

Lorain City School District

* * *

Basic Financial Statements

June 30, 2006



Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Lorain City School District, Lorain County, prepared by Rea & Associates, Inc., for the audit period July 1, 2005 through June 30, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

February 2, 2007

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LORAIN CITY SCHOOL DISTRICT

For the year Ended June 30, 2006

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Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

December 8, 2006

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Lorain City School District
Lorain, OH

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate discretely presented component units and remaining fund information of the Lorain City School District, as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Lorain City School District's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the component units of the Digital Academies or the Jointly Administered Trust Fund for the Benefit of Lorain City School District Employees, which represent 0.33 percent, 0.47 percent, and 1.00 percent, respectively, of the assets, net assets, and revenues of the related consolidated totals. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Digital Academies or the Jointly Administered Trust Fund for the Benefit of Lorain City School District Employees, is based on the report of the other auditors.

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

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate discretely presented component units and remaining fund information of the Lorain City School District, as of June 30, 2006, and the respective changes in financial position and the cash flows where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2006, on our consideration of the Lorain City School District's internal control over financial reporting

and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Rea & Associates, Inc.

Lorain City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)

The discussion and analysis of the Lorain City School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2006 are as follows:

- ❑ General Revenues accounted for \$83 million in revenue or 74% of all revenues. Program specific revenues in the form of charges for services and sales, grants, and contributions accounted for \$28.7 million or 26% of total revenues of \$111.7 million.
- ❑ Total program expenses were \$112.2 million.
- ❑ Net assets decreased \$.5 million, which is a .3% decrease from 2005.
- ❑ Outstanding debt increased from \$46.1 million to \$49.2 million due to net additions.

Using this Annual Report

This annual report consists of the MD&A, the basic financial statements and the notes to the basic financial statements. The basic financial statements include a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows.

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

Lorain City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2006?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

The government-wide financial statements begin on page 13.

Reporting the School District's Most Significant Funds

Fund Financial Statements

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

Lorain City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)

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

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

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

The governmental fund financial statements begin on page 16.

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

The proprietary fund financial statements begin on page 22.

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

The fiduciary fund financial statements begin on page 25.

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 27.

Lorain City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)

The School District as a Whole

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

Table 1 provides a summary of the School District's net assets for 2006 compared to 2005:

(Table 1)
Net Assets

	Governmental Activities	
	2006	2005
Assets		
Current and Other Assets	\$ 194,029,787	\$ 207,501,137
Capital Assets	87,676,552	73,973,184
Total Assets	281,706,339	281,474,321
Liabilities		
Long-Term Liabilities	56,747,715	53,540,372
Other Liabilities	34,365,564	36,812,610
Total Liabilities	91,113,279	90,352,982
Net Assets		
Invested in Capital Assets Net of Debt	47,121,253	33,968,970
Restricted	151,960,780	162,282,449
Unrestricted (Deficit)	(8,488,973)	(5,130,080)
Total Net Assets	\$ 190,593,060	\$ 191,121,339

Total assets only increased by \$.2 million. Although total assets did not report any significant changes, current and non current did. These changes were primarily from the effect of cash spent on construction costs, causing an increase in capital assets as construction in progress. Total liabilities increased by \$.8 million. This overall increase was primarily the result of the net change in long term liabilities (See Note 13) offset by a \$1.55 million decrease in cost sharing payable, which is the result of being a member of a health insurance trust fund (See Note 9C).

Lorain City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)

Table 2 shows the changes in net assets for fiscal year 2006 and 2005 and will help further explain the change from the prior year.

(Table 2)
Governmental and Business-Type Activities

	Governmental Activities	
	2006	2005
Revenues		
<i>Program Revenues:</i>		
Charges for Services	\$ 3,719,537	\$ 3,063,856
Operating Grants	24,957,426	25,716,601
<i>General Revenue:</i>		
Property Taxes	23,361,031	26,086,483
Grants and Entitlements not Restricted to Specific Programs	56,725,948	55,872,847
Other	2,956,493	1,446,205
<i>Total Revenues</i>	111,720,435	112,185,992
Program Expenses		
Instruction	65,623,231	69,666,971
Support Services	36,486,581	36,509,621
Operation of Non-Instructional	6,331,259	6,218,910
Extracurricular Activities	2,114,827	1,843,925
Interest and Fiscal Charges	1,692,816	1,799,389
<i>Total Expenses</i>	112,248,714	116,038,816
<i>Increase (Decrease) in Net Assets</i>	\$ (528,279)	\$ (3,852,824)

Total net assets decreased by \$.5 million. The instructional expenditures in fiscal year 2006 were less than in fiscal year 2005 by more than \$4 million partially due to a decrease in the number of instructional employees.

Lorain City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)

Governmental Activities

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements. All governmental funds had total revenues of \$111.7 million and expenses of \$112.2 million in fiscal year 2006.

(Table 3)
Governmental Activities

	2006		2005	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Instruction	\$ 65,623,231	\$ 52,548,401	\$ 69,666,971	\$ 54,722,427
Support Services:				
Pupil and Instructional Staff	13,619,693	5,470,743	12,727,432	7,039,755
Board of Education, Administration Fiscal and Business	11,205,036	10,220,372	11,989,360	10,280,276
Operation and Maintenance of Plant	8,264,070	8,025,848	8,743,756	8,711,862
Pupil Transportation and Central	3,397,782	3,226,714	3,049,073	2,893,358
Operation of Non-Instructional Extracurricular Activities	6,331,259	421,001	6,218,910	141,088
Interest and Fiscal Charges	2,114,827	1,965,856	1,843,925	1,670,204
	1,692,816	1,692,816	1,799,389	1,799,389
Total Expenses	<u>\$ 112,248,714</u>	<u>\$ 83,571,751</u>	<u>\$ 116,038,816</u>	<u>\$ 87,258,359</u>

Instruction and student support services comprise 70.6% of governmental program expenses. Interest/fiscal charges were 1.5%. Interest expense was attributable to the outstanding bonds and fiscal expenses, which include payments to the County Auditor(s) for administrative fees. Pupil transportation and the operation/maintenance of facilities accounts for 10.4% of governmental program expenses.

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

Lorain City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)

Financial Analysis of the Government's Funds

Governmental Funds

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

The School District's governmental funds (as presented on the balance sheet on page 16) reported a total fund balance of \$49.1 million, which is \$4.5 million over last year's balance of \$44.6 million. The most significant changes within the School District's major funds were reported in the general fund with an increase in fund balance of \$3.0 million.

Major Funds

The general fund is the main operating fund of the School District. At the end of fiscal year 2006, the fund balance in the general fund was \$2 million, which is an increase of \$3 million from fiscal year 2005, which is primarily due to note proceeds.

The debt service fund is the School District fund that accumulates tax revenues to pay general obligation bonds. At the end of fiscal year 2006, the fund balance in the debt service fund was \$2.8 million, which is an increase of \$.04 million from fiscal year 2005.

The classroom facilities fund is the School District fund that accounts for the construction and equipping of buildings and classrooms. At the end of fiscal year 2006, the fund balance in the classroom facilities fund was \$42.2 million, which is an increase of \$1.8 million from fiscal year 2005 primarily due to the timing of revenues received for construction projects and the actual expenditures for the construction costs.

General Fund Budgeting Highlights

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

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

For the general fund, there was a difference of \$.4 million between the final budget basis revenue and other financing sources of \$84.5 million, and the actual revenue and other financing sources of \$84.9 million which consisted of the advance in. The original budget basis revenue of \$77.5 million was \$6.9 million less than final budget basis revenue mainly due issuance of a tax anticipation note. The original budgeted expenditures of \$78.2 million were \$5.5 million less than the final budget amount of \$83.7 million with instructional expenditures accounting for \$3.3 million of that difference.

