



Dave Yost • Auditor of State

**LORAIN CITY SCHOOL DISTRICT
LORAIN COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Lorain City School District, Lorain County, Ohio (the District), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We did not audit the financial statements of the Jointly Administered Trust Fund for the Benefit of Lorain City School District Employees, which represent .13 percent and 8.10 percent, respectively, of the assets and revenues of the governmental activities. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amount included for the Jointly Administered Trust Fund for the Benefit of Lorain City School District Employees, is based solely on the report of other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the District's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

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Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Lorain City School District, Lorain County, Ohio, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

Our audit was conducted to opine on the District's basic financial statements taken as a whole.

The Schedule of Federal Award Receipts and Expenditures presents additional analysis as required by the U. S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is not a required part of the financial statements.

The schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this information to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 2015, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State
Columbus, Ohio

March 19, 2015

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Lorain City School District
Lorain County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
Unaudited

The discussion and analysis of the Lorain City School District's (the "School District") financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2014. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2014 are as follows:

- Net position increased \$1.0 million, which represents a 1 percent increase from 2013.
- Construction of the new high school continued adding \$2.6 million to construction in progress. Acquisitions of land and equipment less depreciation account for an increase in capital assets of \$1.2 million over fiscal year 2013.
- The School District made principal payments of \$1.2 million and \$1.6 million for bonds and notes payable, respectively. Outstanding debt obligations decreased from \$44.6 million to \$41.4 million in fiscal year 2014.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the Lorain City School District as a whole entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

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

Reporting the School District as a Whole

Statement of Net Position and the Statement of Activities

While the basic financial statements contain the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2014?" The Statement of Net Position and the Statement of Activities answer this question. These statements include all assets and deferred outflows of resources and liabilities and deferred inflows of resources using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

Lorain City School District
Lorain County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
Unaudited

These two statements report the School District's net position and changes in net position. This change in net position 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 Position and the Statement of Activities, Governmental Activities include the School District's programs and services, including instruction, support services, extracurricular activities, and non-instructional services, i.e., food service operations.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The major funds financial statements begin on page 18. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions; however, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the general fund, debt service fund and classroom facilities fund.

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

Proprietary Fund The School District maintains one type of proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the School District's various functions. The School District uses an internal service fund to account for its health insurance benefits. Because this service predominately benefits governmental functions, it has been included within the governmental activities in the government-wide financial statements. The proprietary fund financial statements begin on page 23.

Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for some of its scholarship and foundation programs. This activity is presented as a private purpose trust fund. The School District also acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in two agency funds. The School District's fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position on pages 26 and 27. These activities are excluded from the School District's other financial statements because the assets cannot be utilized by the School District to finance its operations.

Lorain City School District
Lorain County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
Unaudited

The School District as a Whole

Recall that the Statement of Net Position provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net position for 2014 compared to 2013:

Table 1
Net Position

	Governmental Activities	
	2014	2013
Assets		
Current and Other Assets	\$ 132,553,439	\$ 137,962,157
Capital Assets	121,979,563	120,786,716
<i>Total Assets</i>	254,533,002	258,748,873
Deferred Outflows of Resources	929,536	1,019,017
Liabilities		
Other Liabilities	17,940,821	18,969,579
Long-Term Liabilities	42,854,489	45,326,143
<i>Total Liabilities</i>	60,795,310	64,295,722
Deferred Inflows of Resources	19,028,631	20,858,249
Net Position		
Net Investment in Capital Assets	87,531,862	85,768,540
Restricted	87,782,984	92,244,480
Unrestricted	323,751	(3,399,101)
<i>Total Net Position</i>	\$ 175,638,597	\$ 174,613,919

At year end, capital assets represented 48 percent of total assets. Capital assets include, land, land improvements, buildings and improvements, furniture and equipment, vehicles, textbooks and construction in progress. The net investment in capital assets was \$87.5 million at June 30, 2014. These capital assets are used to provide services to students and are not available for future spending. Although the School District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the School District's net position, \$87.8 million or 50 percent, represents resources that are subject to external restrictions on how they may be used. The balance of government-wide unrestricted net position is \$.3 million.

