

LORAIN CITY SCHOOL DISTRICT
GENERAL PURPOSE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2001



STATE OF OHIO
OFFICE OF THE AUDITOR

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Board of Education
Lorain City School District

We have reviewed the Independent Auditor's Report of the Lorain City School District, Lorain County, prepared by Costin + Company for the audit period July 1, 2000 through June 30, 2001. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

JIM PETRO
Auditor of State

January 24, 2002

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LORAIN CITY SCHOOL DISTRICT

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COSTIN + COMPANY

Certified Public Accountants

35945 Center Ridge Road

North Ridgeville, OH 44039

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Lorain City School District

We have audited the accompanying general purpose financial statements of the Lorain City School District, as of and for the year ended June 30, 2001, as listed in the table of contents. These general purpose financial statements are the responsibility of the Lorain City School District's management. Our responsibility is to express an opinion on these general purpose 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 63% and 93%, respectively, of the assets and revenues of the Internal Service Fund Type. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Trust 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 standards applicable to financial audits contained in "Government Auditing Standards," issued by the Comptroller General of the United States and the U.S. Office of Management and Budget (OMB) Circular A-133, "Audits of State and Local Governments, and Non-Profit Organizations." Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Lorain City School District, as of June 30, 2001, and the results of its operations and cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with "Government Auditing Standards", we have also issued our report dated November 28, 2001 on our consideration of the Lorain City School District's internal control over financial reporting and our test of compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with "Governmental Auditing Standards" and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements of the Lorain City School District, taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations", and is not a required part of the general purpose financial statements. Such information has been subjected to auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

North Ridgeville, Ohio
November 28, 2001

LORAIN CITY SCHOOL DISTRICT
 COMBINED BALANCE SHEET – ALL FUND TYPES AND ACCOUNT GROUPS
 JUNE 30, 2001

	Governmental Fund Types		
	General	Special Revenue	Capital Projects
<u>Assets and other debits</u>			
Pooled cash and equivalents	\$ 6,944,212	\$ 2,866,474	\$ 501,112
Restricted cash	1,207,065	-	-
Receivables, net			
Taxes, current	23,703,592	-	-
Taxes, delinquent	853,210	-	-
Accounts and other	607,048	26,252	-
Due from other governments	41,986	92,740	-
Interfund receivable	1,807,040	6,000	-
Inventories and supplies	-	-	-
Prepaid and deferred expenses	-	-	-
Fixed assets	-	-	-
Accumulated depreciation	-	-	-
Amount to be provided for debt service	-	-	-
Amount to be provided for benefits	-	-	-
Total assets and other debits	<u>\$ 35,164,153</u>	<u>\$ 2,991,466</u>	<u>\$ 501,112</u>
<u>Liabilities, fund equity and other credits</u>			
Liabilities			
Accounts and contracts payable	\$ 229,709	\$ 267,364	\$ 25,869
Claims payable	-	-	-
Accrued salaries and benefits	3,757,387	557,301	6,608
Due to students	-	-	-
Due to other governments	1,268,483	75,206	-
Interfund payable	-	402,261	916,000
Due to others	-	-	-
Deferred revenue	21,019,130	-	-
Notes payable	5,475,542	-	-
Bonds payable	-	-	-
Accrued leave benefits	253,871	28,006	-
Total liabilities	<u>32,004,122</u>	<u>1,330,138</u>	<u>948,477</u>
Fund equity and other credits			
Investment in general fixed assets	-	-	-
Retained earnings			
Unreserved	-	-	-
Fund balances			
Reserved	6,150,584	694,836	52,060
Unreserved	(2,990,553)	966,492	(499,425)
Total fund equity and other credits	<u>3,160,031</u>	<u>1,661,328</u>	<u>(447,365)</u>
Total liabilities, fund equity and other credits	<u>\$ 35,164,153</u>	<u>\$ 2,991,466</u>	<u>\$ 501,112</u>

The accompanying notes are an integral part of these financial statements.

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Totals
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-term Debt	(Memorandum Only)
\$ 315,943	\$ 2,590,431	\$ 746,227	\$ -	\$ -	\$ 13,964,399
-	-	-	-	-	1,207,065
-	-	-	-	-	23,703,592
-	-	-	-	-	853,210
3,833	106,271	-	-	-	743,404
76,302	14,256	-	-	-	225,284
-	-	-	-	-	1,813,040
19,233	-	-	-	-	19,233
-	106,464	-	-	-	106,464
1,010,046	-	-	56,250,896	-	57,260,942
(699,559)	-	-	-	-	(699,559)
-	-	-	-	1,222,981	1,222,981
-	-	-	-	8,337,406	8,337,406
<u>\$ 725,798</u>	<u>\$ 2,817,422</u>	<u>\$ 746,227</u>	<u>\$ 56,250,896</u>	<u>\$ 9,560,387</u>	<u>\$ 108,757,461</u>
\$ 15,075	\$ 333,765	\$ 200	\$ -	\$ -	\$ 871,982
-	840,777	-	-	-	840,777
4,160	23,982	-	-	-	4,349,438
-	-	23,978	-	-	23,978
124,603	105,523	-	-	633,567	2,207,382
334,082	160,697	-	-	-	1,813,040
-	-	718,049	-	-	718,049
7,542	-	-	-	-	21,026,672
-	-	-	-	-	5,475,542
-	-	-	-	1,222,981	1,222,981
513	-	-	-	7,703,839	7,986,229
<u>485,975</u>	<u>1,464,744</u>	<u>742,227</u>	<u>-</u>	<u>9,560,387</u>	<u>46,536,070</u>
-	-	-	56,250,896	-	56,250,896
239,823	1,352,678	-	-	-	1,592,501
-	-	-	-	-	6,897,480
-	-	4,000	-	-	(2,519,486)
<u>239,823</u>	<u>1,352,678</u>	<u>4,000</u>	<u>56,250,896</u>	<u>-</u>	<u>62,221,391</u>
<u>\$ 725,798</u>	<u>\$ 2,817,422</u>	<u>\$ 746,227</u>	<u>\$ 56,250,896</u>	<u>\$ 9,560,387</u>	<u>\$ 108,757,461</u>

LORAIN CITY SCHOOL DISTRICT
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
 ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND
 FOR THE YEAR ENDED JUNE 30, 2001

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Revenues				
Taxes	\$ 23,305,448	\$ -	\$ -	\$ -
Tuition and fees	387,486	-	-	-
Interest	1,276,203	15,701	-	-
Intergovernmental	43,502,312	15,324,554	-	657,586
Extracurricular	-	533,147	-	-
Miscellaneous	1,038,593	370,486	-	-
Total revenues	<u>69,510,042</u>	<u>16,243,888</u>	<u>-</u>	<u>657,586</u>
Expenditures				
Current				
Instruction				
Regular	30,702,920	6,373,113	-	509,913
Special	6,824,056	4,932,526	-	62,701
Vocational education	4,555,713	245,147	-	-
Adult continuing	-	290,732	-	-
Other	449,693	-	-	-
Supporting services				
Pupil	2,129,820	428,069	-	-
Instructional	3,672,871	1,833,919	-	-
Board of education	344,826	-	-	-
Administration	6,177,007	713,019	-	-
Fiscal	971,695	-	-	-
Business	606,735	65,114	-	-
Operation and maintenance	7,177,176	100,093	-	-
Pupil transportation	2,035,177	2,000	-	-
Central services	516,339	100,220	-	-
Operation of non-instructional services				
Food service operations	-	3,390	-	-
Community services	-	1,108,047	-	-
Extracurricular				
Academic oriented	439,494	54,424	-	-
Occupation oriented	-	4,173	-	-
Sports oriented	699,930	363,427	-	-
Co-curricular	-	55,045	-	-
Capital outlay	530,178	69,114	-	-
Debt service				
Principal	2,387	-	495,729	-
Interest	417,235	-	84,381	-
Total expenditures	<u>68,253,252</u>	<u>16,741,572</u>	<u>580,110</u>	<u>572,614</u>
Excess (deficiency) of revenues over expenditures	<u>1,256,790</u>	<u>(497,684)</u>	<u>(580,110)</u>	<u>84,972</u>
Other financing sources (uses)				
Gain on sale of assets	57,910	-	-	-
Operating transfers in	-	270,387	580,110	-
Pass-through	-	(1,000)	-	-
Operating transfers out	(1,660,054)	(635)	-	-
Total other financing sources (uses)	<u>(1,602,144)</u>	<u>268,752</u>	<u>580,110</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures and other sources (uses)	<u>(345,354)</u>	<u>(228,932)</u>	<u>-</u>	<u>84,972</u>
Fund balances, beginning of year	3,505,385	1,890,260	-	(532,337)
Fund balances, end of year	<u>\$ 3,160,031</u>	<u>\$ 1,661,328</u>	<u>\$ -</u>	<u>\$ (447,365)</u>

