | | Governmental Activities Internal Service Fund |
|--|----|--|
| | | Fund |
| Assets | | |
| Current Assets: | | |
| Equity in Pooled Cash and Cash Equivalents | \$ | 1,398,892 |
| In Segregated Accounts | | 381,685 |
| Investments | | |
| In Segregated Accounts | | 506,797 |
| Receivables: | | |
| Accounts | | 27,128 |
| Prepaid Items | | 76,871 |
| | | 76,871 |
| <i>Total Current Assets</i> | | 2,391,373 |
| Liabilities | | |
| Current Liabilities: | | |
| Accounts Payable | | 27,058 |
| Intergovernmental Payable | | 402,539 |
| Claims Payable | | 1,168,530 |
| Cost Sharing Payable | | 200,988 |
| | | 200,988 |
| <i>Total Current Liabilities</i> | | 1,799,115 |
| Net Assets | | |
| Unrestricted | | 592,258 |
| <i>Total Net Assets</i> | \$ | 592,258 |

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, 2010

| | Governmental Activities Internal Service Fund |
|--|--|
| Operating Revenues: | |
| Charges for Services | \$ 8,822,729 |
| Other Operating Revenues | 138 |
| | 8,822,867 |
| <i>Total Operating Revenues</i> | <i>8,822,867</i> |
| Operating Expenses: | |
| Fringe Benefits | 531,964 |
| Purchased Services | 762,517 |
| Claims | 7,482,122 |
| | 8,776,603 |
| <i>Total Operating Expenses</i> | <i>8,776,603</i> |
| Operating Income (Loss) | 46,264 |
| Non-Operating Revenues (Expenses): | |
| Interest | 5,283 |
| | 5,283 |
| <i>Total Non-Operating Revenues (Expenses)</i> | <i>5,283</i> |
| <i>Change in Net Assets</i> | <i>51,547</i> |
| <i>Net Assets (Deficit) Beginning of Year</i> | <i>540,711</i> |
| <i>Net Assets (Deficit) End of Year</i> | <i>\$ 592,258</i> |

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, 2010

| | Governmental Activities Internal Service Fund |
|---|--|
| Cash Flows From Operating Activities: | |
| Cash Received from Interfund Services | \$ 9,040,028 |
| Cash Paid for Goods and Services | (1,101,104) |
| Cash Paid for Claims | (7,642,501) |
| | 296,423 |
| <i>Net Cash Provided By (Used For) Operating Activities</i> | |
| Cash Flows From Investing Activities: | |
| Interest on Investments | 5,283 |
| Redemption of Investments | (88,453) |
| | (83,170) |
| <i>Net Cash Provided By (Used For) Investing Activities</i> | |
| <i>Net Increase (Decrease) in Cash and Cash Equivalents</i> | |
| | 213,253 |
| <i>Cash and Cash Equivalents at Beginning of Year</i> | |
| | 1,567,324 |
| <i>Cash and Cash Equivalents at End of Year</i> | |
| | \$ 1,780,577 |
| Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities: | |
| Operating Income (Loss) | \$ 46,264 |
| Adjustments: | |
| (Increase) Decrease Assets | |
| Accounts Receivable | 217,161 |
| Prepaid Items | (19,741) |
| Increase (Decrease) in Liabilities | |
| Accounts Payable | 4,893 |
| Due to Other Governments | 111,703 |
| Claims Payable | (160,379) |
| Cost Sharing Payable | 96,522 |
| | 250,159 |
| <i>Total Adjustments</i> | |
| <i>Net Cash Provided By (Used For) Operating Activities</i> | |
| | \$ 296,423 |

See accompanying notes to the basic financial statements.

Lorain City School District
Statement of Fiduciary Assets and Liabilities
Fiduciary Funds
June 30, 2010

| | <u>Agency</u> |
|--|------------------|
| Assets | |
| Equity in Pooled Cash and Cash Equivalents | \$ 97,210 |
| Liabilities | |
| Undistributed Monies | \$ 56,301 |
| Due to Students | 40,909 |
| <i>Total Liabilities</i> | <u>\$ 97,210</u> |

See accompanying notes to the basic financial statements.

Lorain City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Note 1 - Description of the School District

The Lorain City School District (the School District) was established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The School District is a city school district as defined by Section 3311.02 of the Ohio Revised Code. The School District operates under an elected Board of Education consisting of five members and is responsible for providing public education to residents of the School District. The School District employs 650 certificated and 311 non-certificated employees.

Reporting Entity

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

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

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and, 1) the School District is able to significantly influence the programs or services performed or provided by the organization; or 2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of or provided financial support to the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes.

Blended component units, although legally separate entities are, in substance, part of the School District's operations and so data from these units are combined with data of the School District. The School District's blended component unit is described below:

Jointly Administered Trust Fund for the Benefit of Lorain City School District Employees (the Trust)-

The Trust was established in 1994 to provide health care benefits to the employees of the Lorain City School District. The Trust is directed by a twelve member Board of Trustees, eight members appointed by the School District's Superintendent and four members appointed by the Lorain Education Association. Although the Trust is legally separate from the School District, it should be reported as if it were part of the primary government because its sole purpose is to provide benefits to School District employees for hospitalization, medical, dental, vision and prescription drugs as provided for in the collective bargaining agreement. The School District's participation is disclosed in Note 10 to the financial statements.

Lorain City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Financial information for the Trust's year ended December 31, 2009, is presented in these financial statements as an Internal Service Fund. Complete financial statements for the Trust may be obtained by contacting the Plan Administrator at 10045 College Park, Concord, Ohio 44060.

Discretely presented component units are legally separate entities which have a governing board appointed by the School District. The School District has one discretely presented component unit, Lorain K-12 Digital Academy, which is on the governmental financial statements. See Note 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 applies generally accepted accounting principles that were issued prior to November 30, 1989 by the Financial Accounting Standards Board ("FASB") to its governmental and proprietary funds provided they do not conflict with or contradict GASB pronouncements. The FASB has codified its standards and the standards issued prior to November 30, 1989 are included in the codification.

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

A. Basis of Presentation

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

Lorain City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

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

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

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

B. Fund Accounting

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

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

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

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

Lorain City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

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

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

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

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

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

C. Measurement Focus

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

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

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.

