



**LORAIN COUNTY JOINT VOCATIONAL SCHOOL DISTRICT
LORAIN COUNTY
SINGLE UDIT
FOR THE YEAR ENDED JUNE 30, 2004**



**Auditor of State
Betty Montgomery**

**LORAIN COUNTY JOINT VOCATIONAL SCHOOL DISTRICT
LORAIN COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Board of Education
Lorain County Joint Vocational School District
Lorain County
15181 State Route 58
Oberlin, Ohio 44074

We have audited the accompanying financial statements of the governmental activities, the major fund and the aggregate remaining fund information of the Lorain County Joint Vocational School District, Lorain County, Ohio, (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund and the aggregate remaining fund information of the Lorain County Joint Vocational School District, Lorain County, Ohio, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 8, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquires of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The federal awards receipts and expenditures schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the federal awards receipts and expenditures schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Betty Montgomery
Auditor of State

April 8, 2005

Lorain County Joint Vocational School District

Lorain County

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

As Management of the Lorain County Joint Vocational School (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here, in conjunction with additional information we have provided in the notes to the basic financial statements and the basic financial statements to enhance their understanding of the District's financial performance.

This discussion and analysis of the District's financial performance is intended to serve as an introduction to the District's basic financial statements, and provides an overall review of the District's financial activities for the fiscal year ended June 30, 2004. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Financial Highlights

Key financial highlights for 2004 are as follows:

- In total, net assets increased \$1,694,680 in the governmental activities.
- General revenues accounted for \$17,779,350 in revenue or 84 percent of total revenues. Program specific revenues in the form of charges for services, operating and capital grants and contributions accounted for \$3,437,929 or 16 percent of total revenues of \$21,217,279.
- The District had \$19,522,599 in expenses related to governmental activities; only \$2,937,929 of these expenses were offset by program specific charges for services, operating grants and contributions. General revenues (primarily grants, entitlements and property taxes) of \$17,779,350 were used to provide for these programs along with cash balances from prior years.

Lorain County Joint Vocational School District
Lorain County
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Using the Basic Financial Statements

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

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

Reporting the District as a Whole

One of the most important questions asked about the District is "How did we do financially during 2004?"

The *Statement of Net Assets* and *Statements of Activities*, which appear first in the District's basic financial statements, report information on the District as a whole and its activities in a way that helps answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the financial position of the District has improved or diminished. However, the District's goal is to provide services to students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the District's property tax base, current property tax laws in Ohio restricting revenue growth, required educational programs and other factors.

Lorain County Joint Vocational School District

Lorain County

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In the Statement of Net Assets and the Statements of Activities, the District is combined into one activity:

- Governmental Activities – All of the District's programs and services are reported here including instruction, support services, operation of non-instructional services and extracurricular activities.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major fund begins on page 13. Fund financial reports provide detailed information about the District's major fund. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's major fund.

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

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 Lorain County
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The District as a Whole

Recall that the Statement of Net Assets provides the perspective of the District as a whole.

Table 1 provides a summary of the District's net assets for 2004 compared to 2003:

(Table 1)
Net Assets
 (In Millions)

	<u>Governmental Activities</u>		<u>Total Change</u>
	<u>2004</u>	<u>2003</u>	
Assets			
Current and other assets	\$ 21.2	\$ 20.6	\$.6
Capital assets, net	<u>5.4</u>	<u>4.2</u>	<u>1.2</u>
Total assets	<u>26.6</u>	<u>24.8</u>	<u>1.8</u>
Liabilities			
Other liabilities	12.2	12.1	.1
Long-term liabilities	<u>2.0</u>	<u>2.0</u>	<u>.0</u>
Total liabilities	<u>14.2</u>	<u>14.1</u>	<u>.1</u>
Net Assets			
Invested in capital assets	5.4	4.2	1.2
Restricted	1.4	2.7	(1.3)
Unrestricted	<u>5.6</u>	<u>3.8</u>	<u>1.8</u>
Total net assets	<u>\$ 12.4</u>	<u>\$ 10.7</u>	<u>\$ 1.7</u>

Net assets increased by \$1.7 million and total assets increased by \$1.8 million. This was primarily due to an increase in capital assets.

Lorain County Joint Vocational School District

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Management's Discussion and Analysis

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Table 2 shows the changes in net assets for fiscal year 2004 as compared to fiscal year 2003.

(Table 2)
Changes in Net Assets
(In Millions)

	<u>Governmental Activities</u>		<u>Total Change</u>
	<u>2004</u>	<u>2003</u>	
Program revenues:			
Charges for services	\$ 1.3	\$ 1.1	\$.2
Operating grants and contributions	1.6	1.1	.5
Capital grants and contributions	.5	.5	.0
General revenues:			
Property taxes	9.5	8.3	1.2
Grants and entitlements not restricted to specific programs	8.2	7.8	.4
Investment earnings	.1	.2	(.1)
Miscellaneous	<u>.0</u>	<u>.4</u>	<u>(.4)</u>
Total revenues	<u>21.2</u>	<u>19.4</u>	<u>1.8</u>
Program expenses			
Instruction			
Regular	1.0	1.2	(.2)
Vocational	9.2	8.3	.9
Adult education	1.7	1.7	.0
Support services			
Pupil services	1.0	1.1	(.1)
Instructional staff	1.2	1.1	.1
Board and administration	1.3	1.2	.1
Fiscal and business	.7	.7	.0
Plant operation and maintenance	2.4	1.9	.5
Pupil transportation	.1	.1	.0
Central services	.2	.3	(.1)
Non-instructional services	.5	.5	.0
Extracurricular activities	<u>.2</u>	<u>.2</u>	<u>.0</u>
Total expenses	<u>19.5</u>	<u>18.3</u>	<u>1.2</u>
Change in net assets	\$ <u>1.7</u>	\$ <u>1.1</u>	<u>.6</u>

Lorain County Joint Vocational School District

Lorain County

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2004

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Governmental Activities

Several revenue sources fund our governmental activities with property taxes being the largest contributor; \$9.5 million or 45 percent. Grants and Entitlements not restricted to a specific program of \$8.2 million made up 39 percent of revenues for governmental activities of the District for fiscal year 2004. Instruction expenses comprise \$11.9 million or 61 percent of governmental expenses. Support services expenses make up \$7.0 million or 36 percent of governmental expenses.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

(Table 3)
Governmental Activities
(In Millions)