Lorain City School District
Lorain County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
Unaudited

Current and other assets decreased \$5.4 million from fiscal year 2013. Intergovernmental receivables decreased \$11.0 million due to decreases in federal grant awards and a \$9.8 million decrease in the Ohio Facility Construction Commission grant receivable. Cash showed an increase of \$5.2 million over fiscal year 2013 primarily from the timing of the collection of resources as compared to the disbursements of funds related to the new high school. Construction costs for the high school contributed to the \$1.2 million increase in capital assets over fiscal year 2013. Other liabilities decreased \$1.0 million from fiscal year 2013, due to \$1.6 million in principal payments on notes offset by an increase in payables for pupil transportation over fiscal year 2013.

Long term liabilities decreased \$2.5 million mainly through principal payments on bonds in fiscal year 2014.

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Lorain City School District
Lorain County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
Unaudited

Table 2 shows the changes in net position for fiscal year 2014 and 2013.

Table 2
Changes in Net Position

	Governmental Activities	
	2014	2013
Revenues		
<i>Program Revenues:</i>		
Charges for Services	\$ 1,642,411	\$ 1,751,291
Operating Grants	15,033,091	15,776,029
<i>Total Program Revenues</i>	<u>16,675,502</u>	<u>17,527,320</u>
<i>General Revenues:</i>		
Property Taxes	22,219,719	20,243,180
Grants and Entitlements Not Restricted	72,903,368	68,240,071
Other	974,992	233,174
<i>Total General Revenues</i>	<u>96,098,079</u>	<u>88,716,425</u>
<i>Total Revenues</i>	<u>112,773,581</u>	<u>106,243,745</u>
Program Expenses		
Instruction:		
Regular	31,966,749	33,446,233
Special	13,462,612	11,010,558
Vocational	2,583,952	2,783,152
Other	25,319,730	22,614,079
Support Services:		
Pupils	4,021,432	4,484,213
Instructional Staff	6,174,103	5,990,575
Board of Education	272,864	496,626
Administration	6,506,231	6,406,467
Fiscal	1,508,069	1,500,399
Business	501,786	381,721
Operation and Maintenance of Plant	8,846,189	7,023,708
Pupil Transportation	2,575,724	2,568,181
Central	936,362	1,001,418
Operation of Non-Instructional Services:		
Food Service Operations	3,809,961	3,705,025
Community Services	589,327	648,677
Extracurricular Activities	1,106,252	1,067,417
Interest and Fiscal Charges	1,567,560	1,437,065
OSFC Receivable Write Down	0	5,694,971
<i>Total Expenses</i>	<u>111,748,903</u>	<u>112,260,485</u>
<i>Increase (Decrease) in Net Position</i>	1,024,678	(6,016,740)
<i>Net Position at Beginning of Year</i>	<u>174,613,919</u>	<u>180,630,659</u>
<i>Net Position at End of Year</i>	<u>\$ 175,638,597</u>	<u>\$ 174,613,919</u>

Lorain City School District
Lorain County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
Unaudited

Program revenues showed a decrease of \$0.9 million from fiscal year 2013, mainly from a decrease in federal grant revenue. The \$7.4 million increase in general revenues can be partially attributed to an increase in foundation revenue for poverty based assistance and a \$1.0 million increase in delinquent taxes receivable. Other revenues include \$0.5 million from the Lorain K-12 digital academy in sponsor fees.

Special and other instruction showed increases from fiscal year 2013 due to an increase in excess costs for students needing special education along with salary increases with the new collective bargaining agreement and community school expenses paid through State foundation payments. The write down in the Ohio Facility Construction Commission grant award was applicable to fiscal year 2013 only.

