



Dave Yost • Auditor of State

**LORAIN CITY SCHOOL DISTRICT
LORAIN COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Lorain City School District
Lorain County
2350 Pole Avenue
Lorain, Ohio 44052

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Lorain City School District, Lorain County, Ohio (the District), as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Jointly Administered Trust Fund for the Benefit of Lorain City School District Employees (the Trust), which represents 0.74 percent and 7.73 percent, respectively, of the assets and revenues of the governmental activities. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the District, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Lorain City School District, Lorain County, Ohio, as of June 30, 2012, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 24 to the financial statements, the District has been in a state of fiscal caution since June 23, 2007 due to potential deficits. The financial statements do not include any adjustments that might result from this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 22, 2013, on our consideration of the 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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include Management's discussion and analysis, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We and the other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements taken as a whole. The schedule of federal awards receipts and expenditures provides additional information required by the U.S. Office of Management and Budget Circular A-133, Audit of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. The schedule of federal awards receipts and expenditures is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Dave Yost
Auditor of State

February 22, 2013

Lorain City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

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, 2012. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2012 are as follows:

- Net assets decreased \$1.9 million, which represents a 1 percent decrease from 2011.
- Construction of school buildings continued adding \$2.2 million to construction in progress and capitalizing \$22.7 million in completed buildings. The School District wrote off unusable construction costs of \$2.8 million and recorded depreciation in the amount of \$2.8 million for a net decrease in capital assets of \$3.3 million.
- The School District refunded \$9.5 million of the 2003 Classroom Facilities Bonds. The School District made principal payments of \$1.4 million and \$1.1 million for bonds and notes payable, respectively. Outstanding debt decreased from \$45.0 million to \$42.9 million in fiscal year 2012.

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 Lorain City School District as a whole entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

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

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While the basic financial statements contain 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 2012?" The *Statement of Net Assets* and the *Statement of Activities* answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

Lorain City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012

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*, Governmental Activities include the School District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and non instructional services, i.e., food service operations.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The major funds financial statements begin on page 14. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of 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, debt service fund and 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 you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Proprietary Fund 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 predominately benefits governmental functions, it has been included within the governmental activities in the government-wide financial statements. The proprietary fund financial statements begin on page 19.

Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for some of its scholarship and foundation programs. This activity is presented as a private purpose trust fund. The School District also acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in two agency funds. The School District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 22 and 23. These activities are excluded from the School District's other financial statements because the assets cannot be utilized by the School District to finance its operations.

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 2012 compared to 2011:

Lorain City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012

Table 1
Net Assets

	Governmental Activities	
	2012	2011
Assets		
Current and Other Assets	\$ 144,581,378	\$ 151,749,902
Capital Assets	118,944,533	122,289,654
<i>Total Assets</i>	263,525,911	274,039,556
Liabilities		
Other Liabilities	35,344,182	40,270,481
Long-Term Liabilities	47,551,070	51,264,548
<i>Total Liabilities</i>	82,895,252	91,535,029
Net Assets		
Invested in Capital Assets, Net of Debt	82,824,785	85,978,758
Restricted	103,495,535	105,740,274
Unrestricted	(5,689,661)	(9,214,505)
<i>Total Net Assets</i>	\$ 180,630,659	\$ 182,504,527

At year end, capital assets represented 45 percent of total assets. Capital assets include, land, buildings and improvements, furniture and equipment, vehicles, textbooks and construction in progress. Capital assets, net of related debt were \$82.8 million at June 30, 2012. These capital assets are used to provide services to students and are not available for future spending. Although the School District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the School District's net assets, \$103.5 million or 57 percent, represents resources that are subject to external restrictions on how they may be used. The balance of government-wide unrestricted net assets is a deficit balance of \$5.7 million.

Current and other assets decreased \$7.2 million from fiscal year 2011. Intergovernmental receivables decreased \$2.3 million due to the expiration of the ARRA grant programs. Cash showed a decrease of \$6.6 million from fiscal year 2011 partially due to the loss of grant revenue to cover expenses and construction costs. Capital assets decreased \$3.3 million due to depreciation expense as well as \$2.8 million in construction in progress costs that were written off. In fiscal year 2012, the School District had to update the classroom facilities plan which was not able to incorporate certain renovations that had been completed and those costs had to be written off. See Note 9 for further details.

Other liabilities decreased \$4.9 million from fiscal year 2011 mainly from a \$1.9 million decrease in accrued wages, due to the timing of payroll at the fiscal year end, and a \$1.1 million principal payment on the note payable.

Lorain City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012

Long term liabilities decreased \$3.7 million in principal payments and a refunding. The School District refunded \$9.5 million of the 2003 Classroom Facilities bond payable.

Table 2 shows the changes in net assets for fiscal year 2012 and 2011.

Table 2
Changes in Net Assets

	Governmental Activities	
	2012	2011
Revenues		
<i>Program Revenues:</i>		
Charges for Services	\$ 1,741,415	\$ 1,837,286
Operating Grants	18,749,871	22,775,096
Capital Grants	278,308	299,694
<i>Total Program Revenues</i>	<u>20,769,594</u>	<u>24,912,076</u>
<i>General Revenues:</i>		
Property Taxes	20,039,550	19,338,639
Grants and Entitlements Not Restricted	69,253,959	71,935,169
Other	313,085	397,153
<i>Total General Revenues</i>	<u>89,606,594</u>	<u>91,670,961</u>
<i>Total Revenues</i>	<u>110,376,188</u>	<u>116,583,037</u>
Program Expenses		
Instruction:		
Regular	38,810,836	43,940,871
Special	9,710,985	9,230,831
Vocational	2,850,306	3,355,449
Other	19,357,447	19,406,434
Support Services:		
Pupils	4,620,928	4,798,399
Instructional Staff	8,224,978	8,649,844
Board of Education	228,436	305,691
Administration	6,068,113	7,910,106
Fiscal	1,343,272	1,603,684
Business	394,609	453,065
Operation and Maintenance of Plant	7,621,474	9,697,330
Pupil Transportation	2,835,448	2,781,304
Central	1,718,426	1,598,951
Operation of Non-Instructional Services:		
Food Service Operations	4,193,808	4,330,961
Community Services	890,448	887,431
Extracurricular Activities	1,562,945	1,451,884
Debt Service:		
Interest and Fiscal Charges	1,817,597	1,647,699
<i>Total Expenses</i>	<u>112,250,056</u>	<u>122,049,934</u>
<i>Increase (Decrease) in Net Assets</i>	(1,873,868)	(5,466,897)
<i>Net Assets at Beginning of Year</i>	<u>182,504,527</u>	<u>187,971,424</u>
<i>Net Assets at End of Year</i>	<u>\$ 180,630,659</u>	<u>\$ 182,504,527</u>

Lorain City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012

Program revenues showed a decrease of \$4.1 million from fiscal year 2011, mainly from a substantial decrease in federal grant revenue. The \$2.1 million decrease in general revenues can be partially attributed to the \$1.7 million decrease in tax loss reimbursement and the expiration of the fiscal stabilization program.

Program expenses decreased nearly \$10 million in total from fiscal year 2011. The primary reason expenses decreased was from a reduction in ARRA resources available, thus reducing money available to provide programs that were provided in the past. Offsetting some of this decrease in expenses was a decrease in regular instruction expense of \$5.1 million. This expense was related to the write down of previously capitalized construction in progress as previously discussed.

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.

Table 3
Governmental Activities

	Total Cost of Service		Net Cost of Service	
	2012	2011	2012	2011
Instruction:				
Regular	\$ 38,810,836	\$ 43,940,871	\$ 34,616,182	\$ 34,374,422
Special	9,710,985	9,230,831	8,864,286	8,617,383
Vocational	2,850,306	3,355,449	2,570,392	3,229,273
Student Intervention Services	0	137,385	0	113,919
Other	19,357,447	19,269,049	19,198,743	19,181,783
Support Services:				
Pupils	4,620,928	4,798,399	2,639,826	3,093,860
Instructional Staff	8,224,978	8,649,844	1,548,528	2,848,588
Board of Education	228,436	305,691	228,436	305,691
Administration	6,068,113	7,910,106	5,598,449	7,185,995
Fiscal	1,343,272	1,603,684	1,086,105	871,861
Business	394,609	453,065	394,609	452,431
Operation and Maintenance of Plant	7,621,474	9,697,330	7,216,645	9,672,450
Pupil Transportation	2,835,448	2,781,304	2,756,946	2,682,632
Central	1,718,426	1,598,951	1,677,000	1,540,190
Operation of Non-Instructional Services:				
Food Service Operations	4,193,808	4,330,961	(122,620)	16,088
Community Services	890,448	887,431	(67,269)	(47,937)
Extracurricular Activities	1,562,945	1,451,884	1,456,607	1,351,530
Debt Service:				
Interest and Fiscal Charges	1,817,597	1,647,699	1,817,597	1,647,699
<i>Total Expenses</i>	\$ 112,250,056	\$ 122,049,934	\$ 91,480,462	\$ 97,137,858

Due to the expiration of some federal grants, regular instruction and administration expenses had less revenue to help offset the cost than in fiscal year 2011.

Lorain City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012

The dependence upon general revenues for governmental activities is apparent. Over 81 percent of governmental activities are supported through taxes and other general revenues; such revenues are 81 percent of total governmental revenues. The community, as a whole, is by far the primary support for the School District students.

Governmental Funds

Information about the School District's major funds starts on page 14. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$121.1 million and expenditures of \$122.9 million for fiscal year. The net change in fund balances for the fiscal year was a decrease of \$1.8 million for all governmental funds. The most significant change was an increase in the classroom facilities fund.