	2004		2003	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Program Expenses				
Instruction:				
Regular	\$ 1.0	\$ (1.0)	\$ 1.2	\$ (1.2)
Vocational	9.2	(7.7)	8.3	(7.5)
Adult Education	1.7	(.3)	1.7	.0
Support Services:				
Pupil Services	1.0	(.9)	1.1	(1.1)
Instructional Staff	1.2	(1.2)	1.1	(1.1)
Board and Administration	1.3	(1.3)	1.2	(1.2)
Fiscal and Business	.7	(.7)	.7	(.7)
Plant Operation and Maintenance	2.4	(2.4)	1.9	(1.9)
Pupil Transportation	.1	(.1)	.1	(.1)
Central Services	.2	(.2)	.3	(.3)
Non-Instructional Services	.5	(.1)	.5	(.2)
Extracurricular Activities	<u>.2</u>	<u>(.2)</u>	<u>.2</u>	<u>(.2)</u>
 Total Expenses	 \$ <u>19.5</u>	 \$ <u>(16.1)</u>	 \$ <u>18.3</u>	 \$ <u>(15.5)</u>

Lorain County Joint Vocational School District
Lorain County
Management's Discussion and Analysis
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Unaudited

The District's Funds

Information about the District's major fund starts on page 13. This fund is accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$21.4 million and expenditures and other financing uses of \$21.5 million. The net change in fund balance for the year was most significant in the general fund, an increase of \$1.3 million. This increase was primarily due to good budgeting controls and frugal spending in fiscal year 2004.

General Fund – Budget Highlights

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

During the course of fiscal year 2004, the District amended its general fund budget throughout the fiscal year. Requests for budget changes are made by the building administrators. Final approval is obtained from the treasurer and superintendent and is presented to the Board of Education for their adoption.

For the General Fund, final budget basis revenue of \$16.8 million was amended upward from the original budget of \$15.5 million during fiscal year 2004. The \$1.3 million difference was due to conservative tax and intergovernmental revenue estimates.

The original appropriations of \$21.0 million were reallocated but did not change in total for the final. Expenditures, however, were only \$17.1 million or \$3.9 million less than anticipated due to surplus appropriations and frugal spending, in regular instruction, pupil services, plant operation and maintenance, and extracurricular activities.

The District's ending unobligated actual fund balance was \$6.0 million above the final budgeted amount.

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Management's Discussion and Analysis
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Capital Assets

At the end of fiscal year 2004, at historical cost, the District had \$18.9 million invested in land, land improvements, construction in progress (CIP), buildings and improvements, furniture, fixtures, and equipment, vehicles, and infrastructure all of which was related to governmental activities. Table 4 shows fiscal year 2004 balances compared to 2003:

(Table 4)
Capital Assets at June 30
 (In Millions)

	Governmental Activities	
	2004	2003
Land, land improvement, and CIP	\$ 1.7	\$ 1.1
Buildings and improvements	12.0	11.2
Furniture, fixtures, and equipment	4.7	4.4
Vehicles	.4	.4
Infrastructure	<u>.1</u>	<u>.1</u>
Totals	\$ <u>18.9</u>	\$ <u>17.2</u>

Net capital assets increased from the prior year. This was primarily due to an increase in purchases of furniture, fixtures, and equipment and buildings and improvements for use in vocational education.

For more information on capital assets, refer to the notes to the basic financial statements (See Note 7).

Current Issues

The District is financially stable and has been over the past decade. The District is very proud of the fact that only one additional operating levy has been needed since the District began operations in 1971. Sound fiscal policy and strong leadership has combined with favorable community support to make the District one of Ohio's best vocational schools.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional information, contact William Lilley, Treasurer, at 15181 Route 58 South, Oberlin, Ohio 44074, or call at (440) 774-1051.

Lorain County Joint Vocational School District

Lorain County
Statement of Net Assets
June 30,2004

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$9,136,964
Cash with fiscal agent	540,145
Receivables:	
Taxes	10,491,394
Accounts	79,238
Accrued Interest	39,851
Intergovernmental	826,442
Inventory	92,501
Capital assets:	
Land and construction in progress	693,967
Depreciable capital assets, net of depreciation	<u>4,705,764</u>
<i>Total assets</i>	<u>26,606,266</u>
Liabilities	
Accounts and contracts payable	138,243
Accrued wages and benefits	2,191,909
Intergovernmental payable	33,146
Claims payable	308,700
Matured compensated absences	97,998
Deferred revenue	9,446,883
Long-term liabilities:	
Due within one year	95,978
Due in more than one year	<u>1,888,800</u>
<i>Total liabilities</i>	<u>14,201,657</u>
Net assets	
Invested in capital assets	5,399,731
Restricted for:	
Capital purposes	1,285,772
Other purposes	143,830
Unrestricted	<u>5,575,276</u>
<i>Total net assets</i>	<u><u>\$12,404,609</u></u>

The accompanying notes are an integral part of the basic financial statements.

Lorain County Joint Vocational School District

Lorain County

Statement of Activities

For the Fiscal Year Ended June 30, 2004

	Program Revenues			Net (Expense) Revenue and Changes In Net Assets	
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
Governmental Activities:					
Instruction:					
Regular	\$974,797	\$0	\$0	(\$974,797)	
Vocational	9,235,798	393,579	660,927	(7,681,292)	
Adult education	1,707,248	842,004	594,556	(270,688)	
Support services:					
Pupil services	1,016,270	0	107,980	(908,290)	
Instruction staff	1,240,970	0	0	(1,240,970)	
Board and administration	1,319,791	0	0	(1,319,791)	
Fiscal and business	731,384	0	0	(731,384)	
Plant operation and maintenance	2,380,499	0	0	(2,380,499)	
Pupil transportation	87,028	0	0	(87,028)	
Central services	228,514	0	0	(228,514)	
Non-instructional services	414,387	91,696	247,187	(75,504)	
Extracurricular activities	185,913	0	0	(185,913)	
<i>Total governmental activities primary government</i>	<u>\$19,522,599</u>	<u>\$1,327,279</u>	<u>\$1,610,650</u>	<u>\$500,000</u>	<u>(16,084,670)</u>
General revenues:					
Property taxes - general purposes				9,458,288	
Grants and entitlements not restricted to specific programs				8,198,237	
Investment earnings				122,825	
<i>Total general revenues</i>				17,779,350	
Changes in net assets				1,694,680	
<i>Net assets - beginning</i>				10,709,929	
<i>Net assets - ending</i>				\$12,404,609	

The accompanying notes are an integral part of the basic financial statements.