Lorain City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2006, the School District governmental activities had \$87.7 million invested in land, construction in progress, land improvements, buildings and improvements, furniture and equipment, vehicles and textbooks. Table 4 shows fiscal year 2006 balances compared with 2005.

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

	Governmental Activities	
	2006	2005
Land, Buildings and Improvements	\$ 71,866,411	\$ 27,028,005
Furniture and Equipment	7,743,695	7,408,567
Vehicles	90,548	96,724
Textbooks	900,007	1,132,043
Construction in Progress	7,075,891	38,307,845
Totals	\$ 87,676,552	\$ 73,973,184

Most of the \$13.7 million increase in capital assets was attributable to additional construction in progress. See Note 8 for further information regarding capital assets of the School District.

Debt

At June 30, 2006, the School District had \$38.5 million in bonds outstanding with \$1.1 million due within one year, notes payable of \$5.4 million, with \$1.1 million due within one year and \$5.4 million in a Qzab loan. During fiscal year 2006, \$1 million of general obligation bonds and \$1.3 million of notes were retired. Table 5 summarizes debt outstanding. See Note 13 for further information regarding long term liabilities of the School District.

Lorain City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)

(Table 5)
Outstanding Debt, at June 30

	Governmental Activities	
	2006	2005
General Obligation Bonds:		
1993 Energy Conservation Bonds	\$ 118,206	\$ 230,250
2003 Classroom Facilities Bonds	38,348,976	39,238,976
	38,467,182	39,469,226
Revenue Anticipation Notes	5,400,000	1,253,197
Qzab Loan	5,400,000	5,400,000
Total Debt	\$ 49,267,182	\$ 46,122,423

School District Outlook

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

The financial future of the School District is not without its challenges. Internal challenges will continue to exist as the School District must rely on local property taxes to fund some of its operations. Three levies, combined as one issue, were renewed in May 2006.

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

Contacting the School District's Financial Management

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

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Lorain City School District
Statement of Net Assets
June 30, 2006

	Governmental Activities	Component Units Digital Academies
Assets		
Equity in Pooled Cash and Cash Equivalents	\$ 52,524,832	\$ 557,616
Cash and Cash Equivalents:		
In Segregated Accounts	603,573	0
With Fiscal Agents	4,450,412	0
Investments in Segregated Accounts	1,166,914	0
Receivables:		
Taxes	25,135,919	0
Accounts	218,220	0
Accrued Interest	699,080	0
Intergovernmental	105,463,217	32,289
Prepaid and Deferred Expenses	3,767,620	0
Nondepreciable Capital Assets	9,095,493	0
Depreciable Capital Assets (Net)	78,581,059	355,402
<i>Total Assets</i>	<u>281,706,339</u>	<u>945,307</u>
Liabilities		
Accounts Payable	2,540,839	38,421
Contracts Payable	642,884	0
Accrued Wages and Benefits	7,365,731	0
Retainage Payable	603,573	0
Intergovernmental Payable	2,541,108	0
Unearned Revenue	18,681,714	0
Due to Others	693,109	0
Accrued Interest Payable	52,314	0
Claims Payable	1,186,740	0
Cost Sharing Payable	57,552	0
Long Term Liabilities:		
Due Within One Year	2,901,731	0
Due Within More Than One Year	53,845,984	0
<i>Total Liabilities</i>	<u>91,113,279</u>	<u>38,421</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	47,121,253	355,402
Restricted for:		
Capital Projects	146,211,005	0
Debt Service	2,917,997	0
Other Purposes	2,203,694	561
Set Asides	628,084	0
Unrestricted	(8,488,973)	550,923
<i>Total Net Assets</i>	<u>\$ 190,593,060</u>	<u>\$ 906,886</u>

See accompanying notes to the basic financial statements.

Lorain City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2006

	Program Revenues		
	Expenses	Charges for Services and Sales	Operating Grants and Contributions
Governmental Activities			
Current:			
Instruction:			
Regular	\$ 39,181,136	\$ 1,744,481	\$ 6,822,988
Special	12,797,524	6,950	3,926,368
Vocational	2,745,923	4,023	262,093
Adult Continuing	253,513	33,226	190,447
Other	10,645,135	0	84,254
Support services:			
Pupils	4,234,768	0	1,457,764
Instructional Staff	9,384,925	42,001	6,649,185
Board of Education	279,180	0	0
Administration	8,043,556	287,566	358,209
Fiscal	2,260,017	17,138	267,747
Business	622,283	0	54,004
Operation and Maintenance of Plant	8,264,070	0	238,222
Pupil Transportation	2,442,978	0	80,174
Central	954,804	0	90,894
Operation of Non-Instructional Services:			
Food Service Operation	4,646,198	777,675	3,572,434
Uniform Supplies	5,050	0	0
Community Services	1,680,011	657,506	902,643
Extracurricular Activities	2,114,827	148,971	0
Interest and Fiscal Charges	1,692,816	0	0
<i>Total Governmental Activities</i>	112,248,714	3,719,537	24,957,426
Component Units			
Digital Academies	1,492,428	0	1,149,448
<i>Total Component Units</i>	1,492,428	0	1,149,448
<i>Totals</i>	\$ 113,741,142	\$ 3,719,537	\$ 26,106,874

General Revenues

Property Taxes Levied for:

General Purposes

Debt Service

Grants and Entitlements not Restricted
to Specific Programs

Investment Earnings

Miscellaneous

Total General Revenues

Change in Net Assets

Net Assets Beginning of Year

Net Assets End of Year

See accompanying notes to the basic financial statements.

Net (Expense) Revenue
and Changes in Net Assets

Governmental Activities	Component Units
\$ (30,613,667)	\$ 0
(8,864,206)	0
(2,479,807)	0
(29,840)	0
(10,560,881)	0
(2,777,004)	0
(2,693,739)	0
(279,180)	0
(7,397,781)	0
(1,975,132)	0
(568,279)	0
(8,025,848)	0
(2,362,804)	0
(863,910)	0
(296,089)	0
(5,050)	0
(119,862)	0
(1,965,856)	0
(1,692,816)	0
(83,571,751)	0
0	(342,980)
0	(342,980)
(83,571,751)	(342,980)
21,016,895	0
2,344,136	0
56,725,948	0
2,439,414	0
517,079	0
83,043,472	0
(528,279)	(342,980)
191,121,339	1,249,866
\$ 190,593,060	\$ 906,886