The general fund's net change in fund balance for fiscal year 2012 was a decrease of \$1.1 million. Revenues increased \$1.9 million over fiscal year 2011 mostly through an increase in State foundation revenue. Expenditures increased \$3.1 million with regular instruction wages and benefits accounting for most of the increase.

The fund balance of the debt service fund decreased by \$.1 million. This is primarily caused by the timing of property tax collections versus the due dates for debt service.

The fund balance of the classroom facilities fund increased by \$1.4 million. The timing of revenue to cover expenditures accounts for most of this increase.

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.

During the course of fiscal year 2012, the School District did amend its general fund budget a few times. The School District uses site-based budgeting and budgeting systems are designed to tightly control total site budgets but provide flexibility for site management

For the general fund, actual budget basis revenue of \$85.8 million was higher than the final budget basis revenue by \$64. This difference is due to an underestimation of miscellaneous revenue.

Final appropriations equaled actual expenditures of \$91.9 million.

Original appropriations of \$89.8 million were lower than final appropriations by \$2.2 million with administration accounting for \$1 million of that difference.

Lorain City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2012, the School District had \$118.9 million invested in capital assets. Table 4 shows fiscal year 2012 balances compared with 2011.

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

	Governmental Activities	
	2012	2011
Land	\$ 6,903,641	\$ 6,903,641
Construction in Progress	1,791,096	25,119,897
Land Improvements	283,811	272,447
Buildings and Improvements	108,602,663	88,317,395
Furniture and Equipment	1,211,098	1,312,345
Vehicles	71,753	91,060
Textbooks	80,471	272,869
<i>Totals</i>	\$ 118,944,533	\$ 122,289,654

The \$3.3 million decrease in capital assets was attributable to depreciation, disposals and construction in progress written off. See Note 9 for more information about the capital assets of the School District.

Debt

At June 30, 2012, the School District had \$38.1 million in general obligation bonds and \$4.8 million in tax anticipation notes outstanding. Table 5 summarizes outstanding debt.

Lorain City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012

(Table 5)
Outstanding Debt at Year End

	Governmental Activities	
	2012	2011
2005 Qualified Zone Academy Bonds	\$ 5,400,000	\$ 5,400,000
2003 Classroom Facilities Bonds	5,025,000	15,950,000
Capital Appreciation Bonds	3,623,976	3,623,976
Accretion on CABs	1,135,388	1,000,788
2006 Classroom Facilities Refunding Bonds	3,905,000	3,945,000
Capital Appreciation Bonds	64,995	64,995
Accretion on CABs	150,471	107,912
Premium on Debt Issuance	273,551	303,945
Refunding Loss	(215,773)	(239,748)
2007 School Improvement Refunding Bonds	8,860,000	8,860,000
Premium on Debt Issuance	745,452	798,699
Refunding Loss	(576,162)	(617,317)
2012 Classroom Facilities Refunding Bonds	9,335,000	0
Premium on Debt Issuance	662,935	0
Refunding Loss	(316,557)	0
Tax Anticipation Note	4,793,000	5,873,000
<i>Total</i>	<u>\$ 42,866,276</u>	<u>\$ 45,071,250</u>

In 2003, the School District passed a bond issue providing \$41.1 million for renovations and construction of buildings in the School District. In 2005, the School District issued \$5.4 million in Qualified Zone Academy Bonds for purchase of computer equipment. In December 2006 the School District issued \$4.2 million in refunding bonds, in March 2007 the School District issued refunding bonds for \$9.0 million and in June 2012 the School District issued \$9.3 million in refunding bonds. The proceeds were used to refund a portion of the 2003 Classroom Facilities Bonds. In 2011, the School District issued a tax anticipation note in the amount of \$4.8 million. More information about the long-term obligations is in Notes 14 and 15 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.

Lorain City School District
Statement of Net Assets
June 30, 2012

	Governmental Activities	Component Unit Digital Academy
Assets		
Equity in Pooled Cash and Investments	\$ 20,010,179	\$ 664,553
Cash and Cash Equivalents with Fiscal Agent	5,236,850	0
Cash and Cash Equivalents in Segregated Accounts	42,744,442	0
Investments in Segregated Accounts	1,059,047	0
Receivables:		
Accrued Interest	79,622	0
Accounts	24,520	0
Intergovernmental	48,936,379	32,175
Property Taxes	22,950,277	0
Prepaid and Deferred Charges	3,540,062	0
Nondepreciable Capital Assets	8,694,737	0
Depreciable Capital Assets (Net)	110,249,796	35,710
<i>Total Assets</i>	<u>263,525,911</u>	<u>732,438</u>
Liabilities		
Accounts Payable	1,088,610	44,405
Accrued Wages and Benefits	6,235,561	0
Contracts Payable	839,599	0
Intergovernmental Payable	2,757,453	0
Retainage Payable	14,842	0
Matured Compensated Absences Payable	127,325	0
Accrued Interest Payable	106,457	0
Claims Payable	833,586	0
Cost Sharing Payable	1,169,849	0
Deferred Revenue	17,377,900	0
Notes Payable	4,793,000	0
Long Term Liabilities:		
Due Within One Year	4,163,205	0
Due In More Than One Year	43,387,865	0
<i>Total Liabilities</i>	<u>82,895,252</u>	<u>44,405</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	82,824,785	35,710
Restricted For:		
Capital Outlay	91,918,347	0
Debt Service	2,360,969	0
Classroom Facilities Maintenance	3,952,044	0
Academic Assistance	2,721,031	0
Other Purposes	2,543,144	86,506
Unrestricted	(5,689,661)	565,817
<i>Total Net Assets</i>	<u>\$ 180,630,659</u>	<u>\$ 688,033</u>

See accompanying notes to the basic financial statements.

Lorain City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2012

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants and Contributions
Governmental Activities				
Instruction:				
Regular	\$ 38,810,836	\$ 913,070	\$ 3,003,276	\$ 278,308
Special	9,710,985	173,892	672,807	0
Vocational	2,850,306	68,668	211,246	0
Other	19,357,447	0	158,704	0
Support Services:				
Pupils	4,620,928	12,325	1,968,777	0
Instructional Staff	8,224,978	1,000	6,675,450	0
Board of Education	228,436	0	0	0
Administration	6,068,113	153,817	315,847	0
Fiscal	1,343,272	39,185	217,982	0
Business	394,609	0	0	0
Operation and Maintenance of Plant	7,621,474	0	404,829	0
Pupil Transportation	2,835,448	0	78,502	0
Central	1,718,426	0	41,426	0
Operation of Non-Instructional Services:				
Food Service Operations	4,193,808	277,254	4,039,174	0
Community Services	890,448	0	957,717	0
Extracurricular Activities	1,562,945	102,204	4,134	0
Debt Service:				
Interest and Fiscal Charges	1,817,597	0	0	0
<i>Total</i>	<u>112,250,056</u>	<u>1,741,415</u>	<u>18,749,871</u>	<u>278,308</u>
Component Unit				
Digital Academy	417,755	3,314	36,926	0
<i>Total Component Unit</i>	<u>417,755</u>	<u>3,314</u>	<u>36,926</u>	<u>0</u>
<i>Totals</i>	<u>\$ 112,667,811</u>	<u>\$ 1,744,729</u>	<u>\$ 18,786,797</u>	<u>\$ 278,308</u>

General Revenues

Property Taxes Levied for:

General Purposes

Debt Service

Classroom Facilities Maintenance

Grants and Entitlements Not Restricted to Specific Programs

Payments in Lieu of Taxes

Investment Earnings

Miscellaneous

Total General Revenues

Change in Net Assets

Net Assets Beginning of Year

Net Assets End of Year

See accompanying notes to the basic financial statements.

Net (Expense) Revenue and Changes in Net Assets	
Governmental Activities	Component Unit
\$ (34,616,182)	\$ 0
(8,864,286)	0
(2,570,392)	0
(19,198,743)	0
(2,639,826)	0
(1,548,528)	0
(228,436)	0
(5,598,449)	0
(1,086,105)	0
(394,609)	0
(7,216,645)	0
(2,756,946)	0
(1,677,000)	0
122,620	0
67,269	0
(1,456,607)	0
(1,817,597)	0
(91,480,462)	0
0	(377,515)
0	(377,515)
\$ (91,480,462)	\$ (377,515)
17,343,438	0
2,431,904	0
264,208	0
69,253,959	458,124
33,091	0
160,491	0
119,503	106
89,606,594	458,230
(1,873,868)	80,715
182,504,527	607,318
\$ 180,630,659	\$ 688,033

See accompanying notes to the basic financial statements.