The accompanying notes are an integral part of these financial statements.

Fiduciary Fund Type Expendable Trust	Totals (Memorandum Only)
\$ -	\$ 23,305,448
-	387,486
-	1,291,904
-	59,484,452
-	533,147
250	1,409,329
<u>250</u>	<u>86,411,766</u>
-	37,585,946
-	11,819,283
-	4,800,860
-	290,732
-	449,693
-	2,557,889
250	5,507,040
-	344,826
-	6,890,026
-	971,695
-	671,849
-	7,277,269
-	2,037,177
-	616,559
-	3,390
-	1,108,047
-	493,918
-	4,173
-	1,063,357
-	55,045
-	599,292
-	498,116
-	501,616
<u>250</u>	<u>86,147,798</u>
-	263,968
-	57,910
4,000	854,497
-	(1,000)
-	(1,660,689)
<u>4,000</u>	<u>(749,282)</u>
4,000	(485,314)
-	4,863,308
<u>\$ 4,000</u>	<u>\$ 4,377,994</u>

LORAIN CITY SCHOOL DISTRICT
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) – ALL GOVERNMENTAL FUND TYPES
 FOR THE YEAR ENDED JUNE 30, 2001

	General		Variance Favorable (Unfavorable)
	Budget	Actual	
Revenues			
Taxes	\$ 23,892,629	\$ 23,765,760	\$ (126,869)
Tuition and fees	70,000	387,486	317,486
Interest	1,279,241	1,279,241	-
Intergovernmental	43,056,072	43,490,457	434,385
Extracurricular	-	-	-
Miscellaneous	923,576	921,311	(2,265)
Total revenues	<u>69,221,518</u>	<u>69,844,255</u>	<u>622,737</u>
Expenditures			
Current			
Instruction			
Regular	33,334,238	31,169,651	2,164,587
Special	6,987,276	6,798,590	188,686
Vocational education	5,202,817	4,905,141	297,676
Adult continuing	-	-	-
Other	969,533	849,262	120,271
Supporting services			
Pupil	2,429,271	2,158,577	270,694
Instructional	4,403,867	3,655,941	747,926
Board of education	480,724	385,970	94,754
Administration	6,212,797	6,105,178	107,619
Fiscal	1,155,063	997,316	157,747
Business	730,438	661,267	69,171
Operation and maintenance	7,622,904	7,491,328	131,576
Pupil transportation	2,208,189	2,038,793	169,396
Central services	791,998	593,410	198,588
Operation of non-instructional services			
Food service operations	-	-	-
Community services	-	-	-
Extracurricular activities	1209716	1,128,936	80,780
Capital outlay	570,262	530,178	40,084
Debt service			
Principal	868,442	868,442	-
Interest	432,580	432,580	-
Total expenditures	<u>75,610,115</u>	<u>70,770,560</u>	<u>4,839,555</u>
Excess (deficiency) of revenues over expenditures	<u>(6,388,597)</u>	<u>(926,305)</u>	<u>5,462,292</u>
Other financing sources (uses)			
Gain on sale of assets	57,910	57,910	-
Operating transfers-in	475,000	-	(475,000)
Advances in	-	608,965	608,965
Pass-through	-	-	-
Refund of prior year expenditures	-	37,509	37,509
Advances out	(989,782)	(989,782)	-
Refund of prior year receipts	-	-	-
Operating transfers-out	(1,533,350)	(1,533,350)	-
Total other financing sources (uses)	<u>(1,990,222)</u>	<u>(1,818,748)</u>	<u>171,474</u>
Excess (deficiency) of revenues over expenditures and other sources (uses)	<u>(8,378,819)</u>	<u>(2,745,053)</u>	<u>5,633,766</u>
Prior year encumbrances	1,709,134	1,709,134	-
Fund balances, beginning of year	7,572,894	7,572,894	-
Fund balances, end of year	<u>\$ 903,209</u>	<u>\$ 6,536,975</u>	<u>\$ 5,633,766</u>

The accompanying notes are an integral part of these financial statements.

LORAIN CITY SCHOOL DISTRICT
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) – ALL GOVERNMENTAL FUND TYPES
 FOR THE YEAR ENDED JUNE 30, 2001

	Capital Projects		Variance Favorable (Unfavorable)
	Budget	Actual	
Revenues			
Taxes	\$ -	\$ -	\$ -
Tuition and fees	-	-	-
Interest	-	-	-
Intergovernmental	657,586	657,586	-
Extracurricular	-	-	-
Miscellaneous	-	-	-
Total revenues	<u>657,586</u>	<u>657,586</u>	<u>-</u>
Expenditures			
Current			
Instruction			
Regular	785,640	532,448	253,192
Special	82,321	82,321	-
Vocational education	32,908	22,917	9,991
Adult continuing	-	-	-
Other	-	-	-
Supporting services			
Pupil	-	-	-
Instructional	-	-	-
Board of education	-	-	-
Administration	-	-	-
Fiscal	-	-	-
Business	-	-	-
Operation and maintenance	-	-	-
Pupil transportation	-	-	-
Central services	-	-	-
Operation of non-instructional services			
Food service operations	-	-	-
Community services	-	-	-
Extracurricular activities	-	-	-
Capital outlay	-	-	-
Debt service			
Principal	-	-	-
Interest	-	-	-
Total expenditures	<u>900,869</u>	<u>637,686</u>	<u>263,183</u>
Excess (deficiency) of revenues over expenditures	<u>(243,283)</u>	<u>19,900</u>	<u>263,183</u>
Other financing sources (uses)			
Gain on sale of assets	-	-	-
Operating transfers-in	-	-	-
Advances in	-	-	-
Pass-through	-	-	-
Refund of prior year expenditures	-	-	-
Advances out	-	-	-
Refund of prior year receipts	-	-	-
Operating transfers-out	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures and other sources (uses)	<u>(243,283)</u>	<u>19,900</u>	<u>263,183</u>
Prior year encumbrances	89,821	89,821	-
Fund balances, beginning of year	313,462	313,462	-
Fund balances, end of year	<u>\$ 160,000</u>	<u>\$ 423,183</u>	<u>\$ 263,183</u>

The accompanying notes are an integral part of these financial statements.