Lorain City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

D. Basis of Accounting

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

Revenues - Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within sixty days of the fiscal year-end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (See Note 7) Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2010, but which were levied to finance fiscal year 2011 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

Lorain City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

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

E. Cash and Cash Investments

Cash received by the School District is deposited in one central bank account with individual fund balance integrity maintained through School District records. Monies for all funds are maintained in this account or other short term investments. Under existing Ohio statutes, interest earnings are allocated to funds based on average monthly cash balances. Interest revenue credited to the general fund during fiscal year 2010 amounted to \$422,966, which includes \$187,118 assigned from other School District funds.

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

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

Except for investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase, investments are reported at fair value, which is based on quoted market prices. Investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase are reported at cost or amortized cost.

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

F. Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets may include amounts required by statute to be set-aside for the purchase of textbooks and other instructional material and to create a reserve for 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 fair market value and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The School

Lorain City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

District maintains a capitalization threshold of five thousand dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets except land and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

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

H. Interfund Balances

On fund financial statements, long-term interfund loans are classified as “advances to/from other funds”. On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental column of the statement of net assets. Advances in/out are reported for interfund loans that may not be repaid within the next year.

I. Prepaid and Deferred Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid assets in both government-wide and fund financial statements. These amounts are reflected as an expenditure/expense in the year in which the services are consumed.

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

J. Compensated Absences

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

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

Lorain City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

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

In governmental funds, the liability for unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the account “matured compensated absences” in the fund from which the employees who have accumulated unpaid leave is paid.

K. Accrued Liabilities and Long-term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

L. Net Assets

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

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

M. Fund Balance Reserves

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

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

N. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a

Lorain City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

O. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2010.

P. Operating Revenues and Expenses

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

Q. Estimates

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

R. Budgetary Data

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

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

Estimated Resources The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the School District by March 1. As part of the certification, the School District receives the official certificate of estimated resources which states the projected revenue of each fund type. Prior to June 30, the School District must revise its budget ensuring that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of

Lorain City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

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 2010.

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

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

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

S. Changes in Accounting Principles

For the year ended June 30, 2010, the School District has implemented GASB Statement No. 51, “*Accounting and Financial Reporting for Intangible Assets*,” GASB Statement No. 53, “*Accounting and Financial Reporting for Derivative Instruments*,” and GASB Statement No. 58, “*Accounting and Financial Reporting for Chapter 9 Bankruptcies*.”

GASB Statement No. 51 establishes standards of accounting and financial reporting for intangible assets for all state and local governments. Inconsistencies in the accounting and financial reporting for intangible assets, particularly in the areas of recognition, initial measurement, and amortization, have occurred in practice due to the absence of sufficiently specific authoritative guidance that addresses these questions. The objective of this Statement is to establish accounting and financial reporting requirements for intangible

Lorain City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

assets to reduce these inconsistencies, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments.

GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments.

GASB Statement No. 58 provides accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code.

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

Note 3 – Fund Balance/Net Assets Restatement

A. Fund Balance

At the beginning of fiscal year 2010, funding for the poverty based assistance fund was stopped and the fiscal year 2009 accrued expenses were paid from the general fund. The following is the result of reclassifying the accruals:

| | General Fund | Other Governmental Funds |
|------------------------------------|-----------------|--------------------------------|
| Fund Balance June 30, 2009 | \$ 4,763,288 | \$ 3,482,666 |
| Reclassification of Liabilities | (1,189,032) | 1,189,032 |
| Restated Fund Balance July 1, 2009 | \$ 3,574,256 | \$ 4,671,698 |

B. Net Assets

During fiscal year 2010, the School District had a valuation of capital assets performed by a professional appraisal company. The change in estimated values resulted in a restatement to beginning net assets as follows:

| | Governmental Activities |
|------------------------------------|----------------------------|
| Fund Balance June 30, 2009 | \$ 187,654,188 |
| Adjustment to capital assets | 4,777,209 |
| Restated Fund Balance July 1, 2009 | \$ 192,431,397 |

Lorain City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

C. Component Unit

In prior years, Lorain Elementary Digital Academy was included as a component unit of the Lorain City School District, however, the School District suspended operations in December, 2007. This resulted in the component unit's financial statement being restated for fiscal year 2008. The Lorain City School District's financial statement reported this restatement in error, thus the current year's financial statement has been restated from \$420,217 to \$438,556.

Note 4 – Fund Deficits

Fund balances at June 30, 2010, included the following individual fund deficits:

| | <u>Deficit Fund Balance</u> |
|------------------------------|-------------------------------------|
| NonMajor Governmental Funds: | |
| Food Service | \$ 653,128 |
| Rotary | 204,315 |
| EMIS | 6,406 |
| Public Preschool | 23,205 |
| Vocational | 12,122 |
| Fiscal Stabilization | 145,702 |
| Title III | 6,635 |
| Preschool Grant | 8,854 |
| Building Fund | 916,000 |

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

Note 5 - Budgetary Basis of Accounting

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

1. Revenues and other sources are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures/expenses and other uses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).

Lorain City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).
4. Advances In and Advances Out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).

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

Net Change in Fund Balance

| | General |
|---|----------------|
| GAAP Basis | \$ (1,816,122) |
| Net Adjustment for Revenue Accruals | (203,692) |
| Advance In | 1,233,380 |
| Advance Out | (498,745) |
| Net Adjustment for Expenditure Accruals | (140,137) |
| Adjustment for Encumbrances | (3,372,278) |
| Budget Basis | \$ (4,797,594) |

Note 6 - Deposits and Investments

State statutes classify monies held by the School District into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the School District treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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

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

Protection of School District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Lorain City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Interim monies to be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Custodial credit risk for deposits is the risk that in the event of bank failure, the government's deposits may not be returned to it. Protection of the School District cash and deposits is provided by the Federal Deposit Insurance Corporation, as well as qualified securities pledged by the institution holding the assets. By law, financial institutions must collateralize all uninsured public deposits. The face value of the pooled collateral

Lorain City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

must equal at least 105 percent of uninsured public funds deposited. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

Custodial credit risk for an investment is the risk that in the event of failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District's \$15,440,000 investment in repurchase agreements is to be secured by the specific government securities upon which the repurchase agreements are based. These securities, held by the counterparty and not in the School District's name, must be obligations of or guaranteed by the United States and mature or be redeemable within five years of the date of the related repurchase agreement. Ohio law requires the market value of the securities subject to repurchase agreements must exceed the principal value of the securities subject to a repurchase agreement by 2%. The School District's policy is to invest money with financial institutions that are able to abide by the laws governing insurance and collateral of public funds.