Lorain City School District

Balance Sheet

Governmental Funds

June 30, 2012

	General Fund	Debt Service Fund	Classroom Facilities Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Investments	\$ 2,706,082	\$ 1,687,295	\$ 9,032,865	\$ 5,030,392	\$ 18,456,634
Cash and Cash Equivalents with Fiscal Agent	4,450,063	0	14,842	771,945	5,236,850
Cash and Cash Equivalents in Segregated Accounts	0	0	41,872,596	0	41,872,596
Receivables:					
Accrued Interest	0	0	79,622	0	79,622
Accounts	3,020	0	0	0	3,020
Interfund	1,311,818	0	0	0	1,311,818
Intergovernmental	176,143	0	40,889,552	7,870,684	48,936,379
Property Taxes	19,643,910	2,984,179	0	322,188	22,950,277
Advances to Other Funds	1,427,663	0	0	0	1,427,663
<i>Total Assets</i>	<u>\$ 29,718,699</u>	<u>\$ 4,671,474</u>	<u>\$ 91,889,477</u>	<u>\$ 13,995,209</u>	<u>\$ 140,274,859</u>
Liabilities and Fund Balances					
Liabilities					
Accounts Payable	\$ 707,718	\$ 0	\$ 0	\$ 371,916	\$ 1,079,634
Accrued Wages and Benefits	5,538,390	0	0	697,171	6,235,561
Contracts Payable	0	0	839,599	0	839,599
Intergovernmental Payable	2,222,174	0	0	408,043	2,630,217
Retainage Payable	0	0	14,842	0	14,842
Matured Compensated Absences Payable	127,325	0	0	0	127,325
Interfund Payable	0	0	0	1,311,818	1,311,818
Deferred Revenue	17,793,354	2,700,520	40,889,552	6,300,631	67,684,057
Notes Payable	4,793,000	0	0	0	4,793,000
Advances from Other Funds	0	0	0	1,427,663	1,427,663
<i>Total Liabilities</i>	<u>31,181,961</u>	<u>2,700,520</u>	<u>41,743,993</u>	<u>10,517,242</u>	<u>86,143,716</u>
Fund Balances					
Nonspendable	49,547	0	0	0	49,547
Restricted	0	1,970,954	50,145,484	5,495,712	57,612,150
Assigned	7,629	0	0	0	7,629
Unassigned	(1,520,438)	0	0	(2,017,745)	(3,538,183)
<i>Total Fund Balances</i>	<u>(1,463,262)</u>	<u>1,970,954</u>	<u>50,145,484</u>	<u>3,477,967</u>	<u>54,131,143</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 29,718,699</u>	<u>\$ 4,671,474</u>	<u>\$ 91,889,477</u>	<u>\$ 13,995,209</u>	<u>\$ 140,274,859</u>

See accompanying notes to the basic financial statements.

Lorain City School District
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2012*

Total Governmental Fund Balances		\$ 54,131,143
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		118,944,533
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Property Taxes	\$ 3,354,652	
Tuition	52,977	
Prepaid Expenses	3,359,497	
Intergovernmental	46,898,528	53,665,654
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		1,367,687
In the statement of activities, bond issuance costs are amortized over the term of the bonds, whereas in governmental funds a bond issuance expenditure is reported when bonds are issued.		179,169
In the statement of activities, interest is accrued on outstanding bonds, whereas in the governmental funds, an interest expenditure is not reported.		(106,457)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
General Obligation Bonds	32,525,000	
Capital Appreciation Bonds	3,688,971	
Bond Premium	1,681,938	
Refunding Loss	(1,108,492)	
Accretion of Interest - Capital Appreciation Bonds	1,285,859	
Compensated Absences	9,477,794	(47,551,070)
<i>Net Assets of Governmental Activities</i>		\$ 180,630,659

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, 2012

	General Fund	Debt Service Fund	Classroom Facilities Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Property and Other Local Taxes	\$ 16,221,732	\$ 2,297,013	\$ 0	\$ 250,125	\$ 18,768,870
Intergovernmental	68,770,483	386,922	4,556,871	15,113,502	88,827,778
Investment Income	160,491	0	276,914	5,325	442,730
Tuition and Fees	1,120,029	0	0	0	1,120,029
Extracurricular Activities	173,563	0	0	102,205	275,768
Rentals	40,219	0	0	0	40,219
Charges for Services	147,649	0	0	277,255	424,904
Contributions and Donations	2,095	0	0	266,854	268,949
Payment in Lieu of Taxes	33,091	0	0	0	33,091
Miscellaneous	112,424	0	16,952	386	129,762
<i>Total Revenues</i>	<u>86,781,776</u>	<u>2,683,935</u>	<u>4,850,737</u>	<u>16,015,652</u>	<u>110,332,100</u>
Expenditures:					
Current:					
Instruction:					
Regular	32,422,875	0	0	2,426,675	34,849,550
Special	9,266,982	0	0	522,094	9,789,076
Vocational	2,570,274	0	0	205,169	2,775,443
Other	19,009,452	0	0	147,083	19,156,535
Support Services:					
Pupils	2,724,239	0	0	1,892,751	4,616,990
Instructional Staff	1,907,077	0	0	6,008,688	7,915,765
Board of Education	330,965	0	0	0	330,965
Administration	5,839,414	0	0	275,396	6,114,810
Fiscal	1,111,657	41,213	0	194,214	1,347,084
Business	383,985	0	0	0	383,985
Operation and Maintenance of Plant	7,260,107	0	0	260,307	7,520,414
Pupil Transportation	2,756,796	0	0	66,111	2,822,907
Central	626,284	0	0	1,062,773	1,689,057
Extracurricular Activities	1,039,711	0	0	393,319	1,433,030
Operation of Non-Instructional Services:					
Food Service Operations	0	0	0	4,168,542	4,168,542
Community Services	118,625	0	0	767,102	885,727
Capital Outlay	55,821	0	3,521,369	221,521	3,798,711
Debt Service:					
Principal Retirement	0	1,435,000	0	0	1,435,000
Interest and Fiscal Charges	154,870	1,346,319	0	0	1,501,189
Issuance Costs	0	151,378	0	0	151,378
<i>Total Expenditures</i>	<u>87,579,134</u>	<u>2,973,910</u>	<u>3,521,369</u>	<u>18,611,745</u>	<u>112,686,158</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(797,358)</u>	<u>(289,975)</u>	<u>1,329,368</u>	<u>(2,596,093)</u>	<u>(2,354,058)</u>
Other Financing Sources (Uses):					
Proceeds from Sale of Capital Assets	0	0	0	378,460	378,460
Refunding Bonds Issued	0	9,335,000	0	0	9,335,000
Premium on Debt Issuance	0	662,935	0	0	662,935
Payment to Refunded Bond Escrow Agent	0	(9,846,557)	0	0	(9,846,557)
Insurance Recoveries	40,303	0	26,736	0	67,039
Transfers In	0	0	0	379,685	379,685
Transfers Out	(379,685)	0	0	0	(379,685)
<i>Total Other Financing Sources (Uses)</i>	<u>(339,382)</u>	<u>151,378</u>	<u>26,736</u>	<u>758,145</u>	<u>596,877</u>
<i>Net Change in Fund Balance</i>	<u>(1,136,740)</u>	<u>(138,597)</u>	<u>1,356,104</u>	<u>(1,837,948)</u>	<u>(1,757,181)</u>
<i>Fund Balances Beginning of Year</i>	<u>(326,522)</u>	<u>2,109,551</u>	<u>48,789,380</u>	<u>5,315,915</u>	<u>55,888,324</u>
<i>Fund Balances End of Year</i>	<u>\$ (1,463,262)</u>	<u>\$ 1,970,954</u>	<u>\$ 50,145,484</u>	<u>\$ 3,477,967</u>	<u>\$ 54,131,143</u>

See accompanying notes to the basic financial statements.

Lorain City School District
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2012*

Net Change in Fund Balances - Total Governmental Funds	\$	(1,757,181)
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.		
Capital Asset Additions	\$ 2,367,840	
Current Year Depreciation	<u>(2,767,308)</u>	(399,468)
 Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.		
Disposals	(97,464)	
Disposal of Impaired Capital Assets (See Note 9)	<u>(2,848,189)</u>	(2,945,653)
 Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Property Taxes	1,270,682	
Charges for Services	(34,652)	
Intergovernmental	(1,756,490)	
Prepaid and Deferred Expenses	<u>(374,249)</u>	(894,709)
 Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
General Obligation Bond Principal		1,435,000
 Issuance of refunding bonds results in expenditures and other financing sources and uses in the governmental funds, but these transactions are reflected in the statement of net assets as long-term assets and liabilities.		
Payments to Refund Bond Escrow Agent	9,846,557	
Proceeds of Refunding Bonds	(9,335,000)	
Premium on Refunding Bonds	<u>(662,935)</u>	(151,378)
 In the statement of activities, interest is accrued on outstanding bonds, and bond premium and bond issuance costs and the gain/loss on refunding are amortized over the term of the bonds, whereas in governmental funds, an interest expenditure is reported when bonds are issued.		
Accrued Interest Payable	8,709	
Amortization of Issuance Costs	(15,092)	
Amortization of Premium on Bonds	83,641	
Amortization of Refunding Loss	<u>(65,130)</u>	12,128
 The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental expenditures and related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.		
		416,048
 Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Compensated Absences	2,486,541	
Long Term Intergovernmental Liability	<u>101,963</u>	2,588,504
 Accretion on capital appreciation bonds is an expenditure in the governmental funds, but is allocated as an expense over the life of the bonds.		
		<u>(177,159)</u>
<i>Change in Net Assets of Governmental Activities</i>	\$	<u>(1,873,868)</u>

See accompanying notes to the basic financial statements.