Totals
(Memorandum Only)

Budget	Actual	Variance Favorable (Unfavorable)
\$ 23,892,629	\$ 23,765,760	\$ (126,869)
70,000	387,486	317,486
1,292,891	1,294,942	2,051
59,138,888	59,439,998	301,110
365,678	533,147	167,469
1,317,813	1,315,548	(2,265)
<u>86,077,899</u>	<u>86,736,881</u>	<u>658,982</u>
41,056,137	38,130,357	2,925,780
12,354,650	11,816,739	537,911
5,586,165	5,275,440	310,725
384,987	294,961	90,026
969,533	849,262	120,271
2,903,313	2,611,687	291,626
6,844,688	5,719,236	1,125,452
480,724	385,970	94,754
7,077,175	6,846,240	230,935
1,155,063	997,316	157,747
801,961	726,388	75,573
7,756,351	7,602,099	154,252
2,210,189	2,040,793	169,396
1,053,249	718,602	334,647
5,348	3,390	1,958
1,254,492	1,236,369	18,123
1,743,057	1,616,818	126,239
719,319	679,235	40,084
1,364,171	1,364,171	-
516,961	516,961	-
<u>96,237,533</u>	<u>89,432,034</u>	<u>6,805,499</u>
<u>(10,159,634)</u>	<u>(2,695,153)</u>	<u>7,464,481</u>
57,910	57,910	-
1,678,500	1,202,053	(476,447)
208,952	987,226	778,274
(1,000)	(1,000)	-
-	37,628	37,628
(1,570,013)	(1,570,013)	-
(29,814)	(29,814)	-
(1,889,876)	(1,885,541)	4,335
<u>(1,545,341)</u>	<u>(1,201,551)</u>	<u>343,790</u>
(11,704,975)	(3,896,704)	7,808,271
2,534,868	2,534,868	-
10,233,316	10,233,316	-
<u>\$ 1,063,209</u>	<u>\$ 8,871,480</u>	<u>\$ 7,808,271</u>

LORAIN CITY SCHOOL DISTRICT
 COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS -
 ALL PROPRIETARY FUND TYPES
 FOR THE YEAR ENDED JUNE 30, 2001

	Enterprise	Internal Service	Totals (Memorandum Only)
Operating revenues			
Tuition and fees	\$ 38,869	\$ -	\$ 38,869
Extracurricular	26,459	-	26,459
Miscellaneous	75,287	197,803	273,090
Charges for services	706,269	6,138,247	6,844,516
Total operating revenues	<u>846,884</u>	<u>6,336,050</u>	<u>7,182,934</u>
Operating expenses			
Salaries and wages	125,461	234,811	360,272
Fringe benefits	262,902	429,457	692,359
Contractual services	3,512,931	6,208,846	9,721,777
Materials and supplies	278,973	-	278,973
Other expenses	-	44,636	44,636
Depreciation	30,452	-	30,452
Total operating expenses	<u>4,210,719</u>	<u>6,917,750</u>	<u>11,128,469</u>
Operating (loss)	<u>(3,363,835)</u>	<u>(581,700)</u>	<u>(3,945,535)</u>
Nonoperating revenues			
Interest	1,564	113,050	114,614
Intergovernmental	2,804,553	86,382	2,890,935
Miscellaneous	-	101,737	101,737
Total nonoperating revenues	<u>2,806,117</u>	<u>301,169</u>	<u>3,107,286</u>
Loss before operating transfers	(557,718)	(280,531)	(838,249)
Operating transfers - in	<u>606,038</u>	<u>200,154</u>	<u>806,192</u>
Net income (loss)	48,320	(80,377)	(32,057)
Retained earnings, beginning of year	<u>191,503</u>	<u>1,433,055</u>	<u>1,624,558</u>
Retained earnings, end of year	<u>\$ 239,823</u>	<u>\$ 1,352,678</u>	<u>\$ 1,592,501</u>

The accompanying notes are an integral part of these financial statements.

LORAIN CITY SCHOOL DISTRICT
 COMBINED STATEMENT OF CASH FLOWS -
 ALL PROPRIETARY FUND TYPES
 FOR THE YEAR ENDED JUNE 30, 2001

	Enterprise	Internal Service	Totals (Memorandum Only)
Cash flows from operating activities:			
Operating (loss)	\$ (3,363,835)	\$ (581,700)	\$ (3,945,535)
Adjustments to reconcile operating (loss) to net cash provided by operating activities:			
Donated commodities used	117,465	-	117,465
Depreciation	30,452	-	30,452
Changes in net assets (increase) decrease and liabilities increase (decrease):			
Receivables, accounts and other	(3,694)	(91,849)	(95,543)
Due from other governments	(75,758)	7,806	(67,952)
Prepaid and deferred expenses	-	33,439	33,439
Inventories and supplies	2,472	-	2,472
Accounts and contracts payable	(505,750)	89,848	(415,902)
Claims payable	-	230,977	230,977
Accrued salaries and benefits	1,139	6,803	7,942
Due to other governments	(7,870)	(135,745)	(143,615)
Interfund payable	99,887	24,648	124,535
Deferred revenue	1,958	-	1,958
Accrued leave benefits	(103)	-	(103)
Total adjustments	(339,802)	165,927	(173,875)
Net cash (used in) operating activities	(3,703,637)	(415,773)	(4,119,410)
Cash flows from non-capital financing activities:			
Intergovernmental revenue	2,687,088	86,382	2,773,470
Miscellaneous	-	101,737	101,737
Operating transfers-in	606,038	200,154	806,192
Net cash provided by non-capital financing activities	3,293,126	388,273	3,681,399
Cash flows from capital and related financing activities:			
Acquisition of fixed assets	(27,372)	-	(27,372)
Net cash (used in) capital and related financing activities	(27,372)	-	(27,372)
Cash flows provided by investing activities:			
Interest income	1,564	113,050	114,614
Net cash provided by investing activities	1,564	113,050	114,614
Net increase (decrease) in cash cash equivalents	(436,319)	85,550	(350,769)
Equity in pooled cash and equivalents, beginning of year	752,262	2,504,881	3,257,143
Equity in pooled cash and equivalents, end of year	\$ 315,943	\$ 2,590,431	\$ 2,906,374

The accompanying notes are an integral part of these financial statements.

LORAIN CITY SCHOOL DISTRICT
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 1 NATURE OF BASIC OPERATIONS AND DESCRIPTION OF THE ENTITY

The Lorain City School District (the 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 District is a city school district as defined by Section 3311.02 of the Ohio Revised Code. The District operates under an elected Board of Education, consisting of five members, and is responsible for providing public education to residents of the District. Average daily membership on, or as of, October 1, 2000 was 10,017. The District employs 952 certificated and 347 non-certificated employees.

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

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organizations' governing board and 1) the District is able to significantly influence the programs or services performed or provided by the organization; or 2) the District is legally entitled to or can otherwise access the organizations' resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of or provided financial support to the organization; or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the 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 District's operations and so data from these units are combined with data of the District. The 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 District's Superintendent and four members appointed by the Lorain Education Association. Although the Trust is legally separate from the District, it should be reported as if it were part of the primary government because its sole purpose is to provide benefits to District employees for hospitalization, medical, dental, vision and prescription drugs as provided for in the collective bargaining agreement. The District's participation is disclosed in Note 13 to the financial statements.

Financial information for the Trust's year ended December 31, 2000 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.

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

Lake Erie Educational Computer Association - The Lorain City School District participates in the Lake Erie Educational Computer Association (LEECA). LEECA provides data services needed by the participating school districts. This is a jointly governed organization. The District's participation is disclosed in Note 16 to the financial statements.