Cash on Hand: At year end, the School District had \$500 in undeposited cash on hand which is included on the balance sheet of the School District as part of equity in pooled cash and cash equivalents.

Deposits At fiscal year-end, the carrying amount of the School District's deposits was \$54,220,528 and the bank balance was \$52,394,836. Of the bank balance:

1. \$1,690,657 of the bank balance was covered by depository insurance; and
2. \$50,704,179 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

Investments are reported at fair value. As of June 30, 2010, the district had the following investments:

| Standard & Poor's | Investment | Fair Value | Investment Maturities (in years) | | % Total Investments |
|-------------------|------------------------|---------------------|-------------------------------------|---------------------|---------------------|
| | | | less than 1 | 1 - 2 | |
| N/A * | Repurchase Agreement | \$15,440,000 | \$ 15,440,000 | \$ 0 | 81.4% |
| AAA | Federal Home Loan Bank | 3,017,940 | 2,013,620 | 1,004,320 | 15.9% |
| AAA | Treasury Notes | 506,797 | 506,797 | 0 | 2.7% |
| | | <u>\$18,964,737</u> | <u>\$ 17,960,417</u> | <u>\$ 1,004,320</u> | <u>100.0%</u> |

* Underlying securities exempt

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

Lorain City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Credit Risk: The School District's investments credit ratings are summarized above. The School District's investments in the federal agency securities that underlie the School District's repurchase agreement were rated Aaa by Moody's Investor Services.

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

Note 7 - Property Taxes

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

Property taxes include amounts levied against all real and public utility property located in the School District. Property tax revenue received during calendar 2010 for real and public utility property taxes represents collections of calendar 2009 taxes.

2010 real property taxes are levied after April 1, 2010, on the assessed value listed as of the prior January 1, the lien date. Assessed values are established by State law at 35 percent of appraised market value.

Public utility property tax revenue received in calendar 2010 represents collections of calendar year 2009 taxes. Public utility real property taxes received in calendar year 2010 became a lien December 31, 2008, were levied after April 1, 2009 and are collected in 2010 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenues received in calendar year 2010 (other than public utility property) represent the collection of calendar year 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, and furniture and fixtures is no longer levied and collected. The October 2008 tangible personal property tax settlement was the last property tax settlement for general personal property taxes. Tangible personal property taxes received from telephone companies in calendar year 2010 were levied after October 1, 2009, on the value as of December 31, 2009. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

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

Lorain City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

The property valuation consisted of:

| | 2009 Second Half Collections | | 2010 First Half Collections | |
|--|---|----------------|--|----------------|
| | Amount | % | Amount | % |
| Real Estate | | | | |
| Residential/Agricultural | \$ 585,881,699 | 81.73% | \$ 529,367,861 | 80.38% |
| Commercial/Industrial | 118,685,200 | 16.56% | 117,398,400 | 17.82% |
| Tangible Personal Property | | | | |
| Public Utilities | 11,219,930 | 1.57% | 11,874,652 | 1.80% |
| Personal Property | 934,715 | 0.14% | 0 | 0.00% |
| | \$ 716,721,544 | 100.00% | \$ 658,640,913 | 100.00% |
| Tax Rate per \$1,000 of Assessed Valuation | 59.68 | | 59.57 | |

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, 2010, are available to finance fiscal year 2011 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, 2010 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, 2010, was \$1,053,442 and is recognized as revenue. \$910,596 was available to the general fund and \$128,454 was available to the bond retirement debt service fund and \$14,392 was available to the classroom facilities maintenance fund.

Lorain City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Note 8 - Receivables

Receivables at June 30, 2010, consisted of taxes, accounts (student fees), interfund, accrued interest and intergovernmental grants and excess costs. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. Intergovernmental receivables consisted of excess costs receivable in general fund of \$31,423, classroom facilities grant money of \$65,122,418 in the classroom facilities fund, \$5,380,869 of grants receivable in special revenue funds and miscellaneous receivables of \$144,407 in the general fund and \$31,645 in other governmental funds.

Note 9 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

| | Restated Balance 6/30/09 | Additions | Reductions | Balance 6/30/10 |
|---|--------------------------------|----------------------|-----------------------|-----------------------|
| Governmental Activities | | | | |
| <i>Capital Assets, not being depreciated:</i> | | | | |
| Land | \$ 4,620,419 | \$ 1,195,150 | \$ 0 | \$ 5,815,569 |
| Construction in Progress | 7,170,163 | 17,465,106 | (1,085,775) | 23,549,494 |
| Total Capital Assets, not being depreciated | <u>11,790,582</u> | <u>18,660,256</u> | <u>(1,085,775)</u> | <u>29,365,063</u> |
| <i>Capital Assets, being depreciated:</i> | | | | |
| Land Improvements | 2,591,552 | 15,675 | (1,718,040) | 889,187 |
| Buildings and Improvements | 96,834,351 | 0 | (2,453,602) | 94,380,749 |
| Furniture and Equipment | 3,582,905 | 79,251 | 0 | 3,662,156 |
| Vehicles | 427,460 | 27,931 | 0 | 455,391 |
| Textbooks | 4,722,608 | 0 | 0 | 4,722,608 |
| Total Capital Assets, being depreciated | <u>108,158,876</u> | <u>122,857</u> | <u>(4,171,642)</u> | <u>104,110,091</u> |
| Less Accumulated Depreciation: | | | | |
| Land Improvements | (2,509,559) | (36,455) | 1,718,040 | (827,974) |
| Buildings and Improvements | (19,331,799) | (1,858,369) | 2,010,586 | (19,179,582) |
| Furniture and Equipment | (2,030,693) | (221,735) | 0 | (2,252,428) |
| Vehicles | (321,816) | (23,207) | 0 | (345,023) |
| Textbooks | (3,787,445) | (331,147) | 0 | (4,118,592) |
| Total Accumulated Depreciation | <u>(27,981,312)</u> | <u>(2,470,913)</u> | <u>3,728,626</u> | <u>(26,723,599)</u> |
| Total Capital Assets being depreciated, net | <u>80,177,564</u> | <u>(2,348,056)</u> | <u>(443,016)</u> | <u>77,386,492</u> |
| Governmental Activities Capital Assets, Net | <u>\$ 91,968,146</u> | <u>\$ 16,312,200</u> | <u>\$ (1,528,791)</u> | <u>\$ 106,751,555</u> |