Lorain City School District
*Statement of Revenues, Expenditures, and Changes in Fund Balance -
 Budget (Non-GAAP Basis) and Actual
 General Fund
 For the Fiscal Year Ended June 30, 2012*

	Budgeted Amounts			
	Original	Final	Actual	Variance
Revenues				
Property and Other Local Taxes	\$ 15,377,671	\$ 15,822,498	\$ 15,822,498	\$ 0
Intergovernmental	68,870,639	68,698,895	68,698,895	0
Investment Income	150,000	12,751	12,751	0
Tuition and Fees	1,020,000	1,099,337	1,099,337	0
Rentals	50,000	39,185	39,185	0
Charges for Services	85,000	87,272	87,272	0
Contributions and Donations	0	200	200	0
Payment in Lieu of Taxes	33,091	33,091	33,091	0
Miscellaneous	174,576	52,556	52,620	64
<i>Total Revenues</i>	<u>85,760,977</u>	<u>85,845,785</u>	<u>85,845,849</u>	<u>64</u>
Expenditures				
Current:				
Instruction:				
Regular	31,835,990	32,551,161	32,551,161	0
Special	8,727,913	9,412,393	9,412,393	0
Vocational	4,900,556	3,465,662	3,465,662	0
Other	18,339,095	19,311,201	19,311,201	0
Support Services:				
Pupils	2,412,919	2,753,611	2,753,611	0
Instructional Staff	2,184,691	2,484,566	2,484,566	0
Board of Education	1,091,632	530,950	530,950	0
Administration	5,062,677	5,999,460	5,999,460	0
Fiscal	1,146,075	1,118,060	1,118,060	0
Business	316,671	377,685	377,685	0
Operation and Maintenance of Plant	7,595,009	7,702,674	7,702,674	0
Pupil Transportation	3,015,480	3,158,075	3,158,075	0
Central	910,742	680,271	680,271	0
Extracurricular Activities	744,748	996,603	996,603	0
Operation of Non-Instructional Services:				
Community Services	68,102	98,545	98,545	0
Capital Outlay	67,558	61,570	61,570	0
Debt Service:				
Principal Retirement	1,080,000	1,080,000	1,080,000	0
Interest and Fiscal Charges	154,870	154,870	154,870	0
<i>Total Expenditures</i>	<u>89,654,728</u>	<u>91,937,357</u>	<u>91,937,357</u>	<u>0</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(3,893,751)</u>	<u>(6,091,572)</u>	<u>(6,091,508)</u>	<u>64</u>
Other Financing Sources (Uses)				
Insurance Recoveries	0	40,303	40,303	0
Advances In	500,000	488,823	488,823	0
Advances Out	(600,000)	(491,184)	(491,184)	0
Transfers Out	(300,000)	(1,000,873)	(1,000,873)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(400,000)</u>	<u>(962,931)</u>	<u>(962,931)</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	(4,293,751)	(7,054,503)	(7,054,439)	64
<i>Fund Balance Beginning of Year</i>	4,889,948	4,889,948	4,889,948	0
<i>Prior Year Encumbrances Appropriated</i>	<u>2,188,615</u>	<u>2,188,615</u>	<u>2,188,615</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$ 2,784,812</u>	<u>\$ 24,060</u>	<u>\$ 24,124</u>	<u>\$ 64</u>

See accompanying notes to the basic financial statements.

Lorain City School District
Statement of Fund Net Assets
Proprietary Fund
June 30, 2012

	Governmental Activities - Internal Service Fund
	Fund
Assets	
<i>Current Assets</i>	
Equity in Pooled Cash and Investments	\$ 1,553,545
Cash and Cash Equivalents in Segregated Accounts	871,846
Investments in Segregated Accounts	1,059,047
Accounts Receivable	21,500
Prepaid Items	1,396
	3,507,334
<i>Total Assets</i>	<i>3,507,334</i>
Liabilities	
<i>Current Liabilities</i>	
Accounts Payable	8,976
Intergovernmental Payable	127,236
Claims Payable	833,586
Cost Sharing Payable	1,169,849
	2,139,647
<i>Total Liabilities</i>	<i>2,139,647</i>
Net Assets	
Unrestricted	1,367,687
	1,367,687
<i>Total Net Assets</i>	<i>\$ 1,367,687</i>

See accompanying notes to the basic financial statements.

Lorain City School District
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Fund
For the Fiscal Year Ended June 30, 2012

	Governmental Activities - Internal Service Fund
Operating Revenue	
Charges for Services	\$ 9,128,397
<i>Total Operating Revenues</i>	<i>9,128,397</i>
Operating Expenses	
Fringe Benefits	399,137
Purchased Services	1,082,806
Claims	7,244,774
<i>Total Operating Expenses</i>	<i>8,726,717</i>
<i>Operating Income (Loss)</i>	<i>401,680</i>
Non-Operating Revenues	
Interest	14,368
<i>Change in Net Assets</i>	<i>416,048</i>
<i>Net Assets Beginning of Year</i>	<i>951,639</i>
<i>Net Assets End of Year</i>	<i>\$ 1,367,687</i>

See accompanying notes to the basic financial statements.

Lorain City School District
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2012

	Governmental Activities - Internal Service Fund
Cash Flows From Operating Activities	
Cash Received from Interfund Services	\$ 9,106,897
Cash Paid for Goods and Services	(1,503,613)
Cash Paid for Claims	(7,395,382)
	<u>207,902</u>
<i>Net Cash Provided By (Used For) Operating Activities</i>	
Cash Flows From Investing Activities	
Interest on Investments	14,368
Purchases of U.S. Treasury Notes	(1,059,047)
Proceeds from Bond Sales	608,844
	<u>(435,835)</u>
<i>Net Cash Provided By (Used For) Investing Activities</i>	
<i>Net Increase (Decrease) in Cash and Investments</i>	
	(227,933)
<i>Cash and Investments Beginning of Year</i>	
	<u>2,653,324</u>
<i>Cash and Investments End of Year</i>	
	<u>\$ 2,425,391</u>
Reconciliation of Operating Income to Net Cash Provided By Operating Activities	
Operating Income (Loss)	\$ 401,680
(Increase) Decrease Assets:	
Accounts Receivable	(21,500)
Prepaid Items	63,006
Increase (Decrease) in Liabilities:	
Accounts Payable	668
Intergovernmental Payable	(17,785)
Claims Payable	(150,608)
Cost Sharing Payable	(67,559)
	<u>(193,778)</u>
<i>Total Adjustments</i>	
	<u>\$ 207,902</u>
<i>Net Cash Provided By (Used For) Operating Activities</i>	

See accompanying notes to the basic financial statements.

Lorain City School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2012

	Private Purpose Trust	Agency
Assets		
Equity in Pooled Cash and Investments	\$ 31,302	\$ 31,742
Liabilities		
Undistributed Monies	0	\$ 2,448
Due to Students	0	29,294
<i>Total Liabilities</i>	0	\$ 31,742
Net Assets		
Held in Trust for Scholarships	\$ 31,302	

See accompanying notes to the basic financial statements.

Lorain City School District
Statement of Changes in Fiduciary Net Assets
Private Purpose Trust Fund
For the Fiscal Year Ended June 30, 2012

	Private Purpose Trust
Additions	
Investment Earnings	\$ 51
<i>Total Additions</i>	51
 Deductions	
Payments in Accordance with Trust Agreements	84,092
<i>Change in Net Assets</i>	(84,041)
<i>Net Assets Beginning of Year</i>	115,343
<i>Net Assets End of Year</i>	\$ 31,302

See accompanying notes to the basic financial statements.

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Lorain City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

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.

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.

Financial information for the Trust's year ended December 31, 2011, is presented in these financial statements as an Internal Service Fund. Complete financial statements for the Trust may be obtained by contacting the Plan Administrator at 10045 College Park, Concord, Ohio 44060.

Lorain City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Discretely presented component units are legally separate entities which have a governing board appointed by the School District. The School District has one discretely presented component unit, Lorain K-12 Digital Academy, which is on the governmental financial statements. See Note 23 for additional information.

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

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

Ohio Schools Council – The Ohio Schools Council promotes cooperative agreements to its members in dealing with problems of mutual concern. This is a jointly governed organization. The School District's participation is disclosed in Note 19 to the financial statements.

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

Note 2 - Summary of Significant Accounting Policies

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District applies generally accepted accounting principles that were issued prior to November 30, 1989 by the Financial Accounting Standards Board ("FASB") to its governmental and proprietary funds provided they do not conflict with or contradict GASB pronouncements. The FASB has codified its standards and the standards issued prior to November 30, 1989 are included in the codification.

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

A. Basis of Presentation

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

Lorain City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

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, 2012

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

The other governmental funds of the School District account for grants and other resources to which the School District is bound to observe constraints imposed upon the use of the resources.

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

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

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

C. Measurement Focus

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

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

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

Lorain City School District
Notes to the Basic Financial Statements
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The private purpose trust fund is reported using the economic resources measurement focus. All assets and liabilities associated with the operation of this fund are included on the statement of fiduciary net assets. The statement of changes in fiduciary net assets presents increases (i.e. revenues) and decreases (i.e. expenses) in total net assets.

D. Basis of Accounting

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

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

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

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2012, but which were levied to finance fiscal year 2013 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Lorain City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

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.

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 2012 amounted to \$160,491, which includes \$54,812 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 “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 “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. Further details on investments held by the School District can be found in Note 6.

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 capital improvements. See Note 21 for additional information regarding set asides.

Lorain City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

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 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:

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

H. Interfund Balances

On fund financial statements, 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.

Lorain City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

J. Compensated Absences

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

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

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

In governmental funds, the liability for unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the account "matured compensated absences payable" 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 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.

Lorain City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

M. Fund Balance

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

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

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

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

Assigned – Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the School District Board of Education. The School District Board of Education has by resolution authorized the Treasurer to assign fund balance. The School District Board of Education may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year’s appropriated budget.

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

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

Lorain City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

N. Interfund Activity

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

O. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2012.

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.

Lorain City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Estimated Resources The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the School District by March 1. As part of the certification, the School District receives the official certificate of estimated resources which states the projected revenue of each fund type. Prior to June 30, the School District must revise its budget ensuring that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. On or about July 1, the certificate of estimated resources is amended to include any unencumbered balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the amended certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2012.