LORAIN CITY SCHOOL DISTRICT
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 1 NATURE OF BASIC OPERATIONS AND DESCRIPTION OF THE ENTITY (continued)

Lake Erie Regional Council - The Lake Erie Regional Council (LERC) promotes cooperative agreements to its members in dealing with problems of mutual concern. This is a jointly governed organization. The District's participation is disclosed in Note 16 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 District for operational subsidies. The District does serve as the taxing authority for the library, which is not considered part of the District and its operations are not included within the accompanying financial statements.

Management believes the financial statements included in this report represent all of the funds of the District over which the District has the ability to exercise direct operating control.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. For this fiscal year, the District has implemented GASB Statement No. 33 "Accounting and Financial Reporting for Nonexchange Transactions" and GASB Statement No. 36 "Reporting for Certain Shared Nonexchange Revenues." The implementation of GASB Statements 33 and 36 had no effect on fund balance at June 30, 2001.

A. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND BASIS OF PRESENTATION

The accounts of the Lorain City School District are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds. The Lorain City School District has the following fund types and account groups:

Governmental Fund Types

Governmental fund types are used to account for the District's general government activities. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay obligations of the current period, which is considered to be sixty days. Generally property taxes, although measurable, are not available soon enough after the current period to finance current period obligations, and accordingly, property taxes receivable are reflected as deferred revenue until available. 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.

LORAIN CITY SCHOOL DISTRICT
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND BASIS OF PRESENTATION (continued)

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which taxes are levied (See Note 11). 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 District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, since the measurement focus of governmental funds is on decreases in financial resources. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service funds for payments to be made early in the following year. Compensated absences are reported as a fund liability when payment will require the use of current available financial resources. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds. Governmental funds include the following fund types:

General Fund - used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - used to account for the proceeds of specific revenue sources, other than expendable trusts or major capital projects, that are legally restricted to expenditure for specified purposes.

Debt Service Fund - used to account for the accumulation of resources for the payment of interest and principal on long-term general obligation debt other than those payable from Enterprise Funds.

Capital Projects Funds - used to account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by proprietary or trust funds.

Proprietary Fund Types

Proprietary fund types are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred. Allocations of costs, such as depreciation, are recognized in the proprietary funds. As permitted, the board of education has elected to apply only applicable FASB Statements and Interpretations issued before November 30, 1989 in its accounting and reporting practices for its proprietary operations. Proprietary funds include the following fund types:

Enterprise Funds - used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs, including depreciation where applicable, of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Internal Service Funds - used to account for the financing of goods or services provided by one department or agency to governmental units, on a cost-reimbursement basis.

LORAIN CITY SCHOOL DISTRICT
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND BASIS OF PRESENTATION (continued)

Fiduciary Fund Types

Fiduciary fund types account for assets held by the government in a trustee capacity or as an agent on behalf of others. Fiduciary funds for the District types are as follows:

Expendable Trust Fund – accounted for in essentially the same manner as the governmental fund types, using the same measurement focus and basis of accounting.

Agency Funds - custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. These funds are used to account for assets that the government holds for others in an agency capacity.

Account Groups

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

General Fixed Assets Account Group - used to account for fixed assets acquired principally for general purposes other than those accounted for in proprietary or trust funds.

General Long-term Debt Account Group - used to account for the outstanding principal balances of general obligation bonds and other long-term debt not reported in proprietary funds.

B. DEPOSITS AND INVESTMENTS

For purposes of the statement of cash flows, the District considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. The District pools its cash for investment and administration purposes. Deposit and investment procedures are restricted by the provisions of the Ohio Revised Code. Purchased investments and other cash equivalents are neither charged when purchased nor credited at the time of redemption to their respective fund balances.

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. Interest revenue credited to the general fund during the year amounted to \$ 1,276,203, which included \$ 533,092 assigned from other District funds.

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) during fiscal year 2001. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2001.

LORAIN CITY SCHOOL DISTRICT
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. RESTRICTED CASH

Restricted cash in the general fund represents cash and cash equivalents set aside for textbooks, capital maintenance and budget stabilization. A fund balance reserve has also been established.

D. RECEIVABLES

Receivables are reflected at their gross value reduced by the estimated amount that is expected to be uncollectible.

E. INVENTORIES AND SUPPLIES

The costs of inventory items are recognized as expenditures when purchased in the governmental funds and recognized as expenses when used in the enterprise funds. Inventories are valued at cost using the first-in, first-out method.

F. FIXED ASSETS AND DEPRECIATION

Fixed assets used in governmental fund types of the District are reported in the general fixed assets account group. Purchased or constructed fixed assets are recorded at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of donation. Assets in the general fixed assets account group are not depreciated. Interest incurred during construction is not capitalized on general fixed assets. The District does not possess any infrastructure.

Fixed assets which are used in proprietary fund type activities are capitalized in the respective funds. Fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at estimated fair market value when received. Depreciation is computed for proprietary fund fixed assets using the straight-line method based on estimated useful lives of the assets. Estimated useful lives of depreciable assets consisting of equipment and vehicles is 5 to 20 years.

G. LONG-TERM LIABILITIES

Unmatured general long-term liabilities, which are related to governmental fund type operations, are reflected in the general long-term debt account group.

H. ACCRUED LEAVE BENEFITS

Accrued leave benefits is comprised of absences for which employees will be paid, such as vacation, severance, and sick leave. A liability for compensated absences that is attributable to services already rendered and that is not contingent on a specific event that is outside the control of the government and its employees is accrued as employees earn the rights to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the government and its employees are accounted for in the period in which such services are rendered or such events take place.

LORAIN CITY SCHOOL DISTRICT
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. ACCRUED LEAVE BENEFITS (continued)

In governmental and similar trust funds, compensated absences that are expected to be liquidated with expendable available financial resources are reported as an expenditure and fund liability in the fund that will pay for them. The remainder of the compensated absences liability is reported in the General Long-term Debt Account Group.

In the proprietary funds, compensated absences are recorded as an expense and liability of the fund that will pay for them.

I. FUND EQUITY

The District records reservations for portions of fund equity which are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriations for expenditures. Undesignated fund balance indicates that portion of fund equity which is available for appropriation in future periods. The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute.

J. TOTAL COLUMNS

Total columns on the general purpose financial statements are captioned (Memorandum Only) because they do not represent consolidated financial information and are presented only to facilitate financial analysis. The columns do not present information that reflects financial position, results of operations or cash flows in accordance with generally accepted accounting principles. Interfund eliminations have not been made in the aggregation of this data.

K. USE OF ESTIMATES

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

NOTE 3 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY PROCESS

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 required to be budgeted and appropriated. The primary level of budgetary control is at the object code function level within each fund. Budgetary modifications may only be made by resolution of the Board of Education.

LORAIN CITY SCHOOL DISTRICT
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 3 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued)

A. BUDGETARY PROCESS (continued)

Tax Budget

A budget of estimated revenue and expenditures is submitted to the County Auditor, as Secretary of the County Budget Commission, by January 20 of each year for the ensuing July 1 to June 30 fiscal year.

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 District by March 1. As part of the certification, the District receives the official certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so 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. Budget receipts, as shown in the accompanying "Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (Non-GAAP Budgetary Basis) - All Governmental Fund Types" do not include July 1, 2000 unencumbered fund balances. However, those fund balances are available for appropriations.

Appropriations

A temporary appropriation 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 fund, function level 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 allocation of appropriations among functions within a fund may be modified during the year by a resolution of the Board of Education. Several supplemental appropriation resolutions were legally enacted by the Board of Education during the year. The budget figures, as shown in the accompanying "Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (Non-GAAP Budgetary Basis) - All Governmental Fund Types" represent the final appropriation amounts including all amendments and modifications.

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 appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated.