Lorain City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Depreciation expense was charged to governmental functions as follows:

| | |
|---|--------------------------------|
| Instruction: | |
| Regular | \$ 2,080,491 |
| Special | 1,024 |
| Vocational | 11,117 |
| Support Services: | |
| Pupil | 2,069 |
| Instructional Staff | 274,245 |
| Administration | 11,879 |
| Business | 5,541 |
| Operation and Maintenance of Plant | 22,330 |
| Pupil Transportaion | 13,219 |
| Food Service Operations | 19,832 |
| Operation of Non-Instructional Services | 2,786 |
| Extracurricular Activities | <u>26,380</u> |
| Total Governmental Activities | <u><u>\$ 2,470,913</u></u> |

Note 10 - Risk Management

A. Property and Liability

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

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

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

B. Workers' Compensation

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

The School District pays 30 percent discounted premiums to the BWC for 10 years and incurs the liability dollar-to-dollar on all claim costs. Estimated premiums for 2010 are \$274,292. The School District will only pay 30 percent of the premium and all claims expenses. The firm of CompManagement, Inc. provides administrative, cost control services, and is the third party administrator of the School District.

Lorain City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

C. Health Insurance

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

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

The claims liability of \$1,168,530 at June 30, 2010, 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 |
|------|----------------------|--------------------|----------------|-------------------|
| 2009 | \$ 854,165 | \$7,565,934 | \$(7,091,190) | \$ 1,328,909 |
| 2010 | \$1,328,909 | \$7,482,122 | \$(7,642,501) | \$ 1,168,530 |

Note 11 - Compensated Absences

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

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

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

Lorain City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Note 12 - Defined Benefit Pension Plans

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under *Employers/Audit Resources*.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2010 12.78 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2009 the amount was 9.09 percent and for fiscal year 2008 the amount was 9.16 percent. The contributions to SERS for pension obligations for the fiscal years ended June 30, 2010, 2009, and 2008 were \$1,705,288, \$1,048,924 and \$1,141,519, respectively; 50 percent has been contributed for fiscal year 2010 and 100 percent for the fiscal years 2009 and 2008. \$928,878 represents the unpaid contribution for fiscal year 2010, and is recorded as a liability within the respective funds.

B. State Teachers Retirement System

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to allocate their member contributions and employer contributions equal to 10.5 percent of earned compensation among various investment accounts. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the DB Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Benefits are established by Chapter 3307 of the Ohio Revised Code.

Lorain City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

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

For the fiscal year ended June 30, 2010, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2009, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2010, 2009, and 2008 were \$6,332,081, \$5,500,055 and \$5,120,487, respectively. 85 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008. \$1,013,844 represents the unpaid contribution for fiscal year 2010, and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal year 2010 were \$131,116 made by the School District and \$93,654 made by the plan members.

Note 13 - Postemployment Benefits

A. School Employees Retirement System

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

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 401(h). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund. At June 30, 2010, the health care allocation was .76 percent, at June 30, 2009 and 2008, the health care allocations were 4.16 percent and 4.18 percent, respectively. The School District's contributions for the years ended June 30, 2010, 2009 and 2008 were \$61,380, \$480,036 and \$520,912, respectively; 50 percent has been contributed for 2010 and 100 percent has been contributed for 2009 and 2008.

An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered

Lorain City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

payroll for the health care surcharge. For fiscal year 2010, the minimum compensation level was established at \$35,800. For the School District during fiscal year 2010 this amounted to \$189,000.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2010, the actuarially required allocation was .76 percent. The actuarially required allocation for fiscal years 2009 and 2008 was .75 percent and .66 percent, respectively. The School District contributions for the fiscal years 2010, 2009 and 2008 were \$101,410, \$86,545 and \$82,249, respectively; 50 percent has been contributed for 2010 and 100 percent has been contributed for 2009 and 2008.

B. State Teachers Retirement System

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

Ohio law authorized STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14 percent employer contribution rate, 1 percent of covered payroll was allocated to Health Care Stabilization Fund for the years ended June 30, 2010, 2009 and 2008. The School District's contributions for health care for fiscal years ended June 30, 2010, 2009 and 2008 were \$468,352, \$424,583 and \$395,091, respectively; 85 percent has been contributed for 2010 and 100 percent has been contributed for 2009 and 2008.

This space intentionally left blank

Lorain City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Note 14 - Long - Term Obligations

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

| | Outstanding 6/30/09 | Additions | Reductions | Outstanding 6/30/10 | Amounts Due in One Year |
|--|------------------------|---------------------|---------------------|------------------------|-------------------------------|
| Governmental Activities: | | | | | |
| <i>Notes Payable:</i> | | | | | |
| 2006 Tax Anticipation Notes | | | | | |
| 4.75% though 2011 | \$ 3,240,000 | \$ 0 | \$ 1,080,000 | \$ 2,160,000 | \$ 1,080,000 |
| Total | <u>3,240,000</u> | <u>0</u> | <u>1,080,000</u> | <u>2,160,000</u> | <u>1,080,000</u> |
| <i>Qualified Zone Academy Bonds:</i> | | | | | |
| Due 2011 | <u>5,400,000</u> | <u>0</u> | <u>0</u> | <u>5,400,000</u> | <u>0</u> |
| <i>General Obligation Bonds Payable:</i> | | | | | |
| 2003 Classroom Facilities Bonds | | | | | |
| 1.45%-5.25% through 2025 | 18,415,000 | 0 | 1,190,000 | 17,225,000 | 1,275,000 |
| Capital Appreciation Bonds | 3,623,976 | 0 | 0 | 3,623,976 | 0 |
| Accretion on CABs | 742,901 | 127,094 | 0 | 869,995 | 0 |
| 2006 Classroom Facilities Bonds Refunding | | | | | |
| 3.50%-4.25% through 2020 | 4,020,000 | 0 | 35,000 | 3,985,000 | 40,000 |
| Capital Appreciation Bonds | 64,995 | 0 | 0 | 64,995 | 0 |
| Accretion on CABs | 46,352 | 27,407 | 0 | 73,759 | 0 |
| Premium on Debt Issuance | 364,733 | 0 | 30,394 | 334,339 | 0 |
| Refunding Loss | (287,698) | 0 | (23,975) | (263,723) | 0 |
| 2007 Classroom Facilities Bonds Refunding | | | | | |
| 4.00%-5.50% through 2025 | 8,860,000 | 0 | 0 | 8,860,000 | 0 |
| Premium on Debt Issuance | 905,193 | 0 | 53,247 | 851,946 | 0 |
| Refunding Loss | (699,627) | 0 | (41,155) | (658,472) | 0 |
| Total | <u>36,055,825</u> | <u>154,501</u> | <u>1,243,511</u> | <u>34,966,815</u> | <u>1,315,000</u> |
| CAFS Overpayment Payable | 0 | 305,887 | 101,962 | 203,925 | 101,962 |
| Compensated Absences | <u>8,924,515</u> | <u>1,199,327</u> | <u>1,775,251</u> | <u>8,348,591</u> | <u>2,318,548</u> |
| Total Governmental Activities Long-Term Liabilities | <u>\$ 53,620,340</u> | <u>\$ 1,659,715</u> | <u>\$ 4,200,724</u> | <u>\$ 51,079,331</u> | <u>\$ 4,815,510</u> |