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

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

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

Lorain City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 3 – Fund Deficits

Fund balances at June 30, 2012, included the following individual fund deficits:

	<u>Deficit</u> <u>Fund Balance</u>
General Fund	\$1,463,262
NonMajor Governmental Funds:	
Food Service	367,576
EMIS	7,273
Alternative Education	7,537
Race to the Top	21,290
Title VI-B	52,077
Vocational Education	6,432
Title II-D	1,183
Title I School Improvement	364,535
Title III	4,259
Title I	252,264
Preschool Handicapped Grant	3,731
Title II-A	7,309
Miscellaneous Federal Grants	6,279
Building Fund	916,000

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

Note 4 – Fund Balance

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

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

Lorain City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

	General Fund	Debt Service Fund	Classroom Facilities Fund	Other Governmental Funds	Total
Nonspendable for:					
Unclaimed Monies	\$ 49,547	\$ 0	\$ 0	\$ 0	\$ 49,547
Restricted for:					
Debt Service	0	1,970,954	0	0	1,970,954
Capital Outlay	0	0	50,145,484	883,311	51,028,795
Non-Public Schools	0	0	0	38,955	38,955
Extracurricular	0	0	0	9,170	9,170
Special Education	0	0	0	194,917	194,917
Capital Maintenance	0	0	0	3,909,767	3,909,767
Other Purposes	0	0	0	459,592	459,592
Total Restricted	0	1,970,954	50,145,484	5,495,712	57,612,150
Assigned for:					
Assigned for Encumbrances:					
Instruction	6,073	0	0	0	6,073
Support Services	1,410	0	0	0	1,410
Extracurricular	146	0	0	0	146
Total Assigned	7,629	0	0	0	7,629
Unassigned	(1,520,438)	0	0	(2,017,745)	(3,538,183)
Total Fund Balance (Deficit)	<u>\$ (1,463,262)</u>	<u>\$ 1,970,954</u>	<u>\$ 50,145,484</u>	<u>\$ 3,477,967</u>	<u>\$ 54,131,143</u>

Note 5 - Budgetary Basis of Accounting

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

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

Lorain City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

4. Advances In and Advances Out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).
5. Some funds are included in the general fund (GAAP), but have separate legally adopted budgets (budget).

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

Net Change in Fund Balance

	General
GAAP Basis	\$ (1,136,740)
Net Adjustment for Revenue Accruals	(572,338)
Advances In	488,823
Net Adjustment for Expenditure Accruals	(2,516,434)
Advances Out	(491,184)
Funds Budgeted Elsewhere **	(75,130)
Adjustment for Encumbrances	(2,751,436)
Budget Basis	\$ (7,054,439)

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

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.

Lorain City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

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

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

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

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

Custodial credit risk for an investment is the risk that in the event of failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District's \$17,395,000 investment in repurchase agreements is to be secured by the specific government securities upon which the repurchase agreements are based. These securities, held by the counterparty and not in the School District's name, must be obligations of or guaranteed by the United States and mature or be redeemable within five years of the date of the related repurchase agreement. Ohio law requires the market value of the securities subject to repurchase agreements must exceed the principal value of the securities subject to a repurchase agreement by 2%. The School District's policy is to invest money with financial institutions that are able to abide by the laws governing insurance and collateral of public funds.

Deposits At fiscal year-end, the carrying amount of the School District's deposits was \$28,621,275 and the bank balance was \$28,681,695. Of the bank balance:

1. \$13,080,986 of the bank balance was covered by depository insurance; and
2. \$15,600,709 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, 2012, the School District had the following investments:

Standard & Poor's	Investment	Fair Value	Investment Maturities (in years)			% Total Investments
			less than 1	1 - 2	More than 2	
N/A *	Repurchase Agreement	\$ 17,395,000	\$ 17,395,000	\$ 0	\$ 0	43.1%
Aaa	Federal Farm Credit Bank	10,102,792	0	10,102,792	0	24.9%
Aaa	Federal Home Loan Bank	12,289,249	1,003,810	9,190,734	2,094,705	30.3%
Aaa	Treasury Notes	705,246	705,246	0	0	1.7%
		<u>\$ 40,492,287</u>	<u>\$ 19,104,056</u>	<u>\$ 19,293,526</u>	<u>\$ 2,094,705</u>	<u>100.0%</u>

* Underlying securities exempt

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

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

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

Note 7 - Property Taxes

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

Property taxes include amounts levied against all real and public utility property located in the School District. Real property tax revenue received in calendar year 2012 represents collections of calendar year 2011 taxes. Real property taxes received in calendar year 2012 were levied after April 1, 2011, on the assessed value listed as of January 1, 2011, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. 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 alternate payment dates to be established.

Public utility property tax revenue received in calendar 2012 represents collections of calendar year 2011 taxes. Public utility real and tangible personal property taxes received in calendar year 2012 became a lien December 31, 2010, were levied after April 1, 2011 and are collected in 2012 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.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phased 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 was eliminated in calendar year 2010. The tax was phased out by reducing the assessment rate on the property each year. The bill replaced the revenue lost by the School District due to the phasing out of the tax. In calendar years 2006-2010, the School District was fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements are being phased out. On June 30, 2011, House Bill No. 153 was signed into law, which further reduced the amounts of these reimbursements.

The School District receives property taxes from Lorain County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2012, are available to finance fiscal year 2012 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Lorain City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Accrued property taxes receivable includes real property and public utility property taxes which are measurable as of June 30, 2012, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the delayed personal property tax and the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2012 was \$1,903,533 in the general fund, \$283,659 in the debt service fund, and \$30,533 in the permanent improvement capital projects fund. The amount available as an advance at June 30, 2011, was \$1,504,299 in the general fund, \$217,850 in the debt service fund, and \$24,029 in the permanent improvement capital projects fund.

On an accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been deferred.

The assessed values upon which the fiscal year 2012 taxes were collected are:

	2011 Second Half Collections		2012 First Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$ 643,355,930	98.23%	\$ 639,819,930	98.24%
Public Utility Personal Property	11,590,880	1.77%	11,469,720	1.76%
	\$ 654,946,810	100.00%	\$ 651,289,650	100.00%
Tax rate per \$1,000 assessed valuation	\$ 60.08		\$ 60.21	

Note 8 - Receivables

Receivables at June 30, 2012, 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 \$84,199, classroom facilities grant money of \$40,889,552 in the classroom facilities fund, \$7,870,684 of grants receivable in special revenue funds and miscellaneous receivables of \$91,944 in the general fund.

Lorain City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 9 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	<u>Balance</u> 6/30/2011	<u>Additions</u>	<u>Reductions/ Adjustments</u>	<u>Balance</u> 6/30/12
Governmental Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	\$ 6,903,641	\$ 0	\$ 0	\$ 6,903,641
Construction in Progress	25,119,897	2,196,071	(25,524,872) *	1,791,096
Total Capital Assets, being depreciated	32,023,538	2,196,071	(25,524,872)	8,694,737
<i>Capital Assets, being depreciated:</i>				
Land Improvements	1,120,119	0	(106,365)	1,013,754
Buildings and Improvements	109,387,731	22,693,224	(1,418,351)	130,662,604
Furniture and Equipment	3,695,042	155,228	(163,091)	3,687,179
Vehicles	455,391	0	0	455,391
Textbooks	4,722,608	0	(380,823)	4,341,785
Total Capital Assets, being depreciated	119,380,891	22,848,452	(2,068,630)	140,160,713
Less Accumulated Depreciation:				
Land Improvements	(847,672)	(18,515)	136,244	(729,943)
Buildings and Improvements	(21,070,336)	(2,283,801)	1,294,196	(22,059,941)
Furniture and Equipment	(2,382,697)	(253,287)	159,903	(2,476,081)
Vehicles	(364,331)	(19,307)	0	(383,638)
Textbooks	(4,449,739)	(192,398)	380,823	(4,261,314)
Total Accumulated Depreciation	(29,114,775)	(2,767,308)	1,971,166	(29,910,917)
Total Capital Assets being depreciated, net	90,266,116	20,081,144	(97,464)	110,249,796
Governmental Activities Capital Assets, Net	<u>\$ 122,289,654</u>	<u>\$ 22,277,215</u>	<u>\$ (25,622,336)</u>	<u>\$ 118,944,533</u>

* A portion of the School District's original plan with the Ohio School Facilities Commission was to renovate several elementary schools to accommodate the student enrollment. During the course of construction planning, the enrollment decreased substantially which modified the plan to construct new school buildings instead. The renovation plans and associated costs that were completed to date were unusable under the new plan. These construction in progress costs of \$2,848,189 were considered impaired assets and were written off against regular instruction expense. The events and circumstances did not meet the standards to report these expenses as a special or extraordinary item.

Lorain City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Depreciation expense was charged to governmental functions as follows:

<i>Governmental Activities:</i>	
Instruction:	
Regular	\$ 2,427,805
Special	12,011
Support Services:	
Pupil	2,069
Instructional Staff	167,412
Administration	9,982
Business	5,541
Operation and Maintenance of Plant	19,624
Pupil Transportation	12,192
Operation of Non-Instructional Services:	
Community Services	2,786
Food Service	20,167
Extracurricular Activities	87,719
Total Governmental Activities	\$ 2,767,308

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:

Type of Coverage	Per Occurance	Aggregate
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	224,305,546

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 4.3 percent discounted premiums to the BWC for 10 years and incurs the liability dollar-to-dollar on all claim costs. Estimated premiums for 2012 are \$273,091. 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
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C. Health Insurance

In order to minimize the annual cost of medical insurance, the Lorain City School District Board of Education and unions that represent its employees have entered into a Jointly Administered Trust Fund for the Benefit of Lorain City School District Employees (the Trust). The Trust provides health care, dental, vision and prescription benefits for full-time employees, their spouses and dependents, and for other persons who, according to Board of Education policy, are eligible for them. Health care benefits are paid by the Trust until certain coverage limits are reached. At that point, expenses are paid through “stop-loss” insurance coverage. The Trust has hired Medical Mutual of Ohio to process claims for benefits. The Trust purchases “stop-loss” coverage from Medical Mutual of Ohio. Additionally, the Trust purchases or pays for benefit coverage for dental care, vision care and prescription drug expenses through other companies. Dental care was provided under Medical Mutual through December 31, 2011 and Delta Dental beginning January 1, 2012. 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 \$833,586 at June 30, 2012, 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
2011	\$ 1,168,530	\$ 7,383,132	\$ (7,567,468)	\$ 984,194
2012	\$ 984,194	\$ 7,244,774	\$ (7,395,382)	\$ 833,586

Note 11 - Compensated Absences

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

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated to a maximum of 120 through 320 days depending on the individual contracts.