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

Table 3
Governmental Activities

	Total Cost of Service		Net Cost of Service	
	2014	2013	2014	2013
Instruction:				
Regular	\$ 31,966,749	\$ 33,446,233	\$ 27,210,064	\$ 28,744,027
Special	13,462,612	11,010,558	12,035,462	10,702,635
Vocational	2,583,952	2,783,152	2,319,236	2,558,512
Other	25,319,730	22,614,079	24,491,202	22,489,061
Support Services:				
Pupils	4,021,432	4,484,213	2,858,988	2,761,351
Instructional Staff	6,174,103	5,990,575	3,424,282	1,498,303
Board of Education	272,864	496,626	235,654	496,626
Administration	6,506,231	6,406,467	6,046,075	5,983,978
Fiscal	1,508,069	1,500,399	1,261,170	1,124,504
Business	501,786	381,721	501,786	381,721
Operation and Maintenance of Plant	8,846,189	7,023,708	8,772,125	6,587,138
Pupil Transportation	2,575,724	2,568,181	2,537,210	2,524,084
Central	936,362	1,001,418	907,562	968,482
Operation of Non-Instructional Services:				
Food Service Operations	3,809,961	3,705,025	(128,486)	(263,952)
Community Services	589,327	648,677	43,560	74,931
Extracurricular Activities	1,106,252	1,067,417	989,951	969,698
Interest and Fiscal Charges	1,567,560	1,437,065	1,567,560	1,437,065
OSFC Receivable Write Down	0	5,694,971	0	5,694,971
<i>Total Expenses</i>	<u>\$ 111,748,903</u>	<u>\$ 112,260,485</u>	<u>\$ 95,073,401</u>	<u>\$ 94,733,135</u>

Lorain City School District
Lorain County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
Unaudited

The dependence upon general revenues for governmental activities is apparent. Over 85 percent of governmental activities are supported through taxes and other general revenues; such revenues are 85 percent of total governmental revenues. The community, as a whole, is by far the primary support for the School District students.

Governmental Funds

Information about the School District's major funds starts on page 18. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$123.2 million and expenditures of \$116.5 million for fiscal year. The net change in fund balances for the fiscal year was an increase of \$7.0 million for all governmental funds. The most significant change was an increase in the classroom facilities fund.

The general fund's net change in fund balance for fiscal year 2014 was an increase of \$0.2 million. Revenues increased \$6.8 million over fiscal year 2013 mostly through an increase in State foundation revenue. Expenditures increased \$6.9 million over fiscal year 2013. Instructional expenditures increased \$5.8 million, partially due to regular salary increases in addition to increased excess costs and community school costs paid through foundation payments.

The fund balance of the debt service fund increased by \$2,613. This is primarily caused by the timing of property tax collections versus the due dates for debt service.

The fund balance of the classroom facilities fund increased by \$5.4 million. The increase is due to the timing of capital expenditures as compared to the collection of grant and investment earnings.

General Fund Budgeting Highlights

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

During the course of fiscal year 2014, the School District amended its general fund budget. The School District uses site-based budgeting and budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the general fund, final and actual budget basis revenue of \$92.5 million was higher than the original budget basis revenue by \$2.8 million. This difference is due underestimating intergovernmental revenue.

Final budgeted appropriation expenditures equaled actual expenditures of \$94.9 million.

Original estimated appropriation expenditures of \$93.2 million were lower than final budgeted expenditures by \$1.7 million with instructional expenditures accounting for most of the difference.

Lorain City School District
Lorain County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
Unaudited

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2014, the School District had \$122.0 million invested in capital assets. Table 4 shows fiscal year 2014 balances compared with 2013.

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

	Governmental Activities	
	2014	2013
Land	\$ 9,736,082	\$ 8,798,847
Construction in Progress	5,960,191	3,367,814
Land Improvements	348,549	343,276
Buildings and Improvements	104,597,436	107,014,166
Furniture and Equipment	1,211,995	1,096,402
Vehicles	125,310	139,388
Textbooks	0	26,823
<i>Totals</i>	\$ 121,979,563	\$ 120,786,716

The \$1.2 million increase in capital assets was attributable to acquisitions exceeding depreciation and disposals. See Note 9 for more information about the capital assets of the School District.

Debt

At June 30, 2014, the School District had \$36.0 million in general obligation bonds and \$5.4 million in tax anticipation notes outstanding. Table 5 summarizes outstanding debt.