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. The Ohio Revised Code prohibits expenditures plus encumbrances from exceeding appropriations. On the GAAP basis, encumbrances outstanding at year-end for governmental funds are reported as reservations of fund balances for subsequent-year expenditures.

LORAIN CITY SCHOOL DISTRICT
 NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
 JUNE 30, 2001

NOTE 3 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued)

A. BUDGETARY PROCESS (continued)

Budgetary Reporting

While reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP basis), the budgetary basis, as provided by law, is based upon accounting for transactions on a basis of cash receipts, disbursements, and encumbrances. Accordingly, the "Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (Non-GAAP Budgetary Basis) - All Governmental Fund Types" is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget and to demonstrate compliance with state statute. The major differences between the budget basis and the modified accrual basis of generally accepted accounting principles (GAAP basis) are that:

- 1) Revenues are recorded when received (budget basis) rather than when susceptible to accrual (GAAP basis), and,
- 2) Expenditures are recorded when paid or encumbered (budget basis) rather than when the liability is incurred (GAAP basis).

The adjustments necessary to convert the results of operations for the year from the budget basis to the GAAP basis for the governmental funds follow:

	Excess (deficiency) of revenues over expenditures and other sources (uses) - reconciliation of budget basis to GAAP basis		
	General	Special Revenue	Capital Projects
Budget basis	\$ (2,745,053)	\$ (1,171,551)	\$ 19,900
Adjustments, increase (decrease)			
Revenue accruals	(980,687)	(369,532)	-
Expenditure accruals	3,380,386	1,312,151	65,072
GAAP basis, as reported	\$ (345,354)	\$ (228,932)	\$ 84,972

B. FUND EQUITY DEFICITS

Not apparent in the financial statements are fund equity deficits of \$ 6,627 in the Non-public Schools Fund, \$ 2,586 in the Career Development Fund, \$ 316,630 in the D.P.I.A. Fund, \$ 916,000 in the Building Fund, \$ 490 in the Adult Education Fund, and \$ 143,422 in the Rotary Fund. These fund equity deficits at year-end result from reflecting expenditures in accordance with the modified accrual and accrual bases which are substantially larger than the amounts recognized on the budget basis. The District, in accordance with its budget basis, will appropriate such expenditures from resources of the subsequent year.

LORAIN CITY SCHOOL DISTRICT
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 4 RESERVATIONS OF FUND BALANCES

Reservations of fund balances consisted of:

	General	Special Revenue	Capital Projects	Total
Reserved for property tax	\$ 3,537,672	\$ -	\$ -	\$ 3,537,672
Reserved for textbooks	986,232	-	-	986,232
Reserved for budget stabilization	220,833	-	-	220,833
Reserved for encumbrances	1,405,847	694,836	52,060	2,152,743
	<u>\$ 6,150,584</u>	<u>\$ 694,836</u>	<u>\$ 52,060</u>	<u>\$ 6,897,480</u>

The District is required by state law to set aside certain general fund revenue amounts, as defined, into various reserves. During the fiscal year ended June 30, 2001, the reserve activity was as follows:

	Textbook	Capital Maintenance	Budget Stabilization	Total
Balance, July 1, 2000	\$ 241,663	\$ 42,063	\$ 220,833	\$ 504,559
Required set aside	1,460,040	1,460,040	-	2,920,080
Qualifying expenditures	(715,471)	(1,502,103)	-	(2,217,574)
Balance June 30, 2001	<u>\$ 986,232</u>	<u>\$ -</u>	<u>\$ 220,833</u>	<u>\$ 1,207,065</u>

NOTE 5 DEPOSITS AND INVESTMENTS

A. LEGAL REQUIREMENTS

State statute classify monies held by the 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 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 District's 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 including passbook accounts. Interim monies may be invested in the following:

- 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 or interest by the United States;
- 2) Bonds, notes, debentures, or 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;

LORAIN CITY SCHOOL DISTRICT
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 5 DEPOSITS AND INVESTMENTS (continued)

A. LEGAL REQUIREMENTS (continued)

- 3) Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to 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); and
- 7) Certain bankers' acceptance and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.

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 of debt of the District, and must be purchased with the expectation that it will be held until maturity.

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation, 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.

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.

The District maintains a cash and investment pool used by various funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Pooled cash and equivalents."

B. DEPOSITS

At year-end, the carrying amount of the District's deposits was \$ 121,335 and the bank balance was \$ 3,189,035, all of which was covered by federal depository insurance or by collateral held by a qualified third party trustee in the name of the Lorain City School District or its component unit.

LORAIN CITY SCHOOL DISTRICT
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 5 DEPOSITS AND INVESTMENTS (continued)

C. INVESTMENTS

The District's investments are categorized below to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the District. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer or by its trust department but not in the District's name. Investment in STAROhio, the State Treasurer's Investment Pool, is not classified by degree of credit risk since it is not evidenced by securities that exist in physical or book entry form.

	Category			Carrying Value
	1	2	3	
U.S. Government securities	\$ 890,188	\$ -	\$ -	\$ 890,188
Investment in State Treasurer's Investment Pool (STAROhio)				14,159,941
				\$15,050,129

NOTE 6 FIXED ASSETS AND ACCUMULATED DEPRECIATION

A. GENERAL FIXED ASSETS ACCOUNT GROUP

The changes in general fixed assets during the year consisted of:

	Balance July 1, 2000	Additions	Disposals	Balance June 30, 2001
Land	\$ 1,787,370	\$ 121,370	\$ -	\$ 1,908,740
Buildings and improvements	35,609,660	914,399	-	36,524,059
Furniture and equipment	16,461,913	1,039,282	170,356	17,330,839
Vehicles	414,035	123,965	50,742	487,258
	\$ 54,272,978	\$ 2,199,016	\$ 221,098	\$ 56,250,896

B. PROPRIETARY FUND TYPE FIXED ASSETS

Proprietary fund type fixed assets and accumulated depreciation at year-end consisted of:

	Balance June 30, 2001
Enterprise	
Machinery and equipment	\$ 984,453
Vehicles	25,593
	1,010,046
Less accumulated depreciation	(699,559)
Net fixed assets	\$ 310,487

LORAIN CITY SCHOOL DISTRICT
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 7 DEFERRED REVENUE

Deferred revenue at year-end consisted of:

	Balance June 30, 2001
Property taxes receivable	\$ 21,019,130
Federal commodities, unused	7,542
	\$ 21,026,672

NOTE 9 NOTES PAYABLE

Notes payable outstanding at year-end consisted of the following revenue anticipation notes:

	Rate of Interest	Issue Date	Maturity Date	Balance June 30, 2001
General Fund	0.07	3-28-96	6-15-06	\$ 2,737,770
State loan	0.07	3-28-96	6-15-06	1,368,886
State loan	0.07	3-28-96	6-15-06	1,368,886
				\$ 5,475,542

Debt service requirements to retire notes payable at June 30, 2001, consisted of:

Year ending June 30,	Principal	Interest	Total
2002	\$ 947,758	\$ 353,264	\$ 1,301,022
2003	1,016,271	284,750	1,301,021
2004	1,089,738	211,284	1,301,022
2005	1,168,515	132,507	1,301,022
2006	1,253,260	47,763	1,301,023
	\$ 5,475,542	\$ 1,029,568	\$ 6,505,110

LORAIN CITY SCHOOL DISTRICT
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 9 BONDS PAYABLE

Bonds payable outstanding at year-end consisted of the following general obligation bonds:

	Outstanding June 30, 2000	Additions	Deductions	Outstanding June 30, 2001
Energy conservation improvement bonds (1993) 5.95% through 2002	\$ 900,000	\$ -	\$ 300,000	\$ 600,000
Energy conservation refunding bonds, (1993) 5.7% through 2000	110,000	-	110,000	-
Energy conservation improvement bonds, (1996) 5.5% through 2007	708,710	-	85,729	622,981
	<u>\$ 1,718,710</u>	<u>\$ -</u>	<u>\$ 495,729</u>	<u>\$ 1,222,981</u>

Debt service requirements to retire bonds payable outstanding at June 30, 2001, consisted of:

Year ending June 30,	Principal	Interest	Total
2002	\$ 390,444	\$ 58,552	\$ 448,996
2003	395,418	35,591	431,009
2004	100,666	21,273	121,939
2005	106,203	15,584	121,787
2006	112,044	9,583	121,627
2007	118,206	3,251	121,457
	<u>\$ 1,222,981</u>	<u>\$ 143,834</u>	<u>\$ 1,366,815</u>

NOTE 10 GENERAL LONG-TERM DEBT

Changes in general long-term debt consisted of:

	Outstanding June 30, 2000	Additions	Deductions	Outstanding June 30, 2001
Due to other governments	\$ 583,332	\$ 633,567	\$ 583,332	\$ 633,567
Bonds payable	1,718,710	-	495,729	1,222,981
Capital leases	2,387	-	2,387	-
Accrued leave benefits	7,773,109	-	69,270	7,703,839
	<u>\$ 10,077,538</u>	<u>\$ 633,567</u>	<u>\$ 1,150,718</u>	<u>\$ 9,560,387</u>

LORAIN CITY SCHOOL DISTRICT
 NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
 JUNE 30, 2001

NOTE 11 PROPERTY TAXES

Property taxes include amounts levied against all real, public utility and tangible personal property located in the District. Taxes collected on real property, other than public utility, in one calendar year are levied in the preceding calendar year on assessed values as of January 1 of the preceding year, the lien date. Assessed values are established by the County Auditor at 35% of appraised market value. All property is required to be revalued every six years. Real property taxes are payable annually or semi-annually. The first payment is due January 20, with the remainder payable by June 20.

Taxes collected from tangible personal property, other than public utility, in one calendar year are levied in the prior calendar year on assessed values during and at the close of the most recent fiscal year of the taxpayer that ended on or before March 31 of that calendar year, and at the tax rates determined in the preceding year. Tangible personal property used in business, except for public utilities, is currently assessed for ad valorem taxation purposes at 25% of its true value. Amounts paid by multi-county taxpayers are due September 20. Single-county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30 with the remainder payable by September 20.

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Certain public utility tangible personal property currently is assessed at 88% of its true value. Public utility property taxes are payable on the same dates as real property taxes described previously. The County Treasurer collects property taxes on behalf of all taxing districts in the County. The County Auditor periodically remits to the District its portion of the taxes collected.

The tax applied to real property collected in 2001 before certain homestead and rollback reductions, which reductions are reimbursed to the District by the State of Ohio, amounted to \$ 57.98 per \$ 1,000 of valuation. After adjustment of the rate for inflationary increases in property values, the effective tax rate was \$ 28.98 per \$ 1,000 of assessed valuation for real property classified as residential/agricultural and \$ 47.15 per \$ 1,000 of assessed valuation for all other real property. The tax rate applied to tangible personal property for the current year ended June 30, 2001, was \$ 57.98 per \$ 1,000 of valuation.

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes which became measurable at June 30, 2001. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30, 2001 was \$ 3,537,672 and is recognized as revenue and fund balance reserved for property taxes.

The property valuation consisted of:

Real Property - 2000	
Residential / Agricultural	\$ 455,029,520
Commercial / Industrial	108,179,190
Public Utilities	861,630
Tangible Personal Property - 2001	
General	116,668,058
Public Utilities	39,348,910
	\$ 720,087,308

LORAIN CITY SCHOOL DISTRICT
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 12 OPERATING LEASES

The Lorain City School District is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore, the results of the lease agreements are not reflected in the District's account groups. During 2001, expenditures for operating leases totaled \$ 252,951. The following is a schedule of future minimum rental payments required under the operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2001:

Year ending June 30,	Amount
2002	\$ 326,744
2003	277,968
2004	70,820
Total minimum lease payments	<u>\$ 675,532</u>

NOTE 13 RISK MANAGEMENT

The 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. These risks are covered by commercial insurance purchased from independent third parties. For the past several years, settled claims from these risks have not exceeded commercial coverage.

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 benefits, dental benefits, vision benefits and prescription drug 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 expenses 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 its stop-loss insurance coverage from Medical Mutual of Ohio. Additionally, the Trust purchases or pays for benefit coverage for dental care, vision care and prescription drugs expenses through other companies. Dental care is provided through Connecticut General Life Insurance Company, vision care is provided through Vision Services, Inc., and prescription drugs are provided through Pharmacy-Card, Inc.

Contributions by the Lorain City School District Board of Education to 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 the 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 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.

	June 30, 2001	June 30, 2000
Unpaid claims, beginning of year	\$ 821,400	\$ 901,610
Incurred claims	5,256,236	5,504,598
Paid claims	(5,236,859)	(5,584,808)
Unpaid claims, end of year	<u>\$ 840,777</u>	<u>\$ 821,400</u>

LORAIN CITY SCHOOL DISTRICT
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 14 PENSION PLANS

A. SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS)

The Lorain City School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. The School Employees Retirement System issues a publicly available, stand alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SERS, 45 N. Fourth Street, Columbus, Ohio 43215-3634 or by calling (614)222-5853.

Plan members are required to contribute 9 percent of their annual covered salary and the Lorain City School District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Lorain city School district's contributions to SERS for the years ended June 30, 2001, 2000, and 1999 were \$ 1,043,600, \$ 1,020,600, and \$ 884,000, respectively. The full amount has been contributed for 2000 and 1999. For 2001, 31% has been contributed with the remainder being reported as a fund liability within the respective funds and the general long-term debt account group.

B. STATE TEACHERS RETIREMENT SYSTEM (STRS)

The Lorain City School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

Plan members are required to contribute 9.3 percent of their annual covered salary and the Lorain City School District is required to contribute 14 percent. Contribution rates are established by STRS, upon recommendation of it's consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Lorain City School District's contribution to STRS for the years ended June 30, 2001, 2000, and 1999 were \$ 6,636,500, \$ 6,353,700, and \$ 5,759,700, respectively. The full amount has been contributed for 2000 and 1999. For 2001, 83% has been contributed with the remainder being reported as a liability within the respective funds.

NOTE 15 POSTEMPLOYMENT BENEFITS

A. SCHOOL EMPLOYEES RETIREMENT SYSTEM

The Ohio Revised Code gives the School Employees Retirement System (SERS) the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989 with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service, up to a maximum of 75% of the premium.

After the allocation for basic benefits, the remainder of the employer's contribution is allocated to providing health care benefits. At June 30, 2000 (the latest information available) the allocation rate is 8.45%. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal 2001, the minimum pay has been established as \$ 12,400. The surcharge rate added to the unallocated portion of the 14% employer contribution rate provides for maintenance of the asset target level for the health care fund.

LORAIN CITY SCHOOL DISTRICT
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 15 POSTEMPLOYMENT BENEFITS (continued)

A. SCHOOL EMPLOYEES RETIREMENT SYSTEM (continued)

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2000 were \$ 140,696,340 and the target level was \$ 211.0 million. At June 30, 2000, the Retirement System's net assets available for payment of health care benefits was \$ 252.3 million.

The number of participants receiving health care benefits is approximately 50,000. The portion of the District's contributions that were used to fund postemployment benefits amounted to \$ 908,800.