Lorain City School District

Balance Sheet

Governmental Funds

June 30, 2006

	General	Debt Service	Classroom Facilities	Other Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$ 1,804,437	\$ 2,209,622	\$ 42,814,415	\$ 4,161,092
Cash and Cash Equivalents:				
Restricted Cash	628,084	0	0	0
In Segregated Accounts	0	0	603,573	0
With Fiscal Agents	1,250,000	0	0	3,200,412
Receivables:				
Taxes	22,382,993	2,432,108	0	320,818
Accounts	2,709	0	0	156,622
Interfund	687,632	0	0	0
Accrued Interest	650,666	0	27,472	20,942
Intergovernmental	0	0	103,941,031	1,522,186
Advances to Other Funds	1,555,359	0	0	0
<i>Total Assets</i>	<u>\$ 28,961,880</u>	<u>\$ 4,641,730</u>	<u>\$ 147,386,491</u>	<u>\$ 9,382,072</u>
Liabilities and Fund Balances				
Liabilities				
Accounts Payable	\$ 1,422,973	\$ 0	\$ 0	\$ 1,082,094
Contracts Payable	0	0	642,884	0
Accrued Wages and Benefits	5,633,614	0	0	1,732,117
Retainage Payable	0	0	603,573	0
Interfund Payable	0	0	0	687,632
Intergovernmental Payable	1,926,471	0	0	455,890
Deferred Revenue	18,002,206	1,852,564	103,941,031	1,078,249
Due to Others	0	0	0	693,109
Advances from Other Funds	0	0	0	1,555,359
<i>Total Liabilities</i>	26,985,264	1,852,564	105,187,488	7,284,450
Fund Balances				
Fund Balance:				
Reserved for Encumbrances	208,745	0	14,764,858	468,962
Reserved for Tax Revenue Unavailable for Appropriation	4,380,787	579,544	0	72,702
Reserved for Capital Improvement	628,084	0	0	0
Unreserved, Undesignated, Reported in:				
General Fund	(3,241,000)	0	0	0
Special Revenue Funds	0	0	0	(753,095)
Debt Service Fund	0	2,209,622	0	0
Capital Projects Funds	0	0	27,434,145	2,309,053
<i>Total Fund Balances</i>	<u>1,976,616</u>	<u>2,789,166</u>	<u>42,199,003</u>	<u>2,097,622</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 28,961,880</u>	<u>\$ 4,641,730</u>	<u>\$ 147,386,491</u>	<u>\$ 9,382,072</u>

See accompanying notes to the basic financial statements.

Lorain City School District
*Reconciliation of Total Governmental Fund Balances to
 Net Assets Governmental Activities
 June 30, 2006*

Total Governmental Funds	Total Governmental Fund Balances	\$ 49,062,407
	<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
\$ 50,989,566	Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.	87,676,552
628,084		
603,573	Other long-term assets are not available to pay for current- period expenditures and therefore, are deferred in the funds.	
4,450,412		
25,135,919	Grants	\$ 104,771,164
159,331	Prepays and Deferred Expenses	3,767,620
687,632	Delinquent Property Taxes	<u>1,421,172</u>
699,080		109,959,956
105,463,217	An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	694,174
1,555,359		
<u>\$ 190,372,173</u>	Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds.	
\$ 2,505,067	General Obligation Bonds and Notes Payable	49,267,182
642,884	Compensated Absences	7,480,533
7,365,731	Accrued Interest Payable	<u>52,314</u>
603,573		<u>(56,800,029)</u>
687,632		
2,382,361	Net Assets of Governmental Activities	<u>\$ 190,593,060</u>
124,874,050		
693,109		
1,555,359		
141,309,766		
15,442,565		
5,033,033		
628,084		
(3,241,000)		
(753,095)		
2,209,622		
29,743,198		
49,062,407		
<u>\$ 190,372,173</u>		

Lorain City School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2006

	General	Debt Service	Classroom Facilities	Other Governmental Funds
Revenues:				
Taxes	\$ 20,792,267	\$ 2,344,139	\$ 0	\$ 175,777
Intergovernmental	55,577,952	270,234	13,266,810	25,976,270
Investment Income	933,881	0	1,338,977	125,894
Tuition and Fees	1,566,452	0	0	0
Extracurricular Activities	0	0	0	1,274,774
Charges for Services	0	0	0	867,816
Rentals	10,495	0	0	0
Gifts and Donations	0	0	0	653,584
Miscellaneous	442,696	0	0	115,045
<i>Total Revenues</i>	<u>79,323,743</u>	<u>2,614,373</u>	<u>14,605,787</u>	<u>29,189,160</u>
Expenditures:				
Current:				
Instruction:				
Regular	29,915,703	0	0	7,774,705
Special	8,004,613	0	0	4,631,526
Vocational	2,143,828	0	0	281,309
Adult Continuing	4,995	0	0	242,761
Other	10,597,435	0	0	81,807
Support Services:				
Pupils	2,666,825	0	0	1,519,211
Instructional Staff	2,055,864	0	0	7,116,985
Board of Education	279,180	0	0	0
Administration	7,451,629	0	0	737,135
Fiscal	1,751,111	42,633	0	370,087
Business	573,401	0	0	55,952
Operation and Maintenance of Plant	10,583,215	0	0	270,539
Pupil Transportation	2,353,511	0	0	83,057
Central	751,923	0	0	135,771
Operation of Non-Instructional Services:				
Food Service	0	0	0	4,647,140
Uniform Supplies	0	0	0	5,050
Community Services	0	0	0	1,605,208
Extracurricular Activities	1,620,140	0	0	480,513
Capital outlay	260,331	0	12,817,647	69,068
Debt Service:				
Principal Retirement	112,044	890,000	0	0
Interest and Fiscal Charges	57,565	1,636,943	0	0
<i>Total Expenditures</i>	<u>81,183,313</u>	<u>2,569,576</u>	<u>12,817,647</u>	<u>30,107,824</u>
<i>Excess (Deficiency) of Revenues Over (Under) Expenditures</i>	(1,859,570)	44,797	1,788,140	(918,664)
Other Financing Sources (Uses):				
Proceeds of Notes	5,400,000	0	0	0
Proceeds From Sales of Capital Assets	3,332	0	0	0
Transfers In	0	0	0	564,259
Transfers Out	(564,259)	0	0	0
<i>Total Financing Sources and (Uses)</i>	<u>4,839,073</u>	<u>0</u>	<u>0</u>	<u>564,259</u>
<i>Net Change in Fund Balance</i>	2,979,503	44,797	1,788,140	(354,405)
<i>Fund Balance (Deficit) at Beginning of Year</i>	<u>(1,002,887)</u>	<u>2,744,369</u>	<u>40,410,863</u>	<u>2,452,027</u>
<i>Fund Balance (Deficit) at End of Year</i>	<u>\$ 1,976,616</u>	<u>\$ 2,789,166</u>	<u>\$ 42,199,003</u>	<u>\$ 2,097,622</u>

See accompanying notes to the basic financial statements.

Lorain City School District
Reconciliation of the Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2006

Total Governmental Funds	Net Change in Fund Balances - Total Governmental Funds	\$ 4,458,035
	<i>Amounts reported for governmental activities in the statement of activities are different because:</i>	
\$ 23,312,183	Governmental funds report capital outlays as expenditures,	
95,091,266	however, in the statement of activities, the cost of those	
2,398,752	assets is allocated over their estimated useful lives as	
1,566,452	depreciation expense. This is the amount by which	
1,274,774	capital outlay exceeded depreciation in the current period.	
867,816	Capital Asset Additions Less CIP Disposals	\$ 18,226,358
10,495	Current Year Depreciation	<u>(3,998,877)</u>
653,584		14,227,481
557,741		
125,733,063	Net effect of transactions involving sale of capital assets are not reflected in the funds.	(524,113)
	Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
37,690,408	Grants	(14,061,476)
12,636,139	Delinquent Property Taxes	48,848
2,425,137	Prepaid and Deferred Expenses	<u>303,568</u>
247,756		(13,709,060)
10,679,242		
4,186,036	Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	
9,172,849	Bond Principal	1,002,044
279,180		
8,188,764	In the statement of activities interest is accrued on outstanding bonds, whereas in governmental funds, interest is expensed when due.	1,692
2,163,831		
629,353		
10,853,754	Some expenses reported in the statement of activities do not use the current financial resources and therefore, are not reported as expenditures in governmental funds.	
2,436,568	Compensated Absences	(62,584)
887,694		
4,647,140	The issuance of long term debt provides current financial resources to governmental funds.	
5,050	Proceeds of Debt Issuance	(5,400,000)
1,605,208		
2,100,653	The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. The net revenue (expense) of internal service funds is reported with governmental activities.	<u>(521,774)</u>
13,147,046		
1,002,044		
1,694,508		
126,678,360		
(945,297)	Change in Net Assets of Governmental Activities	<u>\$ (528,279)</u>
5,400,000		
3,332		
564,259		
(564,259)		
5,403,332		
4,458,035		
44,604,372		
\$ 49,062,407		