In 2003, the School District issued \$41,094,096 in general obligation bonds for renovation, construction, and equipping school facilities. These bonds were partially refunded in fiscal year 2007. This issue included three capital appreciation bonds that mature December 1, 2013, 2014 and 2015. These bonds were purchased at a substantial discount at the time of issuance. At maturity all compounded interest is paid and the bond holder receives the face value of the bonds. As the value of the bonds increase, the accretion is reflected as principal liability. The maturity amount of the bonds are \$1,650,000, \$1,705,000 and \$1,760,000 and 580,000, respectively. For fiscal year 2010, \$127,094 was accreted to update the liability to \$4,493,971 at June 30, 2010.

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

Lorain City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

interest in the escrow account until the \$5,400,000 bonds mature in June 2018. As of June 30, 2010, the School District has the following payment due:

| <u>Fiscal Year</u> <u>Ending June 30,</u> | <u>Principal</u> |
|--|-------------------|
| 2011 | <u>\$ 400,000</u> |

In 2006, the School District issued a tax anticipation note in the amount of \$5,400,000 at 4.75 percent, maturing December 1, 2011.

2006 School Improvement Refunding Bonds

On December 21, 2006, the School District issued \$4,169,995 refunded general obligation bonds. The proceeds of the bonds were used to refund \$4,169,995 of the School District's outstanding Capital Improvement Bonds, Series 2003. The bonds were issued for a 14 year period with final maturity at December 1, 2020. At the date of the refunding, \$4,595,516 (including premium and after underwriting fees) was deposited in an irrevocable trust to provide for all future payments on the refunded bonds. As of June 30, 2010, \$4,169,995 of these bonds are considered defeased.

These refunding bonds were issued with a premium of \$425,521, which is reported as an increase to bonds payable. The amounts are being amortized to interest expenses over the life of the bonds using the straight-line method. There was amortization of \$30,394 recorded for June 30, 2010. The issuance costs have been reported as an expenditure. The issuance resulted in a difference between the cash flows required to service the old debt and the cash flows required to service the new debt of \$335,648. The issuance resulted in an economic gain of \$122,127.

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

The capital appreciation bond matures December 1, 2016. This bond was purchased at a substantial discount at the time of issuance. At maturity all compounded interest is paid and the bond holder receives the face value of the bond. As the value of the bond increases, the accretion is reflected as principal liability. The maturity amount of the bonds is \$580,000. For fiscal year 2010, \$27,407 was accreted for a liability of \$138,754.

2007 School Improvement Refunding Bonds

On March 6, 2007, the School District issued \$8,985,000 refunded general obligation bonds. The proceeds of the bonds were used to refund \$9,050,000 of the School District's outstanding Capital Improvement Bonds, Series 2003. The bonds were issued for a 18 year period with final maturity at December 1, 2025. At the date of the refunding, \$9,996,687 (including premium and after underwriting fees) was deposited in an irrevocable trust to provide for all future payments on the refunded bonds. As of June 30, 2010, \$9,050,000 of these bonds are considered defeased.

Lorain City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

These refunding bonds were issued with a premium of \$1,011,687, which is reported as an increase to bonds payable. The amounts are being amortized to interest expenses over the life of the bonds using the straight-line method. There was amortization of \$53,247 recorded for June 30, 2010. The issuance costs have been reported as an expenditure. The issuance resulted in a difference between the cash flows required to service the old debt and the cash flows required to service the new debt of \$781,937. The issuance resulted in an economic gain of \$317,942.

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

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

Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2010, are as follows:

| Fiscal Year Ending June 30, | General Obligation Bonds | | Capital Appreciation Bonds | | Total | |
|--------------------------------|--------------------------|----------------------|----------------------------|---------------------|----------------------|----------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2011 | \$ 1,315,000 | \$ 1,414,669 | \$ 0 | \$ 0 | \$ 1,315,000 | \$ 1,414,669 |
| 2012 | 1,435,000 | 1,346,319 | 0 | 0 | 1,435,000 | 1,346,319 |
| 2013 | 1,560,000 | 1,271,869 | 0 | 0 | 1,560,000 | 1,271,869 |
| 2014 | 45,000 | 1,232,222 | 1,203,427 | 446,573 | 1,248,427 | 1,678,795 |
| 2015 | 50,000 | 1,230,381 | 1,208,402 | 496,598 | 1,258,402 | 1,726,979 |
| 2016 - 2020 | 7,645,000 | 5,409,520 | 1,277,142 | 1,062,858 | 8,922,142 | 6,472,378 |
| 2021 - 2025 | 14,490,000 | 2,553,962 | 0 | 0 | 14,490,000 | 2,553,962 |
| 2026 | 3,530,000 | 74,575 | 0 | 0 | 3,530,000 | 74,575 |
| Totals | <u>\$ 30,070,000</u> | <u>\$ 14,533,517</u> | <u>\$ 3,688,971</u> | <u>\$ 2,006,029</u> | <u>\$ 33,758,971</u> | <u>\$ 16,539,546</u> |

Principal and interest requirements to retire the note payable at June 30, 2010 are as follows:

| Fiscal Year Ending June 30, | Tax Anticipation Note | | |
|--------------------------------|-----------------------|-------------------|---------------------|
| | Principal | Interest | Total |
| 2011 | \$ 1,080,000 | \$ 76,950 | \$ 1,156,950 |
| 2012 | 1,080,000 | 25,650 | 1,105,650 |
| Totals | <u>\$ 2,160,000</u> | <u>\$ 102,600</u> | <u>\$ 2,262,600</u> |

Lorain City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Note 15 - Deferred Revenue