Upon retirement, employees receive payment for one-fourth of the total accumulated sick leave, up to a maximum accumulation which ranges from 30 through 70 days, depending on the individual contract.

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An incentive plan (effective from the 2006-07 through the 2011-12 school year) offered to the LEA (Lorain Education Association) required employees to declare their intention to retire by March 1st of each school year. The incentive of up to \$40,000 was paid over three years in equal installments. The final payments will be made in July, 2014.

In February 2010, the School District approved an early retirement incentive plan for employees in the State Employee Retirement System (SERS) and employees in the State Teachers Retirement System (STRS). For this incentive plan, the Lorain Education Association was excluded. Applicable employees in SERS receive 50% of their salary. Applicable employees in STRS receive \$80,000 over a four year period.

In June 2010, the School District approved a retirement incentive for the Lorain Education Association whereby the School District purchased up to two years of service credit for applicable employees.

Note 12 - Defined Benefit Pension Plans

A. School Employees Retirement System

Plan Description - 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, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per 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 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 Employers/Audit Resources.

Funding Policy - 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 rate is 14 percent of annual covered payroll. A portion of the School District’s contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2012, 12.65 percent and .05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School District’s required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2012, 2011 and 2010 were \$1,367,045, \$1,808,766 and \$1,705,288, respectively; 52 percent has been contributed for fiscal year 2012 and 100 percent for the fiscal years 2011 and 2010. \$716,497 represents the unpaid contribution for fiscal year 2012, and is recorded as a liability within the respective funds.

B. State Teachers Retirement System

Plan Description - The School District participates in the State Teachers Retirement System of Ohio (“STRS Ohio”), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a publicly-available, stand-alone financial report that may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org.

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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 a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Funding Policy - For fiscal year 2012, 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. 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. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2012, 2011 and 2010 were \$5,272,058, \$5,565,834 and \$6,332,081, respectively; 83 percent has been contributed for fiscal year 2012 and 100 percent for the fiscal years 2011 and 2010. Contributions to the DC and Combined Plans for fiscal year 2012 were \$118,687 made by the School District and \$84,777 made by the plan members. \$950,040 represents the unpaid contribution for fiscal year 2012, and is recorded as a liability within the respective funds.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2012, certain members of the Board of Education have elected social security. The Board's liability is 6.2 percent of wages paid.

Note 13 - Postemployment Benefits

A. School Employees Retirement System

Plan Description – The School District participates in two cost-sharing, multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization

Lorain City School District
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and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage and traditional indemnity plans. A prescription drug plan is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code Section 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2012 was \$99.90 for most participants, but could be as high as \$319.70 per month depending on their income. SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on SERS' website at www.ohsers.org under Employers/Audit Resources.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2012, .55 percent of covered payroll was allocated to health care. 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 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2012, the actuarially determined amount was \$35,800.

Active members do not contribute to the postemployment benefit plans. The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The School District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2012, 2011, and 2010 were \$228,703, \$219,012, and \$61,380, respectively; 52 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the current employer contribution to the Medicare B Fund. For fiscal year 2012, the actuarially required allocation was 0.75 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010 were \$80,731, \$116,398, and \$101,410, respectively; 52 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

B. State Teachers Retirement System

Plan Description - The School District contributes to the cost sharing, multiple-employer defined benefit Health Plan (the "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

Lorain City School District
Notes to the Basic Financial Statements
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Medicare Part B premiums. The Plan is included in the financial report of STRS. Interested parties can view the most recent Comprehensive Annual Financial Report by visiting www.strsoh.org or by requesting a copy by calling toll-free (888) 227-7877.

Funding Policy - Ohio law authorizes 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 monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District's contributions for health care for the fiscal years ended June 30, 2012, 2011, and 2010 were \$424,996, \$449,307, and \$468,352, respectively; 83 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

Note 14 - Long - Term Obligations

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

	Outstanding 6/30/11	Additions	Reductions	Refunding	Outstanding 6/30/12	Amounts Due in One Year
Governmental Activities:						
<i>General Obligation Bonds Payable:</i>						
Qualified Zone Academy Bonds:						
Due 2018	\$ 5,400,000	\$ 0	\$ 0	\$ 0	\$ 5,400,000	\$ 0
2003 Classroom Facilities Bonds						
1.45%-5.25% through 2025	15,950,000	0	1,395,000	9,530,000	5,025,000	1,520,000
Capital Appreciation Bonds	3,623,976	0	0	0	3,623,976	0
Accretion on CABs	1,000,788	134,600	0	0	1,135,388	0
2006 Classroom Facilities Refunding Bonds						
3.50%-4.25% through 2020	3,945,000	0	40,000	0	3,905,000	40,000
Capital Appreciation Bonds	64,995	0	0	0	64,995	0
Accretion on CABs	107,912	42,559	0	0	150,471	0
Premium on Debt Issuance	303,945	0	30,394	0	273,551	0
Refunding Loss	(239,748)	0	(23,975)	0	(215,773)	0
2007 School Improvement Refunding Bonds						
4.00%-5.50% through 2025	8,860,000	0	0	0	8,860,000	0
Premium on Debt Issuance	798,699	0	53,247	0	745,452	0
Refunding Loss	(617,317)	0	(41,155)	0	(576,162)	0
2012 Classroom Facilities Refunding Bonds						
3.00%-4.00% through 2024	0	9,335,000	0	0	9,335,000	0
Premium on Debt Issuance	0	662,935	0	0	662,935	0
Refunding Loss	0	(316,557)	0	0	(316,557)	0
Total	<u>39,198,250</u>	<u>9,858,537</u>	<u>1,453,511</u>	<u>9,530,000</u>	<u>38,073,276</u>	<u>1,560,000</u>
CAFS Overpayment Payable	101,963	0	101,963	0	0	0
Compensated Absences	<u>11,964,335</u>	<u>1,326,261</u>	<u>3,812,802</u>	<u>0</u>	<u>9,477,794</u>	<u>2,603,205</u>
Total Governmental Activities Long-Term Liabilities	<u>\$51,264,548</u>	<u>\$ 11,184,798</u>	<u>\$ 5,368,276</u>	<u>\$ 9,530,000</u>	<u>\$ 47,551,070</u>	<u>\$ 4,163,205</u>

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2003 Classroom Facilities Bonds

In 2003, the School District issued \$41,094,096 in general obligation bonds for renovation, construction, and equipping school facilities. These bonds were partially refunded in fiscal years 2007 and 2012. This issue included three capital appreciation bonds that mature December 1, 2013, 2014 and 2015. These bonds were purchased at a substantial discount at the time of issuance. At maturity all compounded interest is paid and the bond holder receives the face value of the bonds. As the value of the bonds increase, the accretion is reflected as principal liability. The maturity amount of the bonds are \$1,650,000, \$1,705,000 and \$1,760,000, respectively. For fiscal year 2012, \$134,600 was accreted to update the liability to \$4,759,364 at June 30, 2012.

2005 Qualified Zone Academy Bonds

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

2006 School Improvement Refunding Bonds

On December 21, 2006, the School District issued \$4,169,995 refunded general obligation bonds. The proceeds of the bonds were used to refund \$4,169,995 of the School District's outstanding Capital Improvement Bonds, Series 2003. The bonds were issued for a 14 year period with final maturity at December 1, 2020. At the date of the refunding, \$4,595,516 (including premium and after underwriting fees) was deposited in an irrevocable trust to provide for all future payments on the refunded bonds. As of June 30, 2012, \$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, 2012. 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 2012, \$42,559 was accreted for a liability of \$215,466.

Lorain City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

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, 2012, \$9,050,000 of these bonds are considered defeased.

These refunding bonds were issued with a premium of \$1,011,687, which is reported as an increase to bonds payable. The amounts are being amortized to interest expenses over the life of the bonds using the straight-line method. There was amortization of \$53,247 recorded for June 30, 2012. 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.

2012 Classroom Facilities Refunding Bonds

On June 27, 2012, the School District issued \$9,335,000 in refunded general obligation bonds. The proceeds of the bonds were used to refund \$9,530,000 of the School District's outstanding Capital Improvement Bonds, Series 2003. The bonds were issued for a 13 year period with final maturity at December 1, 2024. At the date of the refunding, \$9,846,557 (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, 2012, \$9,530,000 of these bonds are considered defeased.

These refunding bonds were issued with a premium of \$662,935, which is reported as an increase to bonds payable. The amounts are being amortized to interest expenses over the life of the bonds using the straight-line method. There was no amortization recorded for June 30, 2012. 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 \$1,521,452. The issuance resulted in an economic gain of \$1,280,893.