Lorain City School District
*Statement of Revenues, Expenditures, and Changes in Fund Balance -
 Budget (Non-GAAP Basis) and Actual
 General Fund
 For the Fiscal Year Ended June 30, 2006*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 23,130,804	\$ 21,090,655	\$ 21,090,655	\$ 0
Intergovernmental	54,396,100	55,559,429	55,559,429	0
Investment Income	0	283,215	283,215	0
Tuition and Fees	0	1,264,535	1,264,535	0
Miscellaneous	0	873,881	873,881	0
<i>Total Revenues</i>	<u>77,526,904</u>	<u>79,071,715</u>	<u>79,071,715</u>	<u>0</u>
Expenditures:				
Current				
Instruction	48,467,409	51,784,683	51,784,683	0
Support Services				
Pupils	2,559,872	2,721,731	2,721,731	0
Instructional Staff	1,853,272	2,044,076	2,044,076	0
Board of Education	262,884	278,078	278,078	0
Administration	6,940,528	7,380,015	7,380,015	0
Fiscal	2,398,248	2,513,124	2,513,124	0
Business	521,651	561,899	561,899	0
Operation and Maintenance of Plant	9,617,783	10,325,255	10,325,255	0
Pupil Transportation	1,972,556	2,378,404	2,378,404	0
Central	680,817	728,379	728,379	0
Operation of Non-Instructional Services				
Extracurricular Activities	1,379,388	1,457,821	1,457,821	0
Capital Outlay	247,924	261,829	261,829	0
Debt Service				
Principal Retirement	1,243,473	1,243,473	1,243,473	0
Interest and Fiscal Charges	57,565	57,565	57,565	0
<i>Total Expenditures</i>	<u>78,203,370</u>	<u>83,736,332</u>	<u>83,736,332</u>	<u>0</u>
Excess of Revenues Over (Under) Expenditures	(676,466)	(4,664,617)	(4,664,617)	0
Other Financing Sources (Uses):				
Proceeds of Notes	0	5,400,000	5,400,000	0
Proceeds from Sale of Assets	0	3,332	3,332	0
Refund of Prior Year Expenditures	0	1,175	1,175	0
Advances In	0	0	441,316	441,316
Advances Out	(687,632)	(687,632)	(687,632)	0
Transfers Out	(564,259)	(564,259)	(564,259)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(1,251,891)</u>	<u>4,152,616</u>	<u>4,593,932</u>	<u>441,316</u>
<i>Net Change in Fund Balance</i>	(1,928,357)	(512,001)	(70,685)	441,316
<i>Fund Balance (Deficit) at Beginning of Year</i>	1,468,010	1,468,010	1,468,010	0
Prior Year Encumbrances Appropriated	267,082	267,082	267,082	0
<i>Fund Balance (Deficit) at End of Year</i>	<u>\$ (193,265)</u>	<u>\$ 1,223,091</u>	<u>\$ 1,664,407</u>	<u>\$ 441,316</u>

See accompanying notes to the basic financial statements.

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Lorain City School District
Statement of Fund Net Assets
Proprietary Funds
June 30, 2006

	Governmental Activities Internal Service Fund
Assets	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	\$ 907,182
Investments in Segregated Accounts	1,166,914
Accounts Receivable	58,889
<i>Total Assets</i>	2,132,985
Liabilities	
Current Liabilities:	
Accounts Payable	35,772
Intergovernmental Payable	158,747
Claims Payable	1,186,740
Cost Sharing Payable	57,552
<i>Total Liabilities</i>	1,438,811
Net Assets	
Unrestricted	694,174
Total Net Assets	\$ 694,174

See accompanying notes to the basic financial statements.

Lorain City School District
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2006

	Governmental Activities Internal Service Fund
Operating Revenues:	
Charges for Services	\$ 9,773,784
<i>Total Operating Revenues</i>	<i>9,773,784</i>
Operating Expenses:	
Fringe Benefits	158,747
Purchased Services	1,425,078
Claims	8,752,395
<i>Total Operating Expenses</i>	<i>10,336,220</i>
Operating Income (Loss)	(562,436)
Non-Operating Revenues (Expenses):	
Interest	40,662
<i>Total Non-Operating Revenues (Expenses)</i>	<i>40,662</i>
<i>Change in Net Assets</i>	<i>(521,774)</i>
<i>Net Assets (Deficit) Beginning of Year</i>	<i>1,215,948</i>
<i>Net Assets (Deficit) End of Year</i>	<i>\$ 694,174</i>

See accompanying notes to the basic financial statements.

Lorain City School District
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2006

		Governmental Activities Internal Service Fund
<hr/> <hr/>		
Cash Flows From Operating Activities:		
Cash Received from Interfund Services	\$	9,722,011
Cash Paid for Goods and Services		(2,924,935)
Cash Paid for Claims		(8,412,015)
		<hr/>
<i>Net Cash Provided By (Used For) Operating Activities</i>		<i>(1,614,939)</i>
		<hr/>
Cash Flows From Investing Activities:		
Interest on Investments		40,662
Redemption of Investments		94,255
		<hr/>
<i>Net Cash Provided By (Used For) Investing Activities</i>		<i>134,917</i>
		<hr/>
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>		<i>(1,480,022)</i>
		<hr/>
<i>Cash and Cash Equivalents at Beginning of Year</i>		<i>2,387,204</i>
		<hr/>
<i>Cash and Cash Equivalents at End of Year</i>	\$	<i>907,182</i>
		<hr/> <hr/>
Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:		
Operating Income (Loss)	\$	(562,436)
Adjustments:		
(Increase) Decrease Assets		
Accounts Receivable		13,227
Prepaid Items		48,461
Increase (Decrease) in Liabilities		
Accounts Payable		3,156
Compensated Absences Payable		(65,000)
Due to Other Governments		158,747
Claims Payable		340,380
Cost Sharing Payable		(1,551,474)
		<hr/>
<i>Total Adjustments</i>		<i>(1,052,503)</i>
		<hr/>
<i>Net Cash Provided By (Used For) Operating Activities</i>	\$	<i>(1,614,939)</i>
		<hr/> <hr/>

See accompanying notes to the basic financial statements.

Lorain City School District
Statement of Fiduciary Assets and Liabilities
Fiduciary Funds
June 30, 2006

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$ 58,063</u>
Liabilities	
Undistributed Monies	\$ 37,930
Due to Students	<u>20,133</u>
<i>Total Liabilities</i>	<u>\$ 58,063</u>

See accompanying notes to the basic financial statements.

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LORAIN CITY SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Note 1 - Description of the School District

The Lorain City School District (the School District) was established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The School District is a city school district as defined by Section 3311.02 of the Ohio Revised Code. The School District operates under an elected Board of Education consisting of five members and is responsible for providing public education to residents of the School District. Average daily membership on, or as of, October 1, 2005, was 10,394. The School District employs 908 certificated and 508 non-certificated employees.

Reporting Entity

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

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

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

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

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

The Trust was established in 1994 to provide health care benefits to the employees of the Lorain City School District. The Trust is directed by a twelve member Board of Trustees, eight members appointed by the School District's Superintendent and four members appointed by the Lorain Education Association. Although the Trust is legally separate from the School District, it should be reported as if it were part of the primary government because its sole purpose is to provide benefits to School District employees for hospitalization, medical, dental, vision and prescription drugs as provided for in the collective bargaining agreement. The School District's participation is disclosed in Note 9 to the financial statements.