Deferred revenue at June 30, 2010, consisted of the following:

| | Statement of Net Assets | Balance Sheet |
|---------------------------|----------------------------|------------------|
| Property Taxes Receivable | \$ 18,276,495 | \$ 20,121,658 |
| Grants Receivable | 0 | 68,807,519 |
| Excess Costs Receivable | 0 | 31,423 |
| | \$ 18,276,495 | \$ 88,960,600 |
| Deferred Revenue | \$ 18,276,495 | \$ 88,960,600 |

Note 16 - Interfund Transfers

Transfers for the year ended June 30, 2010 consisted of the following:

| | Transfers In | Transfers Out |
|-----------------------------|-----------------|------------------|
| General Fund | \$ 0 | \$ 521,416 |
| Nonmajor Governmental Funds | 521,416 | 0 |
| | \$ 521,416 | \$ 521,416 |
| | \$ 521,416 | \$ 521,416 |

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

Note 17 - Interfund Balances

Interfund balances at June 30, 2010 consisted of the following:

| | Interfund Receivable | Interfund Payable |
|-----------------------------|-------------------------|----------------------|
| General Fund | \$ 498,745 | \$ 0 |
| Nonmajor Governmental Funds | 0 | 498,745 |
| | \$ 498,745 | \$ 498,745 |
| Total | \$ 498,745 | \$ 498,745 |

Lorain City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

The general fund advanced monies to nonmajor governmental funds to cover expenditures until expected revenues were received. All interfund loans will be repaid in fiscal year 2011 with monies to be received from reimbursable expenditures incurred during fiscal year 2010.

Advances to/from other funds as of June 30, 2010 consisted of the following:

| | Advances to Other Funds | Advances from Other Funds |
|-----------------------------|----------------------------|------------------------------|
| General Fund | \$ 1,555,359 | \$ 0 |
| Nonmajor Governmental Funds | 0 | 1,555,359 |
| | \$ 1,555,359 | \$ 1,555,359 |

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

Note 18 - Contractual Commitments

As of June 30, 2010, the School District had contractual commitments for the following:

| | Contractual Commitment | Expended | Balance 6/30/2010 |
|------------------------|---------------------------|---------------|----------------------|
| Lincoln Elementary | \$ 6,895,908 | \$ 6,772,771 | \$ 123,137 |
| Hawthorne Elementary | 6,998,173 | 6,844,334 | 153,839 |
| Irving Elementary | 4,172,000 | 111,970 | 4,060,030 |
| Whittier Middle School | 9,859,684 | 1,283,773 | 8,575,911 |
| | \$ 27,925,765 | \$ 15,012,848 | \$ 12,912,917 |

Note 19 - Jointly Governed Organizations

A. Lake Erie Educational Computer Association

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

Lorain City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

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, 2010, the School District paid \$191,246 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.

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, 2010 the School District paid \$600 to LERC.

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, 2010.

Note 21 - Set-Asides

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years.

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

Lorain City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

| | Capital Improvement Reserve | Textbook Instructional Materials Reserve |
|---|-----------------------------------|---|
| Set-Aside Cash Balance as of June 30, 2009 | \$ 0 | \$ 0 |
| Set-Aside Carryover Balance as of June 30, 2009 | 0 | (920,897) |
| Current Year Set-Aside Requirement | 1,439,374 | 1,439,374 |
| Qualifying Disbursements | (295,148) | (1,006,839) |
| Current Year Offset | (1,144,226) | 0 |
| Total | \$ 0 | \$ (488,362) |
| Balance Carried Forward to Fiscal Year 2011 | \$ 0 | \$ (488,362) |

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

Note 22 – Lorain K-12 Digital Academy

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

A. Basis of Presentation

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

B. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

| | Balance 6/30/09 | Additions | Disposals | Balance 6/30/2010 |
|---|--------------------|-------------|------------|----------------------|
| <i>Capital Assets Being Depreciated</i> | | | | |
| Improvements | \$ 14,000 | \$ 0 | \$ 0 | \$ 14,000 |
| Furniture and Equipment | 447,151 | 0 | (17,162) | 429,989 |
| | 461,151 | 0 | (17,162) | 443,989 |
| <i>Accumulated Depreciation</i> | | | | |
| Improvements | (2,464) | (933) | 0 | (3,397) |
| Furniture and Equipment | (333,935) | (65,909) | 12,454 | (387,390) |
| | (336,399) | (66,842) | 12,454 | (390,787) |
| Capital Assets, Net | \$ 124,752 | \$ (66,842) | \$ (4,708) | \$ 53,202 |



Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

Focused on Your Future.

December 22, 2010

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

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

We have audited the financial statements of the governmental activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the Lorain City School District (the School District) as of and for the year ended June 30, 2010, which collectively comprise the School District's basic financial statements and have issued our report thereon dated December 22, 2010, in which we noted the financial statement for the Jointly Administered Trust Fund for the Benefit of Lorain City School District Employees was audited by another auditor. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings that we consider to be a significant deficiency in internal control over financial reporting: 2010-001. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

We also noted certain matters that we have reported to management of the School District in a separate letter dated December 22, 2010.

The School District's response to the finding identified in our audit is described in the accompanying Schedule of Findings. We did not audit the School District's response and, accordingly, we express no opinion on it.

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

Rea & Associates, Inc.



Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

Focused on Your Future.

December 22, 2010

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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Compliance

We have audited the compliance of Lorain City School District (the School District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. The School District's major federal programs are identified in the summary of auditor's results section of the accompanying *Schedule of Findings*. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of School District's management. Our responsibility is to express an opinion on 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 the School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School District's compliance with those requirements.

In our opinion, Lorain City School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

Internal Control over Compliance

Management of the School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over compliance.