CAFS Overpayment Payable

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

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

Lorain City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2012, are as follows:

Fiscal Year Ending June 30,	Serial Bonds		Capital Appreciation Bonds		Total	
	Principal	Interest	Principal	Accretion	Principal	Accretion/ Interest
2013	\$ 1,560,000	\$ 1,130,418	\$ 0	\$ 0	\$ 1,560,000	\$ 1,130,418
2014	45,000	1,114,998	1,203,427	446,573	1,248,427	1,561,571
2015	50,000	1,113,157	1,208,402	496,598	1,258,402	1,609,755
2016	50,000	1,111,188	1,212,147	547,853	1,262,147	1,659,041
2017	1,240,000	1,082,803	64,995	515,005	1,304,995	1,597,808
2018 - 2022	8,870,000	3,283,591	0	0	8,870,000	3,283,591
2023 - 2027	15,310,000	1,609,926	0	0	15,310,000	1,609,926
Total	\$27,125,000	\$ 10,446,081	\$3,688,971	\$ 2,006,029	\$ 30,813,971	\$ 12,452,110

Note 15 – Tax Anticipation Notes

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

	Outstanding 6/30/11	Additions	Reductions	Outstanding 6/30/12
2006 Tax Anticipation Note 4.75% though 2011	\$ 1,080,000	\$ 0	\$ 1,080,000	\$ 0
2011 Tax Anticipation Note 2.90% though 2016	4,793,000	0	0	4,793,000
Total	\$ 5,873,000	\$ 0	\$ 1,080,000	\$ 4,793,000

Principal and interest requirements to retire the notes payable at June 30, 2012 are as follows:

Fiscal Year Ending June 30,	Tax Anticipation Notes		
	Principal	Interest	Total
2013	\$ 958,600	\$ 125,098	\$ 1,083,698
2014	958,600	97,298	1,055,898
2015	958,600	69,498	1,028,098
2016	958,600	41,700	1,000,300
2017	958,600	13,899	972,499
Totals	\$ 4,793,000	\$ 347,493	\$ 5,140,493

Lorain City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 16 - Interfund Transfers

Transfers for the year ended June 30, 2012 consisted of the following:

Fund	Transfer In	Transfer Out
General Fund	\$ 0	\$ 379,685
Nonmajor Governmental Funds	379,685	0
Total	\$ 379,685	\$ 379,685

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, 2012 consisted of the following:

	Interfund Receivable	Interfund Payable
General Fund	\$ 1,311,818	\$ 0
Nonmajor Governmental Funds	0	1,311,818
	\$ 1,311,818	\$ 1,311,818

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 2013 with monies to be received from reimbursable expenditures incurred during fiscal year 2012.

Advances to/from other funds as of June 30, 2012 consisted of the following:

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

The general fund advanced monies to the special revenue funds to cover expenditures until revenue was received. It is the intention of the School District to repay the advances in fiscal year 2013.

Lorain City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 18 - Contractual Commitments

As of June 30, 2012, the School District had contractual commitments for the new High School in the amount of \$2,681,560.

Note 19 - Jointly Governed Organizations

A. Tri-Rivers Educational Computer Association

The School District is a participant in the Tri-Rivers Educational Computer Association (TRECA), which is a computer consortium. TRECA is an association of public districts within the boundaries of Delaware, Knox, Marion, Morrow, Muskingum and Wyandot Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts.

The Governing Board of TRECA consists of one representative from each county elected by majority vote of all charter member districts within each county, one representative from the city districts, and the superintendent from Tri-Rivers Joint Vocational School. Financial information can be obtained from the Tri-Rivers Educational Computer Association, 100 Executive Drive, Marion, Ohio 43302. During the year ended June 30, 2012, the School District paid \$61,598 in basic services to TRECA.

B. Ohio Schools Council

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

The OSC is a jointly governed organization among 157 school districts in 28 counties. The jointly governed organization was formed for the purpose of promoting cooperative agreements and activities among its members in dealing with problems of mutual concern such as media center, gas consumption, food service and insurance. Each member provides operating resources to OSC on a per pupil or actual usage charge except for insurance.

OSC is governed by a board of directors chosen from the general membership. Financial information can be obtained by contacting the Executive Director at 6133 Rockside Road, Suite 10, Independence, Ohio 44131. For the 2011-12 school year, the School District paid \$1,954 for membership and services.

Note 20 - Contingencies

A. Grants

The School District received financial assistance from Federal and State agencies in the form of grants. The expenditure 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, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2012, if applicable, cannot be determined at this time.

Lorain City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

B. Litigation

The School District is not party to any claims or lawsuits that would, in the School District’s opinion, have a material effect of the basic financial statements.

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 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 capital improvement. Disclosure of this information is required by State statute.

	Capital Improvement Reserve
Set Aside Restricted Balance Jun 30, 2011	\$ 0
Current Year Set-Aside Requirement	1,270,551
Prior Year Offset from Bond Proceeds	(1,270,551)
Total	\$ 0
Balance Carried Forward to Fiscal Year 2013	\$ 0
Set Aside Balance June 30, 2012	\$ 0

Although the School District had qualifying disbursements and current year offsets during the fiscal year that reduced the set-aside amount to below zero, this amount may not be used to reduce the set aside requirement for future years. The negative balance is, therefore, not presented as being carried forward to future years.

Note 22 – Related Party Transactions

During 2012, the School District provided accounting and fiscal services to the Lorain K-12 Digital Academy (the “Academy”), a discretely presented component unit of the School District. The School District acts as the Sponsor for the Academy. The School District and the Academy entered into a 5-year sponsorship agreement commencing on August 26, 2009. Pursuant to the Sponsor’s authority under section 3314.08(G) of the Ohio Revised Code to provide the Academy with services, the Sponsor shall be the fiscal agent of the Academy and shall direct the Sponsor’s treasurer to serve as the Academy’s fiscal officer.

Lorain City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 23 – Lorain K-12 Digital Academy

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

Basis of Presentation

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

Deposits

As of June 30, 2012, the carrying amount the Academy’s deposits was \$664,553. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2012, the Academy’s bank balance of \$664,759 was covered by the Federal Deposit Insurance Corporation (FDIC).

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

Capital Assets

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	Balance 6/30/11	Additions	Disposals	Balance 6/30/2012
<i>Capital Assets Being Depreciated</i>				
Improvements	\$ 14,000	\$ 0	\$ 0	\$ 14,000
Furniture and Equipment	429,989	0	0	429,989
	<u>443,989</u>	<u>0</u>	<u>0</u>	<u>443,989</u>
<i>Accumulated Depreciation</i>				
Improvements	(4,330)	(933)	0	(5,263)
Furniture and Equipment	(400,693)	(2,323)	0	(403,016)
	<u>(405,023)</u>	<u>(3,256)</u>	<u>0</u>	<u>(408,279)</u>
Capital Assets, Net	<u>\$ 38,966</u>	<u>\$ (3,256)</u>	<u>\$ 0</u>	<u>\$ 35,710</u>

Lorain City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 24 – Fiscal Distress

On June 23, 2007 the School District was declared to be in a state of “Fiscal Caution” by the Auditor of State. In accordance with this law, within sixty days of the Auditor’s declaration of fiscal caution, the Board of Education of the School District had to prepare and submit to the Superintendent of Public Instruction a financial plan outlining the steps the Board will take to eliminate the School District’s current operating deficit and avoid future deficits. The most recent financial recovery plan was submitted on December 7, 2012 and the School District projects a general fund balance on June 30, 2013 of approximately \$2,383.

Note 25 – Subsequent Event

The School District passed a 4.8 mill property tax levy on November 6, 2012 to provide for the emergency requirements of the School District.

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**LORAIN CITY SCHOOL DISTRICT
LORAIN COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2012**

Federal Grantor/ Pass Through Grantor Program Title	Federal CFDA Number	Grant Year	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
U. S. Department of Education						
<i>Passed Through Ohio Department of Education:</i>						
<i>Title I Cluster:</i>						
Title I - School Improvement Grant	84.010	2011	\$ (348,804)	\$ 0	\$ 260,904	\$ 0
Title I - School Improvement Grant	84.010	2012	348,804	0	189,580	0
Title I - Grants to LEA's	84.010	2011	150,000	0	0	0
Title I - Grants to LEA's	84.010	2012	3,033,014	0	3,413,947	0
ARRA - Title I: Grants to LEA's	84.389	2011	724,887	0	762,167	0
<i>Total Title I Cluster</i>			<u>3,907,901</u>	<u>0</u>	<u>4,626,598</u>	<u>0</u>
<i>Special Education Cluster:</i>						
Special Education - Grants to States	84.027	2011	158,321	0	159,435	0
Special Education - Grants to States	84.027	2012	1,611,093	0	1,634,007	0
ARRA - Special Education - Grants to States	84.391	2011	248,612	0	282,262	0
<i>Total Special Education - Grants to States</i>			<u>2,018,026</u>	<u>0</u>	<u>2,075,704</u>	<u>0</u>
Special Education - Preschool Grants	84.173	2011	(798)	0	0	0
Special Education - Preschool Grants	84.173	2012	41,115	0	41,128	0
ARRA - Special Education - Preschool Grants	84.392	2011	4,560	0	5,010	0
<i>Total Special Education - Preschool Grants</i>			<u>44,877</u>	<u>0</u>	<u>46,138</u>	<u>0</u>
<i>Total Special Education Cluster</i>			<u>2,062,903</u>	<u>0</u>	<u>2,121,842</u>	<u>0</u>
Vocational Education - Carl D. Perkins Secondary	84.048	2011	47,927	0	58,961	0
Vocational Education - Carl D. Perkins Secondary	84.048	2012	235,408	0	266,042	0
<i>Total Vocational Education - Carl D. Perkins Secondary</i>			<u>283,335</u>	<u>0</u>	<u>325,003</u>	<u>0</u>
Title IV-A - Safe & Drug Free Schools and Communities	84.186	2011	0	0	20	0
Title IV-A - Safe & Drug Free Schools and Communities	84.186	2012	1,524	0	1,524	0
<i>Total Title IV-A - Safe & Drug Free Schools and Communities</i>			<u>1,524</u>	<u>0</u>	<u>1,544</u>	<u>0</u>
Twenty First Century Community Learning Centers	84.287	2011	53,409	0	131,770	0
Twenty First Century Community Learning Centers	84.287	2012	645,444	0	831,346	0
<i>Total Twenty First Century Community Learning Centers</i>			<u>698,853</u>	<u>0</u>	<u>963,116</u>	<u>0</u>
Title II-D - Education Technology	84.318	2011	(1,441)	0	2,682	0
Title II-D - Education Technology	84.318	2012	25,860	0	41,020	0
Title II-D - Interactive Distance Learning	84.318	2011	9,362	0	43,273	0
Title II-D - Interactive Distance Learning	84.318	2012	180	0	0	0
<i>Total Title II-D</i>			<u>33,961</u>	<u>0</u>	<u>86,975</u>	<u>0</u>
School Improvement Grant	84.377A	2012	330,596	0	507,873	0
Title III-A - English Language Acquisition	84.365	2011	9,947	0	10,064	0
Title III-A - English Language Acquisition	84.365	2012	45,722	0	45,571	0
<i>Total Title III-A - English Language Acquisition</i>			<u>55,669</u>	<u>0</u>	<u>55,635</u>	<u>0</u>
Title II-A - Improving Teacher Quality	84.367	2010	2,511	0	2,511	0
Title II-A - Improving Teacher Quality	84.367	2011	170,895	0	248,394	0
Title II-A - Improving Teacher Quality	84.367	2012	519,662	0	549,688	0
<i>Total Title II-A - Improving Teacher Quality</i>			<u>693,068</u>	<u>0</u>	<u>800,593</u>	<u>0</u>
ARRA - SFSF - Education State Grants	84.394	2011	0	0	563,925	0
ARRA - SFSF - Race to the Top Incentive Grants	84.395	2011	232,986	0	242,891	0
ARRA - SFSF - Race to the Top Incentive Grants	84.395	2012	539,521	0	554,899	0
<i>Total ARRA - SFSF - Race to the Top Incentive Grants</i>			<u>772,507</u>	<u>0</u>	<u>797,790</u>	<u>0</u>
ARRA - SFSF - Investing in Innovation (i3) Fund	84.396	2011	(3,835)	0	0	0
ARRA - SFSF - Investing in Innovation (i3) Fund	84.396	2012	103,195	0	106,596	0
<i>Total ARRA - SFSF - Investing in Innovation (i3) Fund</i>			<u>99,360</u>	<u>0</u>	<u>106,596</u>	<u>0</u>
Education Jobs Fund						
Education Jobs Fund	84.410	2011	520,534	0	521,824	0
Education Jobs Fund	84.410	2012	72,763	0	72,763	0
<i>Total Education Jobs Fund</i>			<u>593,297</u>	<u>0</u>	<u>594,587</u>	<u>0</u>
<i>Total Passed Through Ohio Department of Education</i>			<u>\$ 9,532,974</u>	<u>\$ 0</u>	<u>\$ 11,552,077</u>	<u>\$ 0</u>