Lorain City School District
Lorain County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
Unaudited

(Table 5)
Outstanding Debt at Year End

	Governmental Activities	
	2014	2013
2005 Qualified Zone Academy Bonds	\$ 5,400,000	\$ 5,400,000
2003 Classroom Facilities Bonds	3,505,000	3,505,000
Capital Appreciation Bonds	2,420,549	3,623,976
Accretion on CABs	946,041	1,273,905
2006 Classroom Facilities Refunding Bonds	3,820,000	3,865,000
Capital Appreciation Bonds	64,995	64,995
Accretion on CABs	269,594	203,506
Premium on Debt Issuance	212,763	243,157
2007 School Improvement Refunding Bonds	8,860,000	8,860,000
Premium on Debt Issuance	638,958	692,205
2012 Classroom Facilities Refunding Bonds	9,335,000	9,335,000
Premium on Debt Issuance	560,945	611,940
Tax Anticipation Notes	5,376,752	6,960,590
<i>Total</i>	<u>\$ 41,410,597</u>	<u>\$ 44,639,274</u>

In 2005, the School District issued \$5.4 million in Qualified Zone Academy Bonds for purchase of computer equipment. In December 2006 the School District issued \$4.2 million in refunding bonds, in March 2007 the School District issued refunding bonds for \$9.0 million and in June 2012 the School District issued \$9.3 million in refunding bonds. The proceeds were used to refund a portion of the 2003 Classroom Facilities Bonds. In 2011, the School District issued a tax anticipation note in the amount of \$4.8 million. In 2012, the School District issued a tax anticipation note in the amount of \$3.1 million. More information about the long-term obligations is in Notes 14 and 15 to the basic financial statements.

Contacting the School District's Financial Management

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

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Lorain City School District
Lorain County, Ohio
Statement of Net Position
June 30, 2014

	Governmental Activities	Component Unit Digital Academy
Assets		
Equity in Pooled Cash and Investments	\$ 29,048,588	\$ 460,408
Cash and Cash Equivalents with Fiscal Agent	4,871,287	0
Cash and Cash Equivalents in Segregated Accounts	37,894,741	0
Receivables:		
Accrued Interest	17,003	0
Accounts	6,430	0
Intergovernmental	29,505,516	29,901
Property Taxes	26,892,030	0
Prepays	4,317,844	0
Nondepreciable Capital Assets	15,696,273	0
Depreciable Capital Assets (Net)	106,283,290	0
<i>Total Assets</i>	<u>254,533,002</u>	<u>490,309</u>
Deferred Outflows of Resources		
Deferred Charges on Debt Refunding	929,536	0
Liabilities		
Accounts Payable	1,560,054	31,904
Accrued Wages and Benefits	6,368,823	0
Contracts Payable	559,027	0
Intergovernmental Payable	2,232,354	0
Retainage Payable	103,649	0
Matured Compensated Absences Payable	26,891	0
Accrued Interest Payable	103,345	0
Claims Payable	940,962	0
Cost Sharing Payable	418,964	0
Unearned Revenue	250,000	0
Notes Payable	5,376,752	0
Long Term Liabilities:		
Due Within One Year	3,257,064	0
Due In More Than One Year	39,597,425	0
<i>Total Liabilities</i>	<u>60,795,310</u>	<u>31,904</u>
Deferred Inflows of Resources		
Property Taxes Levied for the Next Fiscal Year	19,028,631	0
Net Position		
Net Investment in Capital Assets	87,531,862	0
Restricted For:		
Capital Outlay	77,969,592	0
Debt Service	2,428,734	0
Classroom Facilities Maintenance	4,481,149	0
Academic Assistance	338,259	0
Other Purposes	2,565,250	67,173
Unrestricted	323,751	391,232
<i>Total Net Position</i>	<u>\$ 175,638,597</u>	<u>\$ 458,405</u>

See accompanying notes to the basic financial statements.