LORAIN CITY SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

Financial information for the Trust's year ended December 31, 2005, is presented in these financial statements as an Internal Service Fund. Complete financial statements for the Trust may be obtained by contacting the Plan Administrator at 10045 College Park, Concord, Ohio 44060.

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

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

See Note 21 for additional information.

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

Lake Erie Educational Computer Association – The Lorain City School District participates in the Lake Erie Educational Computer Association (LEECA). LEECA provides data services needed by the participating school districts. This is a jointly governed organization. The School District's participation is disclosed in Note 18 of the financial statements.

Lake Erie Regional Council – The Lake Erie Regional Council (LERC) promotes cooperative agreements to its members in dealing with problems of mutual concern. This is a jointly governed organization. The School District's participation is disclosed in Note 18 to the financial statements.

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

Note 2 - Summary of Significant Accounting Policies

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. For the year ended June 30, 2006, the School District has implemented GASB Statement No. 42, "*Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*", GASB Statement No. 46 "*Net Assets Restricted by Enabling Legislation*", and Statement No. 47 "*Accounting for Termination Benefits*."

Statement No. 42 establishes accounting and financial standards for impairment of capital assets and clarifies and establishes accounting requirements for insurance recoveries.

LORAIN CITY SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Statement No. 46 establishes that any amount of the primary government's net assets at the end of the reporting period restricted by enabling legislation should be disclosed in the notes to the financial statements.

Statement No. 47 provides guidance to governmental employers for measuring, recognizing, and reporting liabilities and expenses/expenditures related to *all* termination benefits without limitation as to the period of time during which the benefits are offered.

There was no effect on fund balances as a result of the implementation of these new Standards. Following are the most significant of the School District's accounting policies.

A. Basis of Presentation

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

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

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

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

B. Fund Accounting

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

LORAIN CITY SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

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

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

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

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

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

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

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

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

LORAIN CITY SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

C. Measurement Focus

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

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

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

D. Basis of Accounting

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

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

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (See Note 6) Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

LORAIN CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2006, but which were levied to finance fiscal year 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

E. Cash and Cash Equivalents

Cash received by the School District is deposited in one central bank account with individual fund balance integrity maintained through School District records. Monies for all funds are maintained in this account or other short term investments. Under existing Ohio statutes, interest earnings are allocated to funds based on average monthly cash balances. Interest revenue credited to the general fund during fiscal year 2006 amounted to \$933,881, which includes \$845,128 assigned from other School District funds.

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

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

F. Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include amounts required by statute to be set-aside for the purchase of textbooks and other instructional material and to create a reserve for budget stabilization. See Note 20 for additional information regarding set asides.

LORAIN CITY SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

G. Capital Assets

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

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

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

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

H. Interfund Balances

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

I. Compensated Absences

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

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

LORAIN CITY SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

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

In governmental funds, the liability for unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources.

J. Accrued Liabilities and Long-term Obligations

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

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

K. Net Assets

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

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

L. Fund Balance Reserves

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

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

M. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds.

LORAIN CITY SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

N. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2006.

O. Estimates

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

P. Budgetary Data

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

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

Estimated Resources The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the School District by March 1. As part of the certification, the School District receives the official certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the School District must revise its budget ensuring that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. On or about July 1, the certificate of estimated resources is amended to include any unencumbered balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the amended certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2005.

LORAIN CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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

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

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

LORAIN CITY SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Note 3 - Fund Deficits

Fund balances at June 30, 2006, included the following individual fund deficits:

	Deficit Fund Balance
NonMajor Governmental Funds:	
Food Service	\$ 611,950
ROTC	171,085
EMIS	4,706
Public Preschool	5,463
Schoolnet Professional Development	80
Summer Intervention	438
Poverty Aid	812,496
Adult Education	615
Title VI-B	94,705
Vocational Education	7,063
Title III	240
Title I	107,055
Title VI	11,939
Preschool Grant	4,058
Title II-A	19,758
Miscellaneous Federal Grants	351,305
Building Fund	916,000

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

LORAIN CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

Note 4 - Budgetary Basis of Accounting

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

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

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

Net Change in Fund Balance

	<u>General</u>
GAAP Basis	\$ 2,979,503
Net Adjustment for Revenue Accruals	(250,853)
Advance In	441,316
Advance Out	(687,632)
Net Adjustment for Expenditure Accruals	(1,536,851)
Adjustment for Encumbrances	<u>(1,016,168)</u>
Budget Basis	<u>\$ (70,685)</u>

Note 5 - Deposits and Investments

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

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

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must either be evidenced by

LORAIN CITY SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

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

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

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

LORAIN CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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

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

Cash on Hand: At year end, the School District had \$27,600 in undeposited cash on hand which is included on the balance sheet of the School District as part of equity in pooled cash and cash equivalents.

Deposits At fiscal year-end, the carrying amount of the School District's deposits was \$52,380,013 and the bank balance was \$51,565,565. Of the bank balance:

1. \$700,000 of the bank balance was covered by depository insurance; and
2. \$50,865,565 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging institution in the pledging institution's name, and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

Investments

Investments are reported at fair value. As of June 30, 2006, the district had the following investments:

Standard & Poor's	Investment	Fair Value	Investment Maturities (in years)		% Total Investments
			less than 1	1 - 2	
N/A	Repurchase Agreement	\$ 4,234,252	\$ 4,234,252	\$ 0	66.2%
AAA	Federal Farm Credit	995,015	0	995,015	15.6%
AAA	Treasury Notes	1,166,914	1,166,914	0	18.2%
		<u>\$ 6,396,181</u>	<u>\$ 5,401,166</u>	<u>\$ 995,015</u>	<u>100.0%</u>

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

LORAIN CITY SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Credit Risk: The School District's investments credit ratings are summarized above.

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

Note 6 - Property Taxes

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

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the School District. Property tax revenue received during calendar 2006 for real and public utility property taxes represents collections of calendar 2005 taxes. Property tax revenue received during calendar 2005 for tangible personal property (other than public utility property) is for calendar 2005 taxes.

2006 real property taxes are levied after April 1, 2006, on the assessed value listed as of the prior January 1, the lien date. Assessed values are established by State law at 35% of appraised market value.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35% of true value. 2006 public utility property taxes became a lien December 31, 2005, are levied after April 1, 2006 and are collected in 2007 with real property taxes.

2006 tangible personal property taxes are levied after April 1, 2006, on the value as of December 31, 2005. Collections are made in 2006. Tangible personal property assessments are 25% of true value.

The property valuation consisted of:

	2005 Second Half Collections		2006 First Half Collections	
	Amount	%	Amount	%
Real Estate				
Residential/Agricultural	\$ 512,170,290	71.31%	\$ 518,415,220	71.96%
Commercial/Industrial	110,487,760	15.39%	110,820,700	15.39%
Tangible Personal Property				
Public Utilities	974,480	0.14%	959,760	0.13%
Personal Property	94,497,752	13.16%	90,078,534	12.52%
	<u>\$ 718,130,282</u>	<u>100.00%</u>	<u>\$ 720,274,214</u>	<u>100.00%</u>

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

LORAIN CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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

The School District receives property taxes from Lorain County. The County Auditor periodically advances to the School District their portion of the taxes collected. Second-half real property tax payments collected by the Counties by June 30, 2006, are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes which became measurable as of June 30, 2006 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the delayed settlement of personal property tax and the amount of real property taxes available as an advance at June 30 were levied to finance current year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The late settlement and the amount available as an advance at June 30 are recognized as revenue.