Lorain County Joint Vocational School District

Lorain County
Balance Sheet
Governmental Funds
June 30, 2004

	<u>General Fund</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Cash and Cash Equivalents	\$6,930,403	\$2,206,561	\$9,136,964
Receivables:			
Taxes	10,491,394	0	10,491,394
Accounts	3,797	75,441	79,238
Accrued interest	39,851	0	39,851
Intergovernmental	0	826,442	826,442
Interfund	662,422	0	662,422
Inventory	11,812	80,689	92,501
<i>Total assets</i>	<u>\$18,139,679</u>	<u>\$3,189,133</u>	<u>\$21,328,812</u>
Liabilities and fund balances			
Accounts and contracts payable	\$18,831	\$119,412	\$138,243
Accrued wages and benefits	1,967,439	224,470	2,191,909
Intergovernmental payable	30,626	2,520	33,146
Deferred revenue	9,411,204	734,307	10,145,511
Compensated absences	81,598	16,400	97,998
Interfund payable	0	662,422	662,422
<i>Total liabilities</i>	<u>11,509,698</u>	<u>1,759,531</u>	<u>13,269,229</u>
Fund balances			
Reserved for encumbrances	330,895	1,149,275	1,480,170
Reserved for property taxes	1,092,951	0	1,092,951
Reserved for inventory	11,812	80,689	92,501
Unreserved:			
Undesignated, reported in:			
General fund	5,194,323	0	5,194,323
Special revenue funds	0	49,751	49,751
Capital projects funds	0	149,887	149,887
<i>Total fund balances</i>	<u>6,629,981</u>	<u>1,429,602</u>	<u>8,059,583</u>
<i>Total liabilities and fund balances</i>	<u>\$18,139,679</u>	<u>\$3,189,133</u>	<u>\$21,328,812</u>

The accompanying notes are an integral part of the basic financial statements.

Lorain County Joint Vocational School District
Lorain County
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30,2004

Total fund balances - governmental funds	\$8,059,583
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore, are not reported as assets in governmental funds. The cost of the assets is \$18,874,961 and the accumulated depreciation is \$13,475,230.	5,399,731
Some of the District's revenues will be collected after fiscal year-end, but are not available soon enough to pay for the current period expenditures and are deferred in the funds. These deferrals are attributed to property taxes and grants.	698,628
An internal service fund is used by management to charge the cost of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	231,445
Compensated absences not due and payable in the current period and therefore, not reported in the funds.	<u>(1,984,778)</u>
Total net assets - governmental activities	<u><u>\$12,404,609</u></u>

The accompanying notes are an integral part of the basic financial statements.

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

	General Fund	All Other Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$9,461,757	\$0	\$9,461,757
Earnings on investments	122,825	0	122,825
Classroom materials and fees	379,132	948,147	1,327,279
Intergovernmental	8,128,198	1,649,959	9,778,157
Other	42,111	7,060	49,171
<i>Total revenues</i>	<u>18,134,023</u>	<u>2,605,166</u>	<u>20,739,189</u>
Expenditures			
Current:			
Instruction:			
Regular	1,164,865	0	1,164,865
Vocational	8,705,670	395,175	9,100,845
Adult education	0	1,718,834	1,718,834
Support services:			
Pupil services	699,667	301,322	1,000,989
Instructional staff	1,094,894	108,572	1,203,466
Board and administration	1,292,496	9,659	1,302,155
Fiscal and business	699,743	0	699,743
Plant operation and maintenance	1,893,117	1,323,874	3,216,991
Pupil transportation	65,571	0	65,571
Central	219,581	8,933	228,514
Non-instructional services	23,365	384,857	408,222
Extracurricular activities	185,913	0	185,913
Capital outlay facilities	106,387	367,964	474,351
<i>Total expenditures</i>	<u>16,151,269</u>	<u>4,619,190</u>	<u>20,770,459</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>1,982,754</u>	<u>(2,014,024)</u>	<u>(31,270)</u>
Other financing sources (uses)			
Operating transfers in	3,068	665,000	668,068
Operating transfers out	(665,000)	(3,068)	(668,068)
Other sources	7,973	0	7,973
Other uses	(50,000)	(31,803)	(81,803)
<i>Total other financing sources (uses)</i>	<u>(703,959)</u>	<u>630,129</u>	<u>(73,830)</u>
Net change in fund balances	1,278,795	(1,383,895)	(105,100)
<i>Fund balances - beginning</i>	<u>5,351,186</u>	<u>2,813,497</u>	<u>8,164,683</u>
<i>Fund balances - ending</i>	<u>\$6,629,981</u>	<u>\$1,429,602</u>	<u>\$8,059,583</u>

The accompanying notes are an integral part of the basic financial statements.

Lorain County Joint Vocational School District
 Lorain County
 Reconciliation of the Change in Fund Balances of Governmental Funds
 to the Statement of Activities
 For the Fiscal Year Ended June 30, 2004

Net changes in fund balances - total governmental funds (\$105,100)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital asset additions	\$1,738,580	
Depreciation expense	<u>(501,527)</u>	
Excess of capital outlay over depreciation expense		1,237,053

Certain revenues will not be collected for several months after the District's fiscal year end, they are not considered "available" revenues and are deferred in the governmental funds. The activity consists of:

Increase in grant revenue	530,730	
Decrease in delinquent property taxes	<u>(3,469)</u>	
Total additional revenues		527,261

Some items reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds. These activities consist of:

Increase in compensated absences	<u>(136,291)</u>	
Total additional expenditures		(136,291)

An internal service fund is used to charge the cost of health insurance activities to individual funds. The net increase in the health fund is allocated back to the governmental activities; which reduced program expenses.

171,757

Change in net assets of governmental activities \$1,694,680

The accompanying notes are an integral part of the basic financial statements.