B. STATE TEACHERS RETIREMENT SYSTEM

State Teachers Retirement System of Ohio (STRS Ohio) provides comprehensive health care benefits to retirees and their dependents. Coverage includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Pursuant to Revised Code (R.C.), the State Teachers Retirement Board (the board) has discretionary authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most recipients pay a portion of the health care cost in the form of a monthly premium.

The R.C. grants authority to STRS Ohio to provide health care coverage to benefit recipients, spouses, and dependents. By Ohio law, the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14% of covered payroll.

The Retirement Board allocates employer contributions equal to 2% of covered payroll to the Health Care Reserve Fund from which health care benefits are paid. For the fiscal year ended June 30, 2000 (the latest information available), the board allocated employer contributions equal to 8% of covered payroll to the Health Care Reserve Fund. The balance in the Health Care Reserve Fund was \$ 3.419 billion on June 30, 2000. The Health Care Reserve Fund allocation for the year ended June 30, 2001, and after, is 4.5% of covered payroll.

For the year ended June 30, 2001, net health care costs paid by STRS were \$ 283,137,000. There were 99,011 eligible benefit recipients.

NOTE 16 JOINTLY GOVERNED ORGANIZATIONS

A. LAKE ERIE EDUCATION COMPUTER ASSOCIATION (LEECA)

The Lake Erie Educational Computer Association (LEECA) is a jointly governed organization comprised of thirty school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions for member districts. Each of the governments of these districts supports LEECA based upon a per pupil charge dependent upon the software package utilized. The LEECA assembly consists of a superintendent or designated representative from each participating district and a representative from the fiscal agent. LEECA is governed by a board of directors chosen from the general membership of the LEECA assembly. The board of directors consists of a representative from the fiscal agent, the chairman of each operating committee, and at least one assembly member from each county from which participating districts are located. Financial information can be obtained by contacting the Treasurer at the Educational Service Center of Lorain County, which serves as fiscal agent, located at 1885 Lake Avenue, Elyria, Ohio 44035. During the year ended June 30, 2001, the District paid \$ 201,700 to LEECA for basic service charges.

LORAIN CITY SCHOOL DISTRICT
 NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
 JUNE 30, 2001

NOTE 16 JOINTLY GOVERNED ORGANIZATIONS (continued)

B. LAKE ERIE REGIONAL COUNCIL (LERC)

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

The LERC assembly consists of a superintendent or designated representative from each participating district and the fiscal agent. LERC is governed by a board of directors chosen from the general membership. The degree of control exercised by any participating district is limited to its representation on the board. Financial information can be obtained by contacting the Treasurer at the Educational Service Center of Lorain County located at 1885 Lake Avenue, Elyria, Ohio 44035. During the year ended June 30, 2001 the District paid \$ 711,300 to LERC.

NOTE 17 INTERFUND RECEIVABLES AND PAYABLES

	<u>Receivables</u>	<u>Payables</u>
General Fund	\$ 1,807,040	\$ -
Special Revenue Funds		
Athletic Fund	-	24,005
Auxiliary Service Fund	-	102,758
Career Development Fund	-	6,125
Parent Mentoring Fund	-	44,126
Title IVB Fund	6,000	-
Vocational Education Grant Fund	-	44,456
Miscellaneous Federal Grants Fund	-	180,791
Capital Projects Funds		
Building Fund	-	916,000
Enterprise Funds		
Food Service Fund	-	334,082
Internal Service Funds		
Rotary Fund	-	160,697
	<u>\$ 1,813,040</u>	<u>\$ 1,813,040</u>

LORAIN CITY SCHOOL DISTRICT
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 18 SEGMENT INFORMATION - ENTERPRISE FUNDS

The District maintains enterprise funds to account for the operation of school food service, uniform school supplies, rotary, and adult education. Segment information related to these funds follows:

	Food Service	Uniform School Supplies	Rotary	Adult Education	Total
Operating revenues	\$ 712,276	\$ 2,413	\$ 112,995	\$ 19,200	\$ 846,884
Operating expenses					
Salaries and wages	65,577	-	20,099	39,785	125,461
Fringe benefits	245,235	-	5,664	12,003	262,902
Contractual services	3,497,000	-	15,474	457	3,512,931
Materials and supplies	175,328	26,359	77,116	170	278,973
Depreciation	29,269	-	1,183	-	30,452
Total operating expenses	4,012,409	26,359	119,536	52,415	4,210,719
Operating (loss)	(3,300,133)	(23,946)	(6,541)	(33,215)	(3,363,835)
Non-operating revenues	2,796,917	-	9,200	-	2,806,117
Income (loss) before operating transfers	(503,216)	(23,946)	2,659	(33,215)	(557,718)
Operating transfers-in	583,992	-	-	22,046	606,038
Net income (loss)	\$ 80,776	\$ (23,946)	\$ 2,659	\$ (11,169)	\$ 48,320
Other information					
Net working capital	\$ (151,082)	\$ 14,368	\$ 66,540	\$ 23	\$ (70,151)
Fixed asset additions	\$ 27,372	\$ -	\$ -	\$ -	\$ 27,372
Total assets	\$ 611,022	\$ 14,368	\$ 100,385	\$ 23	\$ 725,798
Total equity	\$ 143,120	\$ 14,368	\$ 82,825	\$ (490)	\$ 239,823

LORAIN CITY SCHOOL DISTRICT
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 19 OTHER MATTERS - SCHOOL FUNDING

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.

Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

In general, it is expected that the decision would result in an increase in State Funding for most Ohio school districts. However, as of the date of these financial statements, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts. Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

On November 2, 2001, the Court granted this motion for reconsideration. The Court may re-examine and redetermine any issue upon such reconsideration.

As of the date of these financial statements, the School District is unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

NOTE 20 PENDING LITIGATION

The Lorain City School District is a defendant in certain litigation, the outcome of which cannot be determined. It is the opinion of the District's management that any judgement against the District would not have a material adverse effect on the District's financial position.

NOTE 21 SUBSEQUENT EVENT

On November 6, 2001, the voters authorized a bond issue and tax levy in the principal amount of \$41,094,000 to finance the District's participation in the State of Ohio Classroom Facilities Assistance Program. The total projected cost of the Classroom Facilities project is \$216,284,880. The State of Ohio will contribute \$175,190,880. The bonds would be repaid over a maximum period of twenty-three years by an annual levy of property taxes, estimated by the County Auditor to average over the repayment period of bond issue 3.97 mils for each dollar of valuation. The voter approval included an additional levy of taxes for a period of twenty-three years to pay to cost of maintaining the classroom facilities included in the project at the rate of ½ mil for each dollar of valuation.

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LORAIN CITY SCHOOL DISTRICT
SUPPLEMENTAL AUDITOR'S REPORTS
JUNE 30, 2001

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LORAIN CITY SCHOOL DISTRICT

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS
YEAR ENDED JUNE 30, 2001

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COSTIN + COMPANY

Certified Public Accountants

35945 Center Ridge Road

North Ridgeville, OH 44039

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

To the Board of Education
Lorain City School District

We have audited the general purpose financial statements of the Lorain City School District as of and for the year ended June 30, 2001, and have issued our report thereon dated November 28, 2001. 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 63% and 93%, respectively, of the assets and revenues of the Internal Service fund Type. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Trust 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 Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Lorain City School District's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance that we have reported to management of the Lorain City School District, in a separate letter dated November 28, 2001.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Lorain City School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the District in a separate letter dated November 28, 2001.