The amount available as an advance at June 30, 2006, was \$5,033,033 and is recognized as revenue. \$4,380,787 was available to the general fund and \$579,544 was available to the bond retirement debt service fund and \$72,702 was available to the classroom facilities maintenance fund.

Note 7 - Receivables

Receivables at June 30, 2006, consisted of taxes, accounts (student fees), interfund, accrued interest and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. Intergovernmental receivables consisted of classroom facilities grant money of \$103,941,031 in the classroom facilities fund and \$1,522,186 of grants receivable in special revenue funds.

LORAIN CITY SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Note 8 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	Balance 6/30/05	Additions	Reductions	Balance 6/30/06
Governmental Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	\$ 2,019,602	\$ 0	\$ 0	\$ 2,019,602
Construction in Progress	38,307,845	13,822,112	(45,054,066)	7,075,891
Total Capital Assets, not being depreciated	<u>40,327,447</u>	<u>13,822,112</u>	<u>(45,054,066)</u>	<u>9,095,493</u>
<i>Capital Assets, being depreciated:</i>				
Land Improvements	3,964,762	38,853	(127,607)	3,876,008
Buildings and Improvements	43,793,184	47,167,547	(2,795,922)	88,164,809
Furniture and Equipment	22,931,030	2,251,912	(1,278,659)	23,904,283
Vehicles	592,019	0	0	592,019
Textbooks	4,116,518	0	(116,486)	4,000,032
Total Capital Assets, being depreciated	<u>75,397,513</u>	<u>49,458,312</u>	<u>(4,318,674)</u>	<u>120,537,151</u>
Less Accumulated Depreciation:				
Land Improvements	(3,845,962)	(7,443)	127,607	(3,725,798)
Buildings and Improvements	(18,903,581)	(1,919,826)	2,355,197	(18,468,210)
Furniture and Equipment	(15,522,463)	(1,842,367)	1,225,339	(16,139,491)
Vehicles	(495,295)	(27,273)	0	(522,568)
Textbooks	(2,984,475)	(201,968)	86,418	(3,100,025)
Total Accumulated Depreciation	<u>(41,751,776)</u>	<u>(3,998,877)</u>	<u>3,794,561</u>	<u>(41,956,092)</u>
Total Capital Assets being depreciated, net	<u>33,645,737</u>	<u>45,459,435</u>	<u>(524,113)</u>	<u>78,581,059</u>
Governmental Activities Capital Assets, Net	<u>\$ 73,973,184</u>	<u>\$ 59,281,547</u>	<u>\$ (45,578,179)</u>	<u>\$ 87,676,552</u>

LORAIN CITY SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 1,035,095
Special	334,678
Vocational	405,532
Adult Continuing	2,825
Support Services:	
Pupil	72,184
Instructional Staff	54,653
Administration	28,502
Fiscal	44,730
Business	1,866
Operation and Maintenance of Plant	1,826,395
Pupil Transportaion	5,564
Central	80,810
Operation of Non-Instructional Services	94,705
Extracurricular Activities	11,338
	<hr/>
Total Governmental Activities	<u>\$ 3,998,877</u>

Note 9 - Risk Management

A. Property and Liability

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

<u>Type of Coverage</u>	<u>Per Occurance</u>	<u>Aggregate</u>
General Liability	\$ 1,000,000	\$ 2,000,000
Automobile	1,000,000	0
Excess Liability	2,000,000	2,000,000
Blanket Building/Contents	0	269,618,092

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

B. Workers' Compensation

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

The School District pays 30% discounted premiums to the BWC for 10 years and incurs the liability dollar-to-dollar on all claim cost. Estimated premiums for 2006 are \$550,000. The School District will only pay 30% of the premium and all claims expenses. The firm of CompManagement, Inc. provides administrative, cost control services, and is the third party administrator of the School District.

LORAIN CITY SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

C. Health Insurance

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

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

The claims liability of \$1,186,740 at June 30, 2006, is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 30. The Trust establishes a liability for both reported and unreported insured events. Changes in the balance of claims liability are summarized below. Incurred claims and claim payments are not segregated between current and prior year claims due to the impracticability of obtaining such information.

	Beginning Balance	Claims Incurred	Claims Paid	Ending Balance
2005	\$ 707,944	\$ 7,416,417	\$ (7,278,001)	\$ 846,360
2006	\$ 846,360	\$ 8,752,395	\$ (8,412,015)	\$ 1,186,740

Note 10 - Compensated Absences

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

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

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

LORAIN CITY SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Note 11 - Defined Benefit Pension Plans

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853. It is also posted on SERS' website, www.ohsers.org, under forms and publications.

Plan members are required to contribute 10% of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14% of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.57% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$1,809,960, \$1,624,764 and \$1,594,656, respectively; 54% has been contributed for fiscal year 2006 and 100% for the fiscal years 2005 and 2004. \$844,173 represents the unpaid contribution for fiscal year 2006, and is recorded as a liability within the respective funds.

B. State Teachers Retirement System

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan members may retire after five years of service at age 60; 25 years of service at age 55; or 30 years of service regardless of age. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60. The DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. 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. Benefits are established by Chapter 3307 of the Ohio Revised Code.

LORAIN CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

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

For the fiscal year ended June 30, 2006, plan members were required to contribute 10% of their annual covered salaries. The School District was required to contribute 14%; 13% was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2006, 2005, and 2004 were \$6,507,090, \$6,787,101 and \$6,865,453, respectively; 83% has been contributed for fiscal year 2006 and 100% for fiscal years 2005 and 2004. Contributions to the DC and Combined Plans for fiscal year 2006 were \$16,344 made by the School District and \$77,483 made by the plan members. \$1,148,456 represents the unpaid contribution for fiscal year 2006, and is recorded as a liability within the respective funds.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. Effective April 11, 2005, a reemployed retiree may alternatively receive a refund of member contributions with interest before age 65, once employment is terminated.

C. Social Security System

Members of the Board of Education have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2006, two members of the Board of Education have elected Social Security. The Board's liability is 6.2% of wages paid.

Note 12 - Postemployment Benefits

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of health care costs in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate; currently 14% of covered payroll. For the fiscal year ended June 30, 2006, the STRS Board allocated employer contributions

LORAIN CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

equal to 1% of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$488,384 during the 2006 fiscal year.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2005 (the most current information available), the balance in the Fund was \$3.3 billion. For the year ended June 30, 2005, the health care costs paid by STRS were \$254,780,000 and STRS had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. 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.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. For the fiscal year, ended June 30, 2006, employer contributions to fund health care benefits were 3.43% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at \$27,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$590,942.

Net health care costs for the year ending June 30, 2005 were \$178,221,113. The target level for the health care fund is 150% of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005, the value of the health care fund was \$267.5 million, which is about 168% of next year's projected net health care costs of \$158,776,151. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150% of estimated annual net claim costs. The number of participants eligible to receive benefits is 58,123.