Lorain County Joint Vocational School District
Lorain County
Statement of Revenues, Expenditures, and Changes
In Fund Balance - Budget and Actual (Non-GAAP Basis)
General Fund
For the Fiscal Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Encumbrances	Actual Plus Encumbrances
Revenues					
Taxes	\$8,654,950	\$8,654,950	\$9,077,214		\$9,077,214
Earnings on investments	150,000	130,000	137,182		137,182
Intergovernmental	6,440,865	7,705,865	8,128,198		8,128,198
Other	30,000	30,000	41,578		41,578
Advances from projects	160,000	225,000	231,548		231,548
Refund prior year expenditure	60,000	4,185	7,973		7,973
<i>Total revenues</i>	<u>15,495,815</u>	<u>16,750,000</u>	<u>17,623,693</u>		<u>17,623,693</u>
Expenditures					
Current:					
Instruction:					
Regular	1,313,635	1,313,635	1,161,041	\$2,579	1,163,620
Special	1,500	1,500	969	0	969
Vocational	8,445,540	8,580,840	8,231,112	187,655	8,418,767
Supporting services:					
Pupil Services	936,900	936,905	693,640	8,933	702,573
Instructional staff	1,300,510	1,362,210	1,129,190	1,527	1,130,717
Board and administration	1,167,015	1,446,510	1,313,139	57,648	1,370,787
Fiscal and business	809,460	847,960	686,786	14,408	701,194
Plant operation and maintenance	2,718,830	2,734,830	1,889,156	33,927	1,923,083
Pupil transportation	91,000	96,000	65,755	0	65,755
Central	186,500	250,500	216,715	36,447	253,162
Non-instructional	50,000	50,000	23,365	0	23,365
Extracurricular activities	195,800	202,800	201,043	1,237	202,280
Capital outlay	550,000	550,000	106,387	0	106,387
<i>Total expenditures</i>	<u>17,766,690</u>	<u>18,373,690</u>	<u>15,718,298</u>	<u>344,361</u>	<u>16,062,659</u>
Excess of revenues (under) expenditures	<u>(2,270,875)</u>	<u>(1,623,690)</u>	<u>1,905,395</u>	<u>(344,361)</u>	<u>1,561,034</u>
Other financing sources (uses)					
Advances - out	(583,310)	(778,310)	(651,322)	0	(651,322)
Operating transfers - out	(2,600,000)	(1,798,000)	(665,000)	0	(665,000)
Endowment fund donation	(50,000)	(50,000)	(50,000)	0	(50,000)
<i>Total other financing sources (uses)</i>	<u>(3,233,310)</u>	<u>(2,626,310)</u>	<u>(1,366,322)</u>	<u>0</u>	<u>(1,366,322)</u>
Net change in fund balance	(5,504,185)	(4,250,000)	539,073	<u>(\$344,361)</u>	<u>\$194,712</u>
<i>Fund balance - beginning</i>	<u>6,234,281</u>	<u>6,234,281</u>	<u>6,234,281</u>		
<i>Fund balance - ending</i>	<u><u>\$730,096</u></u>	<u><u>\$1,984,281</u></u>	<u><u>\$6,773,354</u></u>		

The accompanying notes are an integral part of the basic financial statements.

Lorain County Joint Vocational School District

Lorain County
Statement of Net Assets
Proprietary Fund
June 30, 2004

	<u>Governmental Activities - Internal Service Fund</u>
Assets	
Current assets:	
Cash and cash equivalents	<u>\$540,145</u>
<i>Total assets</i>	<u>540,145</u>
Liabilities	
Current liabilities:	
Claims payable	<u>308,700</u>
<i>Total liabilities</i>	<u>308,700</u>
Net assets	
Unrestricted	<u>231,445</u>
<i>Total net assets</i>	<u><u>\$231,445</u></u>

The accompanying notes are an integral part of the basic financial statements.

Lorain County Joint Vocational School District
Lorain County
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Fund
For the Fiscal Year Ended June 30, 2004

	<u>Governmental Activities - Internal Service Fund</u>
Operating revenues	
Charges for services	<u>\$1,719,051</u>
<i>Total Operating Revenues</i>	<u>1,719,051</u>
Operating expenses	
Purchased services	330,051
Claims	<u>1,228,214</u>
<i>Total operating expenses</i>	<u>1,558,265</u>
Operating income	160,786
Non-operating revenues (expenses)	
Earnings on investments	<u>10,971</u>
<i>Total non-operating revenues</i>	<u>10,971</u>
Change in net assets	<u>171,757</u>
<i>Total net assets - beginning</i>	<u>59,688</u>
<i>Total net assets - ending</i>	<u><u>\$231,445</u></u>

The accompanying notes are an integral part of the basic financial statements.

Lorain County Joint Vocational School District
Lorain County
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2004

	<u>Governmental Activities - Internal Service Fund</u>
Cash flows from operating activities:	
Quasi external transactions with other funds	\$1,719,051
Payments for goods and services	(330,051)
Payments for claims	<u>(1,270,514)</u>
<i>Net cash provided by operating activities</i>	<u>118,486</u>
Cash flows from investing activities:	
Interest	<u>10,971</u>
Net increase in cash and cash equivalents	129,457
<i>Cash and cash equivalents - beginning</i>	<u>410,688</u>
<i>Cash and cash equivalents - ending</i>	<u><u>\$540,145</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$160,786
Adjustments to reconcile operating income to net cash provided by operating activities:	
Changes in assets and liabilities:	
(Decrease) in claims payable	<u>(42,300)</u>
Net cash provided by operating activities	<u><u>\$118,486</u></u>

The accompanying notes are an integral part of the basic financial statements.

Lorain County Joint Vocational School District

Lorain County
Statement of Net Assets
Fiduciary Fund
June 30, 2004

	<u>Agency</u>
Assets	
Cash and cash equivalents	<u>\$48,159</u>
Liabilities	
Due to students	<u>\$48,159</u>

The accompanying notes are an integral part of the basic financial statements.

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**Lorain County Joint Vocational School District
Lorain County**

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

Note 1: Nature of Basic Operations and Description of Entity

Reporting Entity: The Lorain County Joint Vocational School District (the District) is a school district corporation governed by an elected Board of Education. As required by accounting principles generally accepted in the United States of America (GAAP), these financial statements present all funds of the primary government. The primary government consists of all funds, departments, boards, organizations, and agencies that are not legally separate for financial reporting purposes.

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 organization's 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 organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide 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. Based on the foregoing criteria, the District has no component units.

The District is associated with Lake Erie Educational Computer Association (LEECA) and Lake Erie Regional Council (LERC), which are defined as jointly governed organizations. Additional information concerning the jointly governed organizations is presented in Notes 5 and 12.

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

Note 2: Summary of Significant Accounting Policies

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

A. Basis of Presentation:

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

**Lorain County Joint Vocational School District
Lorain County**

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

Note 2: Summary of Significant Accounting Policies - continued

Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for the fiduciary fund. The statements present those activities of the District that are governmental activities. The District had no business-type activities.

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

Fund Financial Statements

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

B. Fund Accounting

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

**Lorain County Joint Vocational School District
Lorain County**

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

Note 2: Summary of Significant Accounting Policies - continued

Governmental Funds

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

General – The general fund is the operating fund of the District and is used to account for all financial resources, except those required to be accounted for in another fund.

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

Proprietary Fund

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flow. Proprietary funds are classified as enterprise or internal services. The District has no enterprise funds.

Internal Service Fund

Internal funds are used to account for any activity for which a fee is charged to internal users for goods or services. The following is the District's internal service fund:

LERC Health Insurance – This fund accounts for revenue received and expended in connection with a self insurance (pool) program.

**Lorain County Joint Vocational School District
Lorain County**

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

Note 2: Summary of Significant Accounting Policies - continued

Fiduciary Funds

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

C. Measurement Focus

Government-wide Financial Statements

The government-wide statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the District are included on the statement of net assets. The statement of activities reports increases (i.e., revenue) and decreases (i.e., expenses) in net assets.

Fund Financial Statements

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

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

**Lorain County Joint Vocational School District
Lorain County**

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

Note 2: Summary of Significant Accounting Policies - continued

Private purpose trust funds are reported using the economic resources measurement focus, however, the District had none.