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

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

This report is intended solely for the information and use 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, 2010

| Federal Grantor/Pass Through Grantor/ Program Title | CFDA Number | Grant Number | Federal Receipts | Federal Disbursements |
|--|----------------|-----------------|---------------------|--------------------------|
| U. S. Department of Education | | | | |
| <i>Passed Through Ohio Department of Education:</i> | | | | |
| Adult and Community Education | 84.002 | 2009 | \$ 0 | \$ 47,052 |
| <i>Title I Cluster:</i> | | | | |
| Title I - School Improvement Grant | 84.010 | 2009 | 126,880 | 127,720 |
| Title I - School Improvement Grant | 84.010 | 2010 | 264,000 | 47,471 |
| Title I - Grants to LEA's | 84.010 | 2009 | 1,124,510 | 1,385,193 |
| Title I - Grants to LEA's | 84.010 | 2010 | 4,931,105 | 4,712,667 |
| ARRA - Title I: Grants to LEA's | 84.389 | 2010 | 425,736 | 245,581 |
| <i>Total Title I Cluster</i> | | | 6,872,231 | 6,518,632 |
| <i>Special Education Cluster:</i> | | | | |
| Special Education - Grants to States | 84.027 | 2009 | 224,217 | 285,859 |
| Special Education - Grants to States | 84.027 | 2010 | 1,863,481 | 1,850,691 |
| ARRA - Special Education - Grants to States | 84.391 | 2010 | 903,284 | 882,160 |
| <i>Total Special Education - Grants to States</i> | | | 2,990,982 | 3,018,710 |
| Special Education - Preschool Grants | 84.173 | 2010 | 48,446 | 48,252 |
| Special Education - Child Outcomes Support | 84.173 | 2009 | 0 | 900 |
| Special Education - Child Outcomes Support | 84.173 | 2010 | 4,050 | 4,050 |
| ARRA - Special Education - Preschool Grants | 84.392 | 2010 | 28,887 | 28,887 |
| <i>Total Special Education - Preschool Grants</i> | | | 81,383 | 82,089 |
| <i>Total Special Education Cluster</i> | | | 3,072,365 | 3,100,799 |
| Title I - Vocational Education | 84.048 | 2009 | 0 | 11,981 |
| Title I - Vocational Education | 84.048 | 2010 | 292,891 | 292,891 |
| <i>Total Title I - Vocational Education</i> | | | 292,891 | 304,872 |
| Title IV-A - Safe & Drug Free Schools and Communities | 84.186 | 2009 | 0 | 1,148 |
| Title IV-A - Safe & Drug Free Schools and Communities | 84.186 | 2010 | 69,460 | 71,915 |
| <i>Total Title IV-A - Safe & Drug Free Schools and Communities</i> | | | 69,460 | 73,063 |
| Twenty First Century Community Learning Centers | 84.287 | 2009 | 10,586 | 41,327 |
| Twenty First Century Community Learning Centers | 84.287 | 2010 | 189,538 | 176,281 |
| Twenty First Century Community Learning Centers | 84.287 | 2010 | 190,258 | 174,532 |
| Twenty First Century Community Learning Centers | 84.287 | 2010 | 186,616 | 165,331 |
| <i>Total Twenty First Century Community Learning Centers</i> | | | 576,998 | 557,471 |
| Title V-A - State Grants for Innovative Programs | 84.298 | 2009 | 0 | 32,578 |
| Title V-A - State Grants for Innovative Programs | 84.298 | 2010 | (401) | 0 |
| <i>Total Title V-A - State Grants for Innovative Programs</i> | | | (401) | 32,578 |
| Title II-D - Education Technology | 84.318 | 2009 | 0 | 1,724 |
| Title II-D - Education Technology | 84.318 | 2010 | 57,802 | 57,528 |
| <i>Total Title II-D - Education Technology</i> | | | 57,802 | 59,252 |
| School Improvement Grant | 84.377 | 2010 | 15,000 | 78 |
| Title III-A - English Language Acquisition | 84.365 | 2009 | 1,017 | 0 |
| Title III-A - English Language Acquisition | 84.365 | 2010 | 60,684 | 61,144 |
| <i>Total Title III-A - English Language Acquisition</i> | | | 61,701 | 61,144 |
| Title II-A - Improving Teacher Quality | 84.367 | 2009 | 0 | 8,197 |
| Title II-A - Improving Teacher Quality | 84.367 | 2010 | 1,134,652 | 1,131,798 |
| <i>Total Title II-A - Improving Teacher Quality</i> | | | 1,134,652 | 1,139,995 |
| ARRA - State Fiscal Stabilization | 84.394 | 2010 | 4,028,794 | 3,569,494 |
| <i>Total Passed Through Ohio Department of Education</i> | | | 16,181,493 | 15,417,378 |

(Continued)

Lorain City School District
Schedule of Expenditures of Federal Awards - Cash Basis
For the Fiscal Year Ended June 30, 2010

| Federal Grantor/Pass Through Grantor/ Program Title | CFDA Number | Grant Number | Federal Receipts | Federal Disbursements |
|---|----------------|-----------------|---------------------|--------------------------|
| U. S. Department of Education | | | | |
| <i>Direct Awards:</i> | | | | |
| Impact Aid | 84.041 | N/A | \$ 8,359 | \$ 8,359 |
| Title V-C - Magnet Schools Assistance | 84.165A | U165A070072 | 1,001,077 | 1,001,077 |
| Title V-C - Magnet Schools Assistance | 84.165A | U165A070072 | 2,848,299 | 2,682,506 |
| Total Title V-C - Magnet Schools Assistance | | | 3,849,376 | 3,683,583 |
| Improvement for Education - Counseling Grant | 84.215E | Q215E060384 | 144,106 | 144,106 |
| Improvement for Education - Physical Education Program | 84.215F | Q215F090228 | 363,944 | 331,348 |
| Improvement for Education - Smaller Learning Communities | 84.215L | S215L060173 | 175,790 | 175,790 |
| Improvement for Education - Smaller Learning Communities | 84.215L | S215L060173 | 305,222 | 290,222 |
| Total Improvement for Education | | | 989,062 | 941,466 |
| Gear-Up 2 Year 3 | 84.334 | P334A060093 | 139,460 | 139,658 |
| Gear-Up 2 Year 4 | 84.334 | P334A060093 | 507,615 | 460,474 |
| Gear-Up 1 Year 3 | 84.334 | P334A990314 | 191,163 | 191,163 |
| Gear-Up 1 Year 4 | 84.334 | P334A990314 | 465,151 | 419,499 |
| Total Gear Up | | | 1,303,389 | 1,210,794 |
| Early Reading First | 84.359 | S359B060061 | 205,028 | 205,028 |
| Early Reading First | 84.359 | S359B060061 | 473,194 | 350,352 |
| Total Early Reading First | | | 678,222 | 555,380 |
| <i>Total Direct Awards</i> | | | 1,981,611 | 1,766,174 |
| Total U.S. Department of Education | | | 22,619,021 | 21,641,769 |
| U. S. Department of Agriculture | | | | |
| <i>Passed Through Ohio Department of Education:</i> | | | | |
| ARRA - Child Nutrition Discretionary Grants | 10.579 | 2010 | 17,562 | 17,562 |
| Child Nutrition Cluster: | | | | |
| Non-Cash Assistance (Food Distribution): | | | | |
| National School Lunch Program | 10.555 | 2010 | 120,059 | 120,059 |
| Cash Assistance: | | | | |
| School Breakfast Program | 10.553 | 2010 | 1,290,565 | 1,290,565 |
| National School Lunch Program | 10.555 | 2010 | 2,553,972 | 2,553,972 |
| <i>Cash Assistance Subtotal</i> | | | 3,844,537 | 3,844,537 |
| Total Child Nutrition Cluster | | | 3,964,596 | 3,964,596 |
| Total Department of Agriculture | | | 3,982,158 | 3,982,158 |
| U. S. Department of Defense | | | | |
| <i>Direct Award:</i> | | | | |
| J.R.O.T.C. | 12.000 | N/A | 128,684 | 128,684 |
| Total U. S. Department of Defense | | | 128,684 | 128,684 |
| U. S. Department of Justice | | | | |
| <i>Passed Through Ohio Department of Public Safety:</i> | | | | |
| ARRA - Eward Byrne Memorial JAG Program | 16.803 | 2010 | 33,571 | 33,571 |
| Total JAG Initiative | | | 33,571 | 33,571 |
| Total U. S. Department of Justice | | | 33,571 | 33,571 |
| U. S. Department of Health & Human Services | | | | |
| <i>Passed Through Lorain County Jobs and Family Services:</i> | | | | |
| Title IV-A - Temporary Assistance for Needy Families | 93.558 | G996115 | 121,058 | 67,740 |
| Total U.S. Department of Health & Human Services | | | 121,058 | 67,740 |
| Total Federal Financial Assistance | | | \$ 27,275,372 | \$ 26,076,165 |