(Continued)

**LORAIN CITY SCHOOL DISTRICT
LORAIN COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2012**

Federal Grantor/ Pass Through Grantor Program Title	Federal CFDA Number	Grant Year	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
U. S. Department of Education						
<i>Direct Awards:</i>						
Title V-C - Magnet Schools Assistance	84.165A	2011	\$ 134,768	\$ 0	\$ 134,768	\$ 0
Improvement for Education - Physical Education Program	84.215F	2011	44,722	0	44,722	0
Improvement for Education - Smaller Learning Communities	84.215L	2011	51,302	0	51,302	0
Improvement for Education - Smaller Learning Communities	84.215L	2012	104,158	0	104,158	0
Total Improvement for Education			<u>200,182</u>	<u>0</u>	<u>200,182</u>	<u>0</u>
Gaining Early Awareness and Readiness for Undergraduate Programs #1	84.334	2011	106,810	0	106,810	0
Gaining Early Awareness and Readiness for Undergraduate Programs #1	84.334	2012	50,637	0	46,948	0
Gaining Early Awareness and Readiness for Undergraduate Programs #2	84.334	2011	6,502	0	6,502	0
Gaining Early Awareness and Readiness for Undergraduate Programs #2	84.334	2012	459,706	0	459,706	0
Gaining Early Awareness and Readiness for Undergraduate Programs #3	84.334	2012	32,016	0	32,016	0
Total Gaining Early Awareness and Readiness for Undergraduate Programs			<u>655,671</u>	<u>0</u>	<u>651,982</u>	<u>0</u>
<i>Total Direct Awards</i>			<u>990,621</u>	<u>0</u>	<u>986,932</u>	<u>0</u>
Total U.S. Department of Education			<u>10,523,595</u>	<u>0</u>	<u>12,539,009</u>	<u>0</u>
U. S. Department of Agriculture						
<i>Passed Through Ohio Department of Education:</i>						
Fresh Fruit & Vegetable Program	10.582	2012	44,013	0	44,013	0
Child Nutrition Cluster: School Breakfast Program	10.553	2012	1,198,124	0	1,198,124	0
National School Lunch Program	10.555	2012	2,146,559	127,850	2,146,559	127,850
Total Child Nutrition Cluster			<u>3,344,683</u>	<u>127,850</u>	<u>3,344,683</u>	<u>127,850</u>
Total U.S Department of Agriculture			<u>3,388,696</u>	<u>127,850</u>	<u>3,388,696</u>	<u>127,850</u>
U. S. Department of Health & Human Services						
<i>Passed Through Lorain County Jobs and Family Services:</i>						
Substance Abuse & Mental Health Services - PRNS	93.243	2011	56,617	0	36,576	0
Substance Abuse & Mental Health Services - PRNS	93.243	2012	41,114	0	57,732	0
Total Substantive Abuse & Mental Health Services - PRNS			<u>97,731</u>	<u>0</u>	<u>94,308</u>	<u>0</u>
Total U.S. Department of Health & Human Services			<u>97,731</u>	<u>0</u>	<u>94,308</u>	<u>0</u>
Total Federal Financial Assistance			<u>\$ 14,010,022</u>	<u>\$ 127,850</u>	<u>\$ 16,022,013</u>	<u>\$ 127,850</u>

**LORAIN CITY SCHOOL DISTRICT
LORAIN COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2012**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) reports the Lorain City School Districts' (the District's) federal award programs' receipts and disbursements. The Schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

The District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the District assumes it expends federal monies first.

NOTE C – FOOD DONATION PROGRAM

The District reports commodities consumed on the Schedule at the fair value. The District allocated donated food commodities to the respective programs that benefitted from the use of those donated food commodities.

NOTE D - TRANSFERS BETWEEN PROGRAM YEARS

Federal regulations require schools to obligate certain federal awards by June 30. However, with ODE's consent, schools can transfer unobligated amounts to the subsequent fiscal year's program. These transfers resulted in the Schedule reporting negative receipts. The District transferred the following amounts from 2011 to 2012 programs:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount Transferred from 2011 to 2012</u>
Title I	84.010	\$ 348,804
Special Education - Preschool Grants	84.173	\$ 798
Title II-D	84.318	\$ 1,441
ARRA-SFSF- Investing in Innovation Fund	84.396	\$ 3,835

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Lorain City School District
Lorain County
2350 Pole Avenue
Lorain, Ohio 44052

To the Board of Education:

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Lorain City School District, Lorain County, (the District) as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 22, 2013, wherein we noted the financial statements of the Jointly Administered Trust Fund for the Benefit of the Lorain City School District Employees were audited by other auditors and the District is in a state of fiscal caution. 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the 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, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and timely corrected.

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 material weaknesses, as defined above.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated February 22, 2013.

We intend this report solely for the information and use of management, the audit committee, Board of Education, federal awarding agencies and pass-through entities, and others within the District. We intend it for no one other than these specified parties.

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

Dave Yost
Auditor of State

February 22, 2013



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Lorain City School District
Lorain County
2350 Pole Avenue
Lorain, Ohio 44052

To the Board of Education:

Compliance

We have audited the compliance of Lorain City School District (the 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 directly and materially affect each of the Lorain City School District's major federal programs for the year ended June 30, 2012. The *summary of auditor's results* section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to opine on the District's compliance based on our audit.

The District's basic financial statements include the operations of Lorain K-12 Digital Academy, which received \$5,131 in federal awards which is not included in the District's Schedule of Federal Awards Receipts and Expenditures for the year ended June 30, 2012. Our audit of Federal awards, described below, did not include the operations of Lorain K-12 Digital Academy because the component unit is legally separate from the primary government which this report addresses, and because it expended less than \$500,000 of Federal awards for the year ended June 30, 2012, it was not subject to OMB Circular A-133 audit requirements.

Our compliance audit followed auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with these requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with these requirements.

In our opinion, the Lorain City School District complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of opining 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 opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the 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, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control 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.

We intend this report solely for the information and use of the audit committee, management, Board of Education, others within the entity, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Dave Yost
Auditor of State

February 22, 2013

**LORAIN CITY SCHOOL DISTRICT
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2012**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control 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 § .510(a)?	No
(d)(1)(vii)	Major Programs (list):	- Title I Cluster: #84.010- Title I and #84.389- ARRA-Title I - #84.287- 21 st Century Community Learning Centers - #84.377 A- School Improvement Grant - #84.394- ARRA- SFSF- Education State Grants - #84.395- ARRA- SFSF- Race to the Top Incentive Grants - #84.334- Gaining Early Awareness and Readiness for Undergraduate Programs.
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$484,495 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

**LORAIN CITY SCHOOL DISTRICT
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2012
(Continued)**

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

None.

3. FINDINGS FOR FEDERAL AWARDS

None.

**LORAIN CITY SCHOOL DISTRICT
LORAIN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2012**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2011-001	Management did not spend State Fiscal Stabilization Fund – Education State Grant advances within thirty days of receipt. This allowed the District to earn \$3,112 of interest that was required to be repaid to the Ohio Department of Education.	Yes	Finding No Longer Valid
2011-002	Management did not spend 21 st Century Community Learning Center Grant advances within thirty days of receipt. This allowed the District to earn \$666 of interest that is required to be repaid to the Ohio Department of Education.	Yes	Finding No Longer Valid
2011-003	Unallowable payment related to the prepayment of training services with Title I grant monies.	Yes	Finding No Longer Valid



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LORAIN CITY SCHOOL DISTRICT

LORAIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 12, 2013