D. Basis of Accounting

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

Revenue – Exchange and Non-exchange Transactions

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

Non-exchange 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 the taxes are levied (see Note 9). 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 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 non-exchange transaction must also be available before it can be recognized.

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

Deferred Revenue

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

**Lorain County Joint Vocational School District
Lorain County**

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

Note 2: Summary of Significant Accounting Policies - continued

Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

E. Interfund Balances

On fund financial statements, outstanding interfund loans are reported as "Interfund Receivables" and "Interfund Payables." These amounts are eliminated in the statement of net assets (See Note 6).

F. Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors or laws other governments or imposed by enabling legislation.

G. Inventory

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

On fund financial statements, inventories of governmental funds are stated at cost. Cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when used.

**Lorain County Joint Vocational School District
Lorain County**

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

Note 2: Summary of Significant Accounting Policies - continued

H. Capital Assets

General capital assets are those assets not specifically related to activities reported in the enterprise funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are reported at their fair market values as of the date received. The District maintains a capitalization threshold of three thousand five hundred dollars. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land Improvements	20 years
Building and Improvements	20-50 years
Furniture, Fixtures, and Equipment	5-20 years
Vehicles	8 years
Infrastructure	50 years

I. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' right to receive compensation is attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means. The District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the District's termination policy (See Note 8).

**Lorain County Joint Vocational School District
Lorain County**

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

Note 2: Summary of Significant Accounting Policies - continued

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts, if significant, are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported in the fund statements.

J. Accrued Liabilities and Long-term Obligations

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

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

K. Fund Balance Reserves

The District reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances, property taxes, and inventory.

The reserve for property taxes represents taxes recognized as revenue under GAAP but not available for appropriation under State statute for fiscal year 2004. The reserve for inventory represents assets that are not available to be spent against future obligations.

L. Net Assets

Net Assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

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

**Lorain County Joint Vocational School District
Lorain County**

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

Note 2: Summary of Significant Accounting Policies - continued

M. Interfund Transactions

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

N. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the District, these revenues are charges for services. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. Revenues and expenses not meeting this definition are reported as non-operating.

O. Estimates

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

P. Budgetary Process

All funds, other than the agency fund, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution, and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. The treasurer has been authorized to allocate Board appropriations to the function and object level within each fund.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported in the budgetary statements reflect the amounts in the amended certificate in effect at the time the final appropriations were passed.

**Lorain County Joint Vocational School District
Lorain County**

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

Note 2: Summary of Significant Accounting Policies - continued

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the year (See Note 3).

Q. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed. No prepaids were recorded.

R. Cash and Investments

Cash received by the District is deposited in one central bank account with individual fund balance integrity maintained through District records. Monies for all funds are maintained in this account or temporarily transferred to the State Treasurer's investment pool (STAROhio) or other short term investments. Under existing Ohio statutes, interest earnings are allocated to funds based on average monthly cash balances. Interest income earned for the year ended June 30, 2004 totaled \$122,825.

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 (See Note 4).

Note 3: Budgetary Basis of Accounting

The Board of Education is required, by Ohio Revised Code, to adopt an annual budget in accordance with the following:

Tax Budget: A budget of estimated cash receipts and disbursements is adopted prior to January 15 by the board. 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.

**Lorain County Joint Vocational School District
Lorain County**

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

Note 3: Budgetary Basis of Accounting - continued

Estimated Resources: The County Budget Commission certifies its actions to the District. As part of this certification, the District receives the official certificate of estimated resources which states the projected receipts of each fund. On or about July 1, this certificate is amended to include any unencumbered balances from the preceding year. Prior to fiscal year end, the District must revise its budget so that the total contemplated expenditures from a fund during the year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. Budget receipts, as shown in the accompanying "Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Basis) – General Fund", do include July 1, 2003 unencumbered fund balances. However, those fund balances are available for appropriations. The amounts reported in the budgetary statements reflect the final budget figures.

Appropriations: Appropriations may be defined as expenditure authorization and are synonymous with budget within the Budget and Actual presentations. A temporary appropriation measure to control the cash disbursements may be passed prior to passage of the annual appropriation measure. An annual appropriation measure must be passed for the current fiscal year by October 1 of each budget year. The appropriation measure may be amended or supplemented during the year as new information becomes available. Board of Education approval to amend or supplement appropriations is required. Several amendments and supplements were enacted during the fiscal year. The amounts reported in the budgetary statements reflect final amended appropriations. Appropriations may not exceed estimated resources and expenditures plus encumbrances may not exceed appropriations at the fund level.

Lapsing of Appropriation: At the close of each year, the unencumbered balance of each appropriation reverts to the respective funds 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 fund financial statements, encumbrances outstanding at year end for governmental funds are reported as reservations of fund balance for subsequent year expenditures.

**Lorain County Joint Vocational School District
Lorain County**

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

Note 3: Budgetary Basis of Accounting - continued

Budgetary Basis of Accounting: Although reporting financial position, results of operations, and changes in fund balances on the 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 “Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual (Non-GAAP Basis) – General Fund” 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 GAAP basis are that:

- 1) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP Basis).
- 2) Expenditures are recorded when paid in cash (budget basis) rather than when the liability is incurred (GAAP basis).
- 3) Encumbrances are treated as expenditures for all funds (budget basis) rather than a reservation of fund balance for governmental funds.

Adjustments necessary to convert the results of operations for the major General fund at the end of the year on the budget basis to the GAAP basis are as follows:

**Net Change
in Fund Balance**

	<u>General</u>
GAAP Basis	\$ 1,278,795
Net Adjustments for Revenue Accruals	(521,371)
Net Adjustments for Expenditure Accruals	(218,351)
Net Adjustments for Encumbrances	<u>(344,361)</u>
Budget Basis	\$ <u>194,712</u>

Note 4: Deposits and Investments

Legal Requirements: Deposits and investments are restricted by provisions of the Ohio Revised Code. Statutes require the classification of 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 treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

**Lorain County Joint Vocational School District
Lorain County**

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

Note 4: Deposits and Investments - continued

Inactive deposits are public deposits that are 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 are permitted to be deposited or invested in the following securities:

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

The District may also invest any monies not required to be used for a period of six months or more in the following:

1. Bonds of the State of Ohio;

**Lorain County Joint Vocational School District
Lorain County**

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

Note 4: Deposits and Investments - continued

2. Bonds of any municipal corporation, village, county, township, or other political subdivision of this State, as to which there is no default of principal, interest or coupons.
3. Obligations of the District.