See Notes to the Schedule of Expenditures of Federal Awards

Lorain City School District
Notes to the Schedule of Expenditures of Federal Awards – Cash Basis
For the Fiscal Year Ended June 30, 2010

Note A - Child Nutrition Cluster and Impact Aid

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

Note B – Food Donation Program

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

Note C - Transfers

The District generally must spend Federal assistance within 15 months of receipt (funds must be obligated by June 30 and spent by September 30). However, with Ohio Department of Education’s (ODE) approval, a District can transfer unspent Federal assistance to the succeeding year, thus allowing the District a total of 27 months to spend the assistance. During fiscal year 2010, the ODE authorized the following transfers:

| CFDA | | Program | | |
|---------------|--|----------------|---------------------|--------------------|
| Number | Program Title | Year | Transfer Out | Transfer In |
| 84.027 | Special Education - Grants to States | 2009 | \$ 47,934 | |
| 84.027 | Special Education - Grants to States | 2010 | | \$ 47,934 |
| 84.186 | Title IV-A - Safe & Drug Free Schools | 2009 | 4,751 | |
| 84.186 | Title IV-A - Safe & Drug Free Schools | 2010 | | 4,751 |
| 84.318 | Title II-D - Education Technology | 2009 | 150 | |
| 84.318 | Title II-D - Education Technology | 2010 | | 150 |
| 84.367 | Title II-A - Improving Teacher Quality | 2009 | 63,801 | 63,801 |
| 84.367 | Title II-A - Improving Teacher Quality | 2010 | | |
| 84.298 | Title V-A - State Grants for Innovative Programs | 2010 | 1,863 | |
| 84.367 | Title II-A - Improving Teacher Quality | 2010 | | 1,863 |

Lorain City School District
Schedule of Findings
OMB Circular A-133, Section .505
June 30, 2010

| |
|--|
| 1. SUMMARY OF AUDITOR'S RESULTS |
|--|

| | | |
|----------------|--|---|
| (d) (1) (i) | Type of Financial Statement Opinion | Unqualified |
| (d) (1) (ii) | Were there any material control weakness conditions reported at the financial statement level (GAGAS)? | No |
| (d) (1) (ii) | Were there any other significant deficiency conditions reported at the financial statement level (GAGAS)? | Yes |
| (d) (1) (iii) | Was there any reported material non-compliance at the financial statement level (GAGAS)? | No |
| (d) (1) (iv) | Was there any material internal control weakness conditions reported for major federal programs? | No |
| (d) (1) (iv) | Were there any other significant deficiencies reported for major federal programs? | 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): Special Education Cluster Title I Cluster State Fiscal Stabilization Fund Fund for Improvement of Education | #84.027, 84.173, 84.391, 84.392 #84.010, 84.389 #84.394 #84.215E, 84.215F, 84.215L |
| (d) (1) (viii) | Dollar Threshold: Type A/B Programs | Type A: > \$782,285 Type B: All others |
| (d) (1) (ix) | Low Risk Auditee? | Yes |

LORAIN CITY SCHOOL DISTRICT
Schedule of Findings
OMB Circular A-133, Section .505
June 30, 2010

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

Finding Number: 2010-001

Criteria: The American Institute of Certified Public Accountants (AICPA) establishes auditing standards generally accepted in the United States that certified public accountants and government auditors must follow in conducting audits of state and local governments. SAS No. 115 establishes standards, responsibilities and guidance for auditors during a financial statement audit engagement for identifying and evaluating a client’s internal control over financial reporting. This new standard requires the audit to report *in writing* to management and the governing body any control deficiencies found during the audit that are considered significant deficiencies and/or material weaknesses. To this end, SAS No. 115 lists specific control deficiencies that should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

Condition: As a result of our audit, we identified a misstatement in the School District’s financial statements that was not necessarily material, but was more than inconsequential. These amounts have been subsequently reported in the audited financial statements.

Cause: The factor that resulted in the adjustments to the financial statements was a progress payment for the Ohio Schools Facilities project that was incorrectly captured as a contracts payable for fiscal year 2010 and reported as construction in progress.

Effect: The above condition resulted in audit adjustments to the original financial statements presented for audit to correct the overstatement of contracts payable and construction in progress account.

Recommendation: It is recommended that the School District improve controls over cutoff procedures, with an emphasis on the Ohio Schools Facility Commission expenditures, to reduce the opportunity for misstatements in the financial statements.

Client Response: Lorain City Schools will incorporate a new procedure to ensure the financial statements are compiled accurately in preparation for future audits.

| |
|--|
| 3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS |
|--|

None noted

This Page is Intentionally Left Blank.



Dave Yost • Auditor of State

LORAIN CITY SCHOOL DISTRICT

LORAIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
FEBRUARY 24, 2011