LORAIN CITY SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Note 13 - Long - Term Obligations

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

	Outstanding 6/30/05	Additions	Reductions	Outstanding 6/30/06	Amounts Due in One Year
Governmental Activities:					
<i>Notes Payable:</i>					
1996 Revenue Anticipation Notes 7.00% though 2006	\$ 1,253,197	\$ 0	\$ 1,253,197	\$ 0	\$ 0
2006 Revenue Anticipation Notes 4.75% though 2011	0	5,400,000	0	5,400,000	1,080,000
Total	<u>1,253,197</u>	<u>5,400,000</u>	<u>1,253,197</u>	<u>5,400,000</u>	<u>1,080,000</u>
<i>Qualified Zone Academy Bonds:</i>					
Due 2011	<u>5,400,000</u>	<u>0</u>	<u>0</u>	<u>5,400,000</u>	<u>0</u>
<i>General Obligation Bonds Payable:</i>					
1993 Energy Conservation Bonds 5.95% though 2006	230,250	0	112,044	118,206	118,206
2003 Classroom Facilities Bonds 1.45%-5.25% through 2025	39,238,976	0	890,000	38,348,976	955,000
Total	<u>39,469,226</u>	<u>0</u>	<u>1,002,044</u>	<u>38,467,182</u>	<u>1,073,206</u>
Compensated Absences	<u>7,417,949</u>	<u>253,226</u>	<u>190,642</u>	<u>7,480,533</u>	<u>748,525</u>
Total Governmental Activities Long-Term Liabilities	<u>\$ 53,540,372</u>	<u>\$ 5,653,226</u>	<u>\$ 2,445,883</u>	<u>\$ 56,747,715</u>	<u>\$ 2,901,731</u>

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

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

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

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

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

LORAIN CITY SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2006, are as follows:

Fiscal Year Ending June 30,	General Obligation Bonds		
	Principal	Interest	Total
2007	\$ 1,073,206	\$ 1,620,311	\$ 2,693,517
2008	1,030,000	1,592,688	2,622,688
2009	1,105,000	1,563,275	2,668,275
2010	1,190,000	1,528,807	2,718,807
2011	1,275,000	1,478,487	2,753,487
2012 - 2016	6,538,976	8,144,210	14,683,186
2017 - 2021	10,750,000	5,182,627	15,932,627
2022 - 2025	15,505,000	1,940,496	17,445,496
Totals	<u>\$ 38,467,182</u>	<u>\$ 23,050,901</u>	<u>\$ 61,518,083</u>

Principal and interest requirements to retire the note payable at June 30, 2006 are as follows:

Fiscal Year Ending June 30,	Tax Anticipation Note		
	Principal	Interest	Total
2007	\$ 0	\$ 241,538	\$ 241,538
2008	1,080,000	230,850	1,310,850
2009	1,080,000	179,550	1,259,550
2010	1,080,000	128,250	1,208,250
2011	1,080,000	76,950	1,156,950
2012	1,080,000	25,650	1,105,650
Totals	<u>\$ 5,400,000</u>	<u>\$ 882,788</u>	<u>\$ 6,282,788</u>

LORAIN CITY SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Note 14 - Unearned/Deferred Revenue

Unearned/deferred revenue at June 30, 2006, consisted of the following:

	Statement of Net Assets	Balance Sheet
Property Taxes Receivable	\$ 18,681,714	\$ 20,102,886
Grants Receivable	0	104,771,164
Unearned/Deferred Revenue	\$ 18,681,714	\$ 124,874,050

Note 15 - Interfund Transfers

Transfers for the year ended June 30, 2006 consisted of the following:

	Transfers In	Transfers Out
General Fund	\$ 0	\$ 564,259
Non Major Governmental Funds	564,259	0
	\$ 564,259	\$ 564,259

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

LORAIN CITY SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Note 16 - Interfund Balances

Interfund balances at June 30, 2006 consisted of the following:

	Interfund Receivable	Interfund Payable
General Fund	\$ 687,632	\$ 0
Nonmajor Governmental Funds	0	687,632
	\$ 687,632	\$ 687,632

Interfund receivables and payables resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, or (3) payments between funds are made. As of June 30, 2006, all interfund payables outstanding are anticipated to be repaid in fiscal year 2007.

Advances due to/from other funds as of June 30, 2006 consisted of the following:

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

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

LORAIN CITY SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Note 17 - Contractual Commitments

As of June 30, 2006, the School District had contractual commitments for the following:

	Contractual Commitment	Expended	Balance 6/30/2006
Elbert Building Company			
Hawthorne Elementary	\$ 410,000	\$ 402,002	\$ 7,998
Electrical Corp of America			
Masson Elementary	1,161,572	18,475	1,143,097
Homewood Elementary	1,187,063	19,394	1,167,669
Fiorilli Construction			
Masson Elementary	2,900,000	550,188	2,349,812
Homewood Elementary	2,908,000	604,428	2,303,572
Giambrone Masonry			
Masson Elementary	914,888	8,708	906,180
Homewood Elementary	909,889	8,708	901,181
Harner Plumbing			
Masson Elementary	320,890	17,408	303,482
Homewood Elementary	319,610	17,447	302,163
Miles Mechanical			
Masson Elementary	675,000	32,645	642,355
Homewood Elementary	675,000	34,523	640,477
Spectra Flooring			
Longfellow Middle School	225,331	221,195	4,136
Washington Middle School	234,989	230,703	4,286
Telamon Construction			
Longfellow Middle School	6,309,397	5,970,051	339,346
Washington Middle School	6,528,769	6,337,054	191,715
York International			
Longfellow Middle School	159,390	123,215	36,175
	<u>\$ 25,839,788</u>	<u>\$ 14,596,144</u>	<u>\$ 11,243,644</u>

Note 18 - Jointly Governed Organizations

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

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

LORAIN CITY SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

A. Lake Erie Educational Computer Association

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

LEECA is governed by a board of directors chosen from the general membership of the LEECA assembly. The board of directors consists of a representative from the fiscal agent, the chairman of each operating committee, and at least one assembly member from each county from which participating districts are located. Financial information can be obtained by contacting the Treasurer at the Educational Service Center of Lorain County, which serves as fiscal agent, located at 1885 Lake Avenue, Elyria, Ohio 44035. During the year ended June 30, 2006, the School District paid \$138,215 to LEECA.

B. Lake Erie Regional Council

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

The LERC assembly consists of a superintendent or designed representative from each participating district and the fiscal agent. LERC is governed by a board of directors chosen from the general membership. The degree of control exercised by any participating district is limited to its representation on the board. Financial information can be obtained by contacting the Treasurer of the Educational Service Center of Lorain County located at 1885 Lake Avenue, Elyria, Ohio 44035. During the year ended June 30, 2006 the School District paid \$1,026,012 to LERC.

C. Ohio Schools Council

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

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

LORAIN CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

D. Ohio Department of Administrative Services

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

Note 19 - Contingencies

The School District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2006.

Note 20 - Set-Asides

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

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

	Capital Improvement Reserve	Textbook Instructional Materials Reserve
Set-Aside Cash Balance as of June 30, 2005	\$ 0	\$ 0
Set-Aside Carryover Balance as of June 30, 2005	0	(2,756,084)
Current Year Set-Aside Requirement	1,480,686	1,480,686
Qualifying Disbursements	(852,602)	(1,887,018)
Total	<u>\$ 628,084</u>	<u>\$ (3,162,416)</u>
Balance Carried Forward to Fiscal Year 2007	<u>\$ 628,084</u>	<u>\$ (3,162,416)</u>

The School District had qualifying disbursements during the year that reduced the textbook reserve set-asides below zero. The textbook and capital improvement reserve balances will be carried over to next fiscal year.

LORAIN CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

Note 21– Discretely Presented Component Units

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

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

December 8, 2006

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

The Board of Education
Lorain City School District
Lorain, Ohio

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lorain City School District, as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements and have issued our report thereon dated December 8, 2006, in which we noted the financial statements of the Digital Academies and the Jointly Administered Trust Fund for the Benefit of Lorain City School District Employees were audited by other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lorain City School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted certain matters that we have reported to management of Lorain City School District in a separate letter dated December 8, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lorain City School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express

The Board of Education
Independent Auditor's Report on Internal Control
Page 2 of 2

such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance that we have reported to management of Lorain City School District in a separate letter dated December 8, 2006.