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

Deposits: At year end, the carrying amount of the District's deposits was \$9,467,100 and the bank balance was \$9,274,703. Of the bank balance, \$304,378 was covered by federal depository insurance. The remainder was uncollateralized or collateralized with securities held by the pledging financial institution, or its trust department or agent in the District's name. Although there are securities serving as collateral held by the pledging financial institution's trust department or agent in the District's name and all state statutory requirements for the investment of money had been followed, noncompliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

Investments: The District's investments are categorized below to give an indication of the level of risk assumed by the District 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 securities are held by the financial institution's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which securities are held by the financial institution by its trust department but not in the District's name. The carrying value of deposits and investments are presented in the combined balance sheet as equity in pooled cash and cash equivalents. STAROhio and the money market account are unclassified investments. They are not evidenced by securities that exist in physical or book entry form.

**Lorain County Joint Vocational School District
Lorain County**

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

Note 4: Deposits and Investments - continued

	<u>Category 1-3</u>	<u>Carrying Value</u>	<u>Fair Value</u>
Noncategorized:			
Investments in State Treasurer's Investment Pool		\$ <u>258,168</u>	\$ <u>258,168</u>
Total Investments		\$ <u>258,168</u>	\$ <u>258,168</u>

The classification of cash and cash equivalents, and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classification of cash and cash equivalents and investments on the basic financial statements and the classification per GASB Statement No. 3 is as follows:

	<u>Cash and Cash Equivalents</u>	<u>Investments</u>
GASB Statement No. 9	\$ 9,725,268	\$ -
Investments in State Treasurer's Investment Pool	<u>(258,168)</u>	<u>258,168</u>
GASB Statement No. 3	\$ <u>9,467,100</u>	\$ <u>258,168</u>

Note 5: 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 schools 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 school 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 school 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 at 1885 Lake Avenue, Elyria, Ohio. During fiscal year 2004, the District contributed \$12,516 for services provided by LEECA.

**Lorain County Joint Vocational School District
Lorain County**

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

Note 5: Jointly Governed Organizations - continued

B. Lake Erie Regional Council (LERC)

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

The LERC's shared risk pool premiums are billed to each participating school district based on actuarially determined rates. Should contributions prove to be insufficient to pay program costs of the insurance program for any fiscal year, each participating member is notified of the deficiency and billed for its share of the additional cost.

The LERC assembly consists of a superintendent or designated representative from each participating school 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 school 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 at 1885 Lake Avenue, Elyria, Ohio. During fiscal year 2004, the District paid approximately \$1,599,414 to LERC.

Note 6: Interfund Receivables and Payables

The interfund payables are advances for grant monies that were not received by fiscal year end. The District expects to receive the grant monies within the next fiscal year, at which time the advances will be repaid.

A. Transfers

The general fund reported transfers out of \$665,000 to the permanent improvement fund, adult education fund, and the career development fund at June 30, 2004. The transfers represent the monies provided by the general fund to help fund the future permanent improvements, adult education, and career development for students in the District.

B. Balances

Interfund balances at June 30, 2004, consist of the following individual fund receivables and payables:

**Lorain County Joint Vocational School District
Lorain County**

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

Note 6: Interfund Receivables and Payables - continued

<u>Interfund Payable</u>	<u>Interfund Receivable</u>
<u>General Fund</u>	<u>General Fund</u>
<i>Governmental Activities</i>	
Non-Major Funds	
Adult Full Service	\$ 3,375
MIS Fund	2,000
Career Development	5,176
Applied Academics Grant	5,788
A.B.L.E.	32,968
Title III Eisenhower Fund	100
Vocational Education Grant	97,026
Title VI	7,307
FERP Grant	500,000
Drug Free School	2,291
Improving Teacher Quality	<u>6,391</u>
Total Governmental Activities	<u>\$ 662,422</u>

Note 7: Capital Assets

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

	<u>Balance 7/1/03</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 6/30/04</u>
Governmental Activities				
<i>Capital assets not being depreciated:</i>				
Land	\$ 138,000	\$	\$	\$ 138,000
Construction in Progress	<u> </u>	<u>555,967</u>	<u> </u>	<u>555,967</u>
Total capital assets not being depreciated	<u>138,000</u>	<u>555,967</u>	<u> </u>	<u>693,967</u>
<i>Capital assets being depreciated:</i>				
Land Improvements	946,607	24,840		971,447
Buildings and Improvements	11,217,138	821,547		12,038,685
Furniture, Fixtures, and Equipment	4,421,845	349,330	(62,240)	4,708,935
Vehicles	430,058			430,058
Infrastructure	<u>31,869</u>	<u> </u>	<u> </u>	<u>31,869</u>
Total capital assets being depreciated at historical cost	<u>\$ 17,047,517</u>	<u>\$ 1,195,717</u>	<u>\$ (62,240)</u>	<u>\$ 18,180,994</u>

**Lorain County Joint Vocational School District
Lorain County**

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

Note 7: Capital Assets - continued

	Balance <u>7/1/03</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>6/30/04</u>
Less accumulated depreciation:				
Land Improvements	\$ 920,684	\$ 4,235	\$	\$ 924,919
Building and Improvements	9,132,104	138,843		9,270,947
Furniture, Fixtures and Equipment	2,664,464	312,945	(49,136)	2,928,273
Vehicles	298,041	44,867		342,908
Infrastructure	<u>7,546</u>	<u>637</u>		<u>8,183</u>
Total accumulated depreciation	<u>13,022,839</u>	<u>501,527</u>	<u>(49,136)</u>	<u>13,475,230</u>
Total capital assets being depreciated, net	<u>4,024,678</u>	<u>694,190</u>	<u>(13,104)</u>	<u>4,705,764</u>
Governmental activity capital assets, net	\$ <u>4,162,678</u>	\$ <u>1,250,157</u>	\$ <u>(13,104)</u>	\$ <u>5,399,731</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 1,275
Vocational	367,418
Adult/Continuing	445
Support services:	
Pupil	6,163
Instructional staff	9,941
Administration	3,800
Fiscal services	1,229
Operation and maintenance	88,482
Transportation	21,457
Community services	<u>1,317</u>
Total depreciation expense	\$ <u>501,527</u>

**Lorain County Joint Vocational School District
Lorain County**

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

Note 8: Long-Term Obligations

Changes in long-term obligations are as follows:

	<u>Balance at July 1, 2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2004</u>
Compensated Absences	\$ <u>1,942,910</u>	\$ <u>459,688</u>	\$ <u>417,820</u>	\$ <u>1,984,778</u>

Refer to Note 2, I for additional information related to compensated absences.

Note 9: Property Taxes

Property taxes include amounts levied annually, on all real and public utility property and business tangible personal property which is located within the District. The Lorain County Auditor is responsible for assessing and remitting these property taxes to the District. The Lorain County Treasurer is responsible for collecting property taxes.