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

North Ridgeville, Ohio
November 28, 2001

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LORAIN CITY SCHOOL DISTRICT

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

YEAR ENDED JUNE 30, 2001

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COSTIN + COMPANY

Certified Public Accountants
35945 Center Ridge Road
North Ridgeville, OH 44039

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

To the Board of Education
Lorain City School District

Compliance

We have audited the compliance of the Lorain City School District with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" that are applicable to each of its major federal programs for the year ended June 30, 2001. The Lorain City School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Lorain City School District's management. Our responsibility is to express an opinion on the Lorain City School District's compliance based on our audit.

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

In our opinion, the Lorain City School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2001.

Internal Control Over Compliance

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

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

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

North Ridgeville, Ohio
November 28, 2001

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LORAIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 §.505
YEAR ENDED JUNE 30, 2001

LORAIN CITY SCHOOL DISTRICT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 OMB CIRCULAR A-133 §.505

JUNE 30, 2001

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under §.510?	No
(d)(1)(vii)	Major Programs	84.027 Special Education Cluster 84.173 Special Education Cluster 84.287 Learning Center 84.318 Technology Literacy Challenge 84.334 Gear Up Grant 84.338 Reading Excellence 84.340 Class Size Reduction 93.778 Medical Assistance Program
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 309,501 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes
2.	FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	None
3.	FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS	None

LORAIN CITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2001

LORAIN CITY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

JUNE 30, 2001

	<u>CFDA Number</u>	<u>Pass Through Number</u>	<u>Revenue Recognized</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Agriculture</u>				
Passed through State Department of Education:				
Nutrition Cluster:				
Food Distribution Program	10.550	N/A	\$ 119,421	\$ 117,465
School Breakfast Program	10.553	05-PU99	15,041	15,041
School Breakfast Program	10.553	05-PU00	108,727	108,727
School Breakfast Program	10.553	05-PU01	481,966	481,966
Total School Breakfast Program			<u>605,734</u>	<u>605,734</u>
National School Lunch Program	10.555	LL-P1-2000	257,957	257,957
National School Lunch Program	10.555	LL-P4-2000	35,653	35,653
National School Lunch Program	10.555	LL--P1-2001	1,330,719	1,330,719
National School Lunch Program	10.555	LL-P4-2001	218,489	218,489
Total National School Lunch Program			<u>1,842,818</u>	<u>1,842,818</u>
Special Milk Program for Children	10.556	02-PU99	319	319
Summer Food Service Program	10.559	24-AD99	429	429
Total Department of Agriculture - Nutrition Cluster			<u>2,568,721</u>	<u>2,566,765</u>
 <u>U.S. Department of Education</u>				
Impact Aid	84.041	N/A	11,081	11,081
Passed through State Department of Education:				
Adult and Community Education	84.002	AB-S1-2001	108,568	179,781
Adult and Community Education	84.002	AB-S1-2000	-	51,066
Total Adult and Community Education			<u>108,568</u>	<u>230,847</u>
Title I	84.010	C1-S1-2000C	222,911	179,337
Title I	84.010	C1-S1-2001	3,306,600	3,080,476
Total Title I			<u>3,529,511</u>	<u>3,259,813</u>
Drug-Free Schools	84.186	DR-S1-2000	11,117	45,560
Drug-Free Schools	84.186	DR-S1-2001	107,656	88,494
Total Drug-Free Schools			<u>118,773</u>	<u>134,054</u>
Eisenhower Professional State Grants	84.281	MS-S1-2000	7,359	12,132
Eisenhower Professional State Grants	84.281	MS-S1-2001	51,720	25,037
Total Eisenhower Professional State Grants			<u>59,079</u>	<u>37,169</u>

(continued)

LORAIN CITY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

JUNE 30, 2001

	CFDA Number	Pass Through Number	Revenue Recognized	Federal Expenditures
U.S. Department of Education – continued				
Passed through State Department				
of Education – continued				
Goals 2000	84.276	G2-S6-1999	26,000	19,446
Goals 2000	84.276	G2-S6-2000P	24,000	11,311
Goals 2000	84.276	G2-SB-2000	-	485
Goals 2000	84.276	G2-S1-2001	53,054	10,134
Goals 2000	84.276	G2-S2-2000	90,000	27,826
Goals 2000	84.276	G2-S2-2001	52,100	-
Total Goals 2000			<u>245,154</u>	<u>69,202</u>
Reading Excellence	84.338	RN-S1-2000	424,624	433,553
Class Size Reduction	84.340	CR-S1-2001	501,115	440,674
Vocational Education Basic Grant	84.048	20-C1-2000	48,215	37,718
Vocational Education Basic Grant	84.048	20-C1-2001	251,919	205,645
Total Vocational Education Basic Grant			<u>300,134</u>	<u>243,363</u>
Special Education Cluster:				
Title VI-B	84.027	6B-SF-2000P	740,061	649,106
Title VI-B	84.027	6B-SF-1999P	-	98,830
Total Title VI-B			<u>740,061</u>	<u>747,936</u>
Preschool Grants	84.173	PG-S1-1999P	-	9,927
Preschool Grants	84.173	PG-S1-2000P	41,551	35,571
Preschool Grants	84.173	PG-SC-1999P	22,566	22,566
Total Preschool Grants			<u>64,117</u>	<u>68,064</u>
Total Special Education Cluster			<u>804,178</u>	<u>816,000</u>
Innovative Education Program Strategies	84.298	C2-S1-2000	8,545	25,567
Innovative Education Program Strategies	84.298	C2-S1-2001	78,311	100,026
Total Innovative Education Program Strategies			<u>86,856</u>	<u>125,593</u>
Technology Literacy Challenge Fund Grant	84.318	TF-41-2000P	250,000	285,367
Technology Literacy Challenge Fund Grant	84.318	TF-42-2000P	150,000	173,259
Technology Literacy Challenge Fund Grant	84.318	TF-43-2000P	50,000	50,958
Total Technology Literacy Challenge Fund Grant			<u>450,000</u>	<u>509,584</u>
Learn and Serve America	94.004	SV-S3-2001	15,000	11,045
Learn and Serve America	94.004	SV-S1-2000	-	4,771
Total Learn and Serve America			<u>15,000</u>	<u>15,816</u>
21st Century Comm. Learning Center	84.287	N/A	296,433	282,020
21st Century Comm. Learning Center	84.287	N/A	102,638	102,638
			<u>399,071</u>	<u>384,658</u>

(continued)

LORAIN CITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2001

	<u>CFDA Number</u>	<u>Pass Through Number</u>	<u>Revenue Recognized</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Education – continued</u>				
Passed through State Department of Education – continued				
Gear Up	84.334	N/A	<u>376,418</u>	<u>376,215</u>
Subtotal - Passed through State Department of Education			<u>7,418,481</u>	<u>7,076,541</u>
Total U.S. Department of Education			<u>7,429,562</u>	<u>7,087,622</u>
 <u>Other Federal Assistance</u>				
<u>U.S. Department of Health and Human Service</u>				
Medical Assistance Program	93.778	N/A	452,851	544,869
<u>U.S. Department of Labor</u>				
JTPA Neighborhood Paint Grant	17.998	N/A	23,276	23,276
<u>U.S. Department of Defense</u>				
Reserve Officers Training Corp (ROTC)	12.XXX	N/A	<u>94,188</u>	<u>94,188</u>
Total Federal Financial Assistance			<u>\$ 10,568,598</u>	<u>\$ 10,316,720</u>

The accompanying schedule of expenditures of federal awards is a summary of the cash activity of the District's federal award programs and does not present transactions that would be included in financial statements of the District presented on the accrual basis of accounting, as contemplated by generally accepted accounting standards.

Non-monetary assistance is reported in this schedule at the fair market value of the commodities received and disbursed.



STATE OF OHIO
OFFICE OF THE AUDITOR

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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
JANUARY 31, 2002**