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

Rea & Associates, Inc.

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

December 8, 2006

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

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

Compliance

We have audited the compliance of Lorain City School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. Lorain City School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Lorain City School District's management. Our responsibility is to express an opinion on Lorain City School District's compliance based on our audit.

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

In our opinion, Lorain City School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Lorain City School District
Report on Compliance

Internal Control over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a 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 that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards - Non GAAP Budgetary Basis

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lorain City School District, as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements and have issued our report thereon dated December 8, 2006, in which we noted the financial statements of the Digital Academies and the Jointly Administered Trust Fund for the Benefit of Lorain City School District Employees were audited by other auditors. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements of Lorain City School District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Rea & Associates, Inc.

LORAIN CITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Federal Grantor/ Pass Through Grantor/ Program Title	CFDA Number	Grant Number	Federal Receipts	Federal Disbursements	Non-Cash Disbursements
U. S. Department of Education					
<i>Passed Through Ohio Department of Education:</i>					
Title I	84.010	044263-CISK-2005	\$ 763	\$ 23,139	\$ 0
Title I	84.010	044263-CISK-2006	108,139	105,868	0
Title I	84.010	044263-C1-S1-2005	175,286	838,478	0
Title I	84.010	044263-C1-S1-2006	4,959,815	4,406,490	0
Total Title I			5,244,004	5,373,975	0
Title I-Comprehensive School Reform	84.332	044263-RF-S2-2006	110,230	87,027	0
Title I-Comprehensive School Reform	84.332	044263-RFCC-2005	485	12,742	0
Title I-Comprehensive School Reform	84.332	044263-RFK3-2005	28,758	33,872	0
Total Title I-Comprehensive School Reform			139,473	133,641	0
Title II-A - Improving Teacher Quality	84.367	044263-TRS1-2005	313,186	284,655	0
Title II-A - Improving Teacher Quality	84.367	044263-TRS1-2006	863,293	845,982	0
Total Title II-A - Improving Teacher Quality			1,176,479	1,130,636	0
Title III - LEP Immigrant	84.365	044263-T3S1-2006	45,936	45,936	0
Title III - LEP Immigrant	84.365	044263-T3S2-2006	17,000	17,000	0
Total Title III - LEP Immigrant			62,936	62,936	0
IDEA B - Grant	84.027	044263-6BSF-2005	100,132	276,156	0
IDEA B - Grant	84.027	044263-6BSF-2006	2,581,447	2,376,847	0
Early Childhood Special Education	84.173	044263-JGS1-2006	7,777	5,778	0
Early Childhood Special Education	84.173	044263-PGS1-2005	3,460	11,972	0
Early Childhood Special Education	84.173	044263-PGS1-2006	68,039	61,471	0
Total Special Education Cluster			2,760,855	2,732,225	0
Drug Free Schools	84.186	044263-DRS1-2005	(868) (C)	31,947	0
Drug Free Schools	84.186	044263-DRS1-2006	109,784	96,286	0
Total Drug Free Schools			108,916	128,232	0
Title VI - Innovative Edu. Prog. Strategies	84.298	044263-C2S1-2006	308,238	319,124	0
Total Title VI			308,238	319,124	0
Reading First	84.357	044263-RSS1-2005	1,585,122	1,344,771	0
Reading First	84.357	044263-RSS1-2006	3,364,168	3,468,399	0
Total Reading First			4,949,290	4,813,170	0
Adult and Community Education	84.002	044263-ABS1-2006	213,578	210,447	0
Total Adult and Community Education			213,578	210,447	0
Vocational Education Basic Grant	84.048	044263-20C1-2005	24,352	32,683	0
Vocational Education Basic Grant	84.048	044263-20C1-2006	341,016	334,896	0
Total Vocational Education Basic Grant			365,367	367,579	0
Technology Literacy Challenge Fund Grant	84.318	044263-TJS1-2005	8,230	27,444	0
Technology Literacy Challenge Fund Grant	84.318	044263-TJS1-2006	82,083	73,982	0
Total Technology Literacy Challenge Fund Grant			90,314	101,426	0
<i>Total Passed Through Ohio Department of Education</i>			15,419,449	15,373,390	0

**LORAIN CITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Federal Grantor/ Pass Through Grantor/ Program Title	CFDA Number	Grant Number	Federal Receipts	Federal Disbursements	Non-Cash Disbursements
U. S. Department of Education (continued)					
<i>Direct Award:</i>					
Gear Up	84.334	P334A990314	277,859	315,571	0
Teaching American History	84.215	5215X020147	87,226	87,226	0
<i>Total Direct Awards</i>			<u>365,085</u>	<u>402,796</u>	<u>0</u>
Total U.S. Department of Education			<u>15,784,534</u>	<u>15,776,187</u>	<u>0</u>
U. S. Department of Health & Human Services					
Passed Through Lorain County Jobs and Family Services					
School Readiness Program	93.558		21,287	(64)	0
School Readiness Program	93.558		89,819	108,948	0
Total School Readiness Program			111,105	108,884	0
Passed Through State Department of MRDD:					
Medical Assistance Program/CAFS	93.778		30,915	30,915	0
Total U.S. Department of Health & Human Services			<u>142,021</u>	<u>139,800</u>	<u>0</u>
U. S. Department of Agriculture					
Passed Through Ohio Department of Education:					
Food Distribution (A) (B)	10.550		193,424	0	193,424
<i>Nutrition Cluster</i>					
School Breakfast Program (B)	10.553	044263-05PU-2005	210,236	210,236	0
School Breakfast Program (B)	10.553	044263-05PU-2006	743,185	743,185	0
National School Lunch Program (B)	10.555	044263-LLP4-2005	368,229	368,229	0
National School Lunch Program (B)	10.555	044263-LLP4-2006	1,584,243	1,584,243	0
Total Nutrition Cluster			<u>2,905,893</u>	<u>2,905,893</u>	<u>0</u>
Total Department of Agriculture			<u>3,099,317</u>	<u>2,905,893</u>	<u>193,424</u>
U.S. Department of National Aeronautics & Space Administration					
Passed Through NASA Glen					
NSTA NASA Grant	43.001	NCCS-742	2,500	0	0
Total Department of National Aeronautics & Space Administration			<u>2,500</u>	<u>0</u>	<u>0</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u>\$ 19,028,371</u>	<u>\$ 18,821,879</u>	<u>\$ 193,424</u>

- (A) Government commodities are reported at the fair market value of the commodities received and disbursed.
(B) Federal money commingled with state subsidy reimbursements. It is assumed federal moneys are expended first.
(C) Refunded Receipt

**LORAIN CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 , Section .505
JUNE 30, 2006**

1. SUMMARY OF AUDITOR'S RESULTS

(d) (1) (i)	Type of Financial Statement Opinion	Unqualified
(d) (1) (ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d) (1) (iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d) (1) (iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d) (1) (v)	Type of Major Programs' Compliance Opinion	Unqualified
(d) (1) (vi)	Are there any reportable findings under Section .510?	No
(d) (1) (vii)	Major Programs (list):	Title I 84.010
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: > \$565,133. Type B: All others
(d) (1) (ix)	Low Risk Auditee?	Yes

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

None noted.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None noted.



Mary Taylor, CPA
Auditor of State

LORAIN CITY SCHOOL DISTRICT

LORAIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
FEBRUARY 15, 2007