Real property taxes collected were based on assessed value equal to thirty-five percent (35%) of appraised value. The Lorain County Auditor reappraises real property every six years with a triennial update, the last update was completed for 2004. Real property taxes are levied on assessed valuations as of December 31, which is the lien date. Real property taxes, billed one year in arrears, are payable annually or semi-annually. The first payment is due January 20, and the remainder is payable by June 20.

Tangible personal property taxes collected were based on assessed values that represent varying percentages of cost. Tangible personal property taxes are levied on January 1, which is the lien date, of the current year and are due by April 30.

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 varying percentages of its true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

The District receives property taxes from Lorain County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the county by June 30, 2004, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

**Lorain County Joint Vocational School District
Lorain County**

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

Note 9: Property Taxes - continued

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes which became measurable as of June 30, 2004. 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, 2004, was \$1,092,951 in the General Fund and is recognized as revenue.

Since Lorain County assesses and levies property taxes on a calendar basis, the District receives property taxes from two (2) taxing years during the District's fiscal year.

The assessed values of real and tangible personal property, upon which property tax receipts for the Fiscal Year Ended June 30, 2004 were based, are as follows:

	Assessed Values	
	Second Half	First Half
	<u>2003</u>	<u>2004</u>
Real Property:		
Residential/Agricultural	\$ 3,200,354,460	\$ 3,603,759,770
Commercial/Industrial	707,962,480	778,058,850
Public Utilities	2,089,450	2,296,550
Minerals	93,650	87,370
Tangible Personal Property:		
General	443,942,060	397,031,650
Public Utilities	<u>230,684,770</u>	<u>229,701,940</u>
TOTAL ASSESSED VALUATION	<u>\$ 4,585,126,870</u>	<u>\$ 5,010,936,130</u>

The full tax rate from all District operations applied to real property for the fiscal year ended June 30, 2004 was \$2.45 per \$1,000 of assessed valuation.

**Lorain County Joint Vocational School District
Lorain County**

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

Note 10: Defined Benefit Pension Plans

A. State Teachers Retirement System

The District participates in 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. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service (formula benefit calculation), or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor (money-purchase benefit calculation). The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

**Lorain County Joint Vocational School District
Lorain County**

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

Note 10: Defined Benefit Pension Plans - continued

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

The District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$1,107,992, \$1,064,671, and \$789,375, respectively; 92 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002.

B. School Employees Retirement System

The 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. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Columbus, Ohio 43215, or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. 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 District's contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003 and 2002 were \$156,471, \$126,535, and \$92,804, respectively; 92 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2004, all members of the Board of Education have elected social security. The Board's liability is 6.2 percent of wages paid.

**Lorain County Joint Vocational School District
Lorain County**

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

Note 11: Postemployment Benefits

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. Through June 30, 2004, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$85,230 during fiscal 2004.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Fund was \$3.10 billion at June 30, 2004. For the year ended June 30, 2004, net health care costs paid by STRS were \$268,739,000 and STRS had 111,853 eligible benefit recipients.

The Ohio Revised Code gives 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. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50 percent for those who apply.

For this fiscal year, employer contributions to fund health care benefits were 4.91 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay was established at \$25,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150 percent of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, the Retirement System's net assets available for payment of health care benefits was \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits. For the District, the amount to fund health care benefits, including the surcharge, equaled \$109,587 during the 2004 fiscal year.

**Lorain County Joint Vocational School District
Lorain County**

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

Note 12: 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. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. There has not been a reduction in coverage from the prior year.

The District has a comprehensive property and casualty policy with the Fitzgibbons Arnold Agency, Inc. which includes boiler coverage. The deductible is \$5,000 per incident. All vehicles are insured with Fitzgibbons Arnold Agency, Inc. and have a \$500 Collision deductible. All Board Members, Administrators and employees are covered under a school district liability policy with Indiana Insurance Company. The limits of this coverage are \$1,000,000 per occurrence and \$5,000,000 aggregate.

The Board President and the Superintendent are covered with surety bonds for \$20,000. The Treasurer also is covered by a surety bond in the amount of \$50,000. These bonds are with Travelers Casualty and Surety Company of America.

The District participated in the Ohio Association of School Business Officials Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP.

A participant will then either receive money from or be required to contribute to the "equity pooling fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Sheakley UniService, Inc., provides administrative, cost control and actuarial services to the GRP.

The District has contracted with the Lake Erie Regional Employee Protection Plan (LEEP) to provide medical/surgical and dental benefits for its employees and their covered dependents. LEEP is a program administered by Lake Erie Regional Council of Governments (LERC). The LEEP is a claims-sharing pool comprised of fourteen Lorain County school districts. The District pays a monthly contribution which is placed in a common fund from which eligible claims and expenses are paid for all participating school districts. Claims are paid for all participants regardless of claims. This plan contains a stop-loss provision of \$165,000 per participant.

**Lorain County Joint Vocational School District
Lorain County**

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

Note 12: Risk Management - continued

The LEEP Board of Directors has authority to return monies to an exiting district subsequent to the settlement of all claims and expenses. This plan provides a medical/surgical and dental plan with a \$200 deductible for family coverage and \$100 deductible for single coverage, plus 15 percent of the next \$2,500 after which is covered 100 percent.

The claims liability of \$308,700 reported at June 30, 2004, was estimated by LERC and is based on their requirements of Governmental Standards Board Statement No. 10, which requires that a liability for unpaid claims costs, including estimates of costs related to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in balances of claims liability during the year ended June 30, 2004, are summarized below. Incurred claims payments are not segregated between current and prior years claims due to the impracticability of obtaining such information.

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Unpaid claims, beginning of year	\$ 351,000	\$ 220,872
Incurred claims	1,228,214	1,236,025
Claims payment	(1,270,514)	(1,105,897)
Unpaid claims, end of year	\$ <u>308,700</u>	\$ <u>351,000</u>

Note 13: Contingencies

A. Grants

The District receives financial assistance from numerous federal and state agencies which is subjected to financial and compliance audits in accordance with the 1996 amendments to the Single Audit Act. Such audits could lead to a request for reimbursement to the grantor agency for disallowed expenditures. Management believes that any such disallowed amounts, if any, would not materially affect the District's financial position.

B. Litigation

The District is not party to any claims or lawsuits that would have a material effect on the basic financial statements.

Note 14: State School Funding Decision

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional. The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...".

**Lorain County Joint Vocational School District
Lorain County**

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

Note 14: State School Funding Decision - continued

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

Note 15: Set-Aside

The District records reservations for portions of fund balance which are legally segregated for specific future use or which do not represent available spendable resources and, therefore, are not available for appropriation for expenditures. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves are established for encumbrances, inventory and property taxes. The reserve for property taxes represents accrued tax revenue not available for appropriation according to Ohio law.

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, 2004, the reserve activity was as follows:

	<u>Textbook Reserve</u>	<u>Capital Maintenance Reserve</u>	<u>Total</u>
Balance, 7/1/2003	\$ (207,240)	\$ 0	\$ (207,240)
Required Set-Aside	185,819	185,819	371,638
Qualifying Expenditures	<u>(572,860)</u>	<u>(693,655)</u>	<u>(1,266,515)</u>
Total	<u>(594,281)</u>	<u>(507,836)</u>	<u>(1,102,117)</u>
Carry Forward, 6/30/2004	\$ <u>(594,281)</u>	\$ <u>0</u>	\$ <u>(594,281)</u>

Textbook expenditures exceeded the statutory requirements by \$594,281 which may be used to reduce the set aside requirements of future years. Capital maintenance expenditures have exceeded statutory requirements by \$507,836, which may not be used to reduce the set aside requirements of future years. This negative balance is therefore not presented as being carried forward to future fiscal years.

**Lorain County Joint Vocational School District
Lorain County**

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

Note 16: Contractual Commitments

As of June 30, 2004, the District has contractual commitments for the following projects:

<u>Projects</u>	<u>Contract Amount</u>	<u>Amount Paid</u>	<u>Balance 6/30/04</u>
Computer lab	\$ 1,165,893	\$ 153,601	\$ 1,012,292
Electrical wiring	<u>111,600</u>	<u>86,126</u>	<u>25,474</u>
Total Contractual Commitments	<u>\$ 1,277,493</u>	<u>\$ 239,727</u>	<u>\$ 1,037,766</u>

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**LORAIN COUNTY JOINT VOCATIONAL SCHOOL DISTRICT
LORAIN COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2004**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Expenditures
U.S. DEPARTMENT OF EDUCATION				
<i>Direct Assistance</i>				
Pell Grant	N/A	84.063	\$ 199,500	\$ 199,500
Total United States Department of Education Direct Assistance			199,500	199,500
U.S. DEPARTMENT OF EDUCATION				
<i>Passed through Ohio Department of Education</i>				
Adult Basic Education State Grant Program	051227-AB S1-2002	84.002	(36)	-
Adult Basic Education State Grant Program	051227-AB S1-2003	84.002	38,129	40,980
Adult Basic Education State Grant Program	051227-AB S1-2004	84.002	54,538	51,248
Total Adult Basic Education State Grant Program			92,631	92,228
Vocational Education Basic Grants to States	051227- 20 A0-2003	84.048	1,059	3,267
Vocational Education Basic Grants to States	051227- 20 C1-2003	84.048	77,488	3,409
Vocational Education Basic Grants to States	051227- 20 C1-2004	84.048	427,878	492,199
Vocational Education Basic Grants to States	051227- 20 C2-2003	84.048	15,802	-
Vocational Education Basic Grants to States	051227- 20 C2-2004	84.048	59,603	69,272
Total Vocational Education Basic Grants to States			581,830	568,147
Safe and Drug Free Schools and Communities State Grants	051227-DR S1-2003	84.186	2,159	594
Safe and Drug Free Schools and Communities State Grants	051227-DR S1-2004	84.186	503	692
Total Safe and Drug Free Schools and Communities State Grants			2,662	1,286
Innovative Education Program Strategy, Title V	051227-C2 S1-2003	84.298	5,191	-
Innovative Education Program Strategy, Title V	051227-C2 S1-2004	84.298	1,604	2,405
Total Innovative Education Program Strategy, Title V			6,795	2,405
School Renovation Grants, ATIP	051227-AT S3-2003	84.352 A	-	298,261
Total School Renovation Grants, ATIP			0	298,261
Improving Teacher Quality, Title II-A	051227-TR S1-2003	84.367	5,086	-
Improving Teacher Quality, Title II-A	051227-TR S1-2004	84.367	1,403	1,100
Total Improving Teacher Quality, Title II-A			6,489	1,100
<i>Subtotal Pass Through Ohio Department of Education</i>			690,407	963,427
Total U.S. Department of Education			889,907	1,162,927
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION				
<i>Direct Assistance</i>				
NASA Cooperative Grant	NCC5-554	N/A	179,450	179,450
Total National Aeronautics and Space Administration			179,450	179,450
TOTAL FEDERAL AWARDS RECEIPTS AND EXPENDITURES			\$ 1,069,357	\$ 1,342,377

The accompanying notes to this schedule are an integral part of this schedule.

**LORAIN COUNTY JOINT VOCATIONAL SCHOOL DISTRICT
LORAIN COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
JUNE 30, 2004**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) summarizes activity of the District's federal award programs. The Schedule has been prepared on the cash basis of accounting. The information in this Schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B – RETURN OF RECEIPT

The District returned a receipt of \$36 from the Adult Basic Education State Grant Program to the Ohio Department of Education because all of the grant funds had not been expended within the allowable time period.

CFDA – Catalog of Federal Domestic Assistance.

N/A – Not applicable.



Auditor of State Betty Montgomery

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

Lorain County Joint Vocational School District
Lorain County
15181 State Route 58
Oberlin, Ohio 44074

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund and the aggregate remaining fund information of the Lorain County Joint Vocational School District, Lorain County, Ohio, (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated April 8, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated April 8, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the District's management dated April 8, 2005, we reported other matters related to noncompliance we deemed immaterial.

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Lorain County Joint Vocational School District
Lorain County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

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

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

Betty Montgomery
Auditor of State

April 8, 2005



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO ITS MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Education
Lorain County Joint Vocational School District
Lorain County
1181 State Route 58
Oberlin, Ohio 44074

Compliance

We have audited the compliance of the Lorain County Joint Vocational School District, Lorain County, Ohio (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that apply to its major federal program for the year ended June 30, 2004. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal program. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its major federal program. Our responsibility is to express an opinion on the 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 reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2004.

Internal Control Over Compliance

The District's management 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 District's internal control over compliance with requirements that could directly and materially effect a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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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 reportable 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 caused by error or fraud would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted matters involving the internal control over federal compliance not requiring inclusion in this report, that we reported to the District's management in a separate letter dated April 8, 2005.

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

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

Betty Montgomery
Auditor of State

April 8, 2005

**LORAIN COUNTY JOINT VOCATIONAL SCHOOL DISTRICT
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2004**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(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 (list):	Vocational Education Basic Grant – CFDA #84.048
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

LORAIN COUNTY JOINT VOCATIONAL SCHOOL DISTRICT
LORAIN COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2004
(CONTINUED)

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

None

3. FINDINGS FOR FEDERAL AWARDS

None



**Auditor of State
Betty Montgomery**

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LORAIN COUNTY JOINT VOCATIONAL 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
MAY 19, 2005**