Lorain City School District
Lorain County, Ohio
Statement of Activities
For the Fiscal Year Ended June 30, 2014

	Program Revenues		
	Expenses	Charges for Services and Sales	Operating Grants, Contributions and Interest
Governmental Activities			
Instruction:			
Regular	\$ 31,966,749	\$ 826,208	\$ 3,930,477
Special	13,462,612	303,459	1,123,691
Vocational	2,583,952	13,315	251,401
Other	25,319,730	0	828,528
Support Services:			
Pupils	4,021,432	9,467	1,152,977
Instructional Staff	6,174,103	988	2,748,833
Board of Education	272,864	0	37,210
Administration	6,506,231	151,374	308,782
Fiscal	1,508,069	52,080	194,819
Business	501,786	0	0
Operation and Maintenance of Plant	8,846,189	0	74,064
Pupil Transportation	2,575,724	0	38,514
Central	936,362	0	28,800
Operation of Non-Instructional Services:			
Food Service Operations	3,809,961	168,916	3,769,531
Community Services	589,327	303	545,464
Extracurricular Activities	1,106,252	116,301	0
Interest and Fiscal Charges	1,567,560	0	0
<i>Total</i>	<u>111,748,903</u>	<u>1,642,411</u>	<u>15,033,091</u>
Component Unit			
Digital Academy	<u>1,621,533</u>	<u>0</u>	<u>145,870</u>
<i>Total Component Unit</i>	<u>1,621,533</u>	<u>0</u>	<u>145,870</u>
<i>Totals</i>	<u>\$ 113,370,436</u>	<u>\$ 1,642,411</u>	<u>\$ 15,178,961</u>

General Revenues

Property Taxes Levied for:

General Purposes

Debt Service

Classroom Facilities Maintenance

Grants and Entitlements Not Restricted to Specific Programs

Payments in Lieu of Taxes

Investment Earnings

Miscellaneous

Total General Revenues

Change in Net Position

Net Position Beginning of Year, Restated (See Note 23)

Net Position End of Year

See accompanying notes to the basic financial statements.

Net (Expense) Revenue and Changes in Net Position	
Governmental Activities	Component Unit Digital Academy
\$ (27,210,064)	\$ 0
(12,035,462)	0
(2,319,236)	0
(24,491,202)	0
(2,858,988)	0
(3,424,282)	0
(235,654)	0
(6,046,075)	0
(1,261,170)	0
(501,786)	0
(8,772,125)	0
(2,537,210)	0
(907,562)	0
128,486	0
(43,560)	0
(989,951)	0
(1,567,560)	0
<u>(95,073,401)</u>	<u>0</u>
0	(1,475,663)
0	(1,475,663)
<u>(95,073,401)</u>	<u>(1,475,663)</u>
19,389,315	0
2,591,793	0
238,611	0
72,903,368	1,117,171
8,049	0
287,554	0
679,389	2,868
<u>96,098,079</u>	<u>1,120,039</u>
1,024,678	(355,624)
<u>174,613,919</u>	<u>814,029</u>
<u>\$ 175,638,597</u>	<u>\$ 458,405</u>

See accompanying notes to the basic financial statements.

Lorain City School District
Lorain County, Ohio
Balance Sheet
Governmental Funds
June 30, 2014

	General Fund	Debt Service Fund	Classroom Facilities Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Investments	\$ 2,812,364	\$ 1,501,577	\$ 14,935,663	\$ 8,080,433	\$ 27,330,037
Cash and Cash Equivalents with Fiscal Agent	4,766,331	0	103,649	1,307	4,871,287
Cash and Cash Equivalents in Segregated Accounts	0	0	37,638,739	0	37,638,739
Receivables:					
Accrued Interest	0	0	17,003	0	17,003
Accounts	6,430	0	0	0	6,430
Interfund	1,468,155	0	0	0	1,468,155
Intergovernmental	224,335	0	24,964,113	4,317,068	29,505,516
Property Taxes	23,428,213	3,175,744	0	288,073	26,892,030
<i>Total Assets</i>	<u>\$ 32,705,828</u>	<u>\$ 4,677,321</u>	<u>\$ 77,659,167</u>	<u>\$ 12,686,881</u>	<u>\$ 127,729,197</u>
Liabilities					
Accounts Payable	\$ 914,866	\$ 0	\$ 0	\$ 634,709	\$ 1,549,575
Accrued Wages and Benefits	5,506,039	0	0	862,784	6,368,823
Contracts Payable	0	0	559,027	0	559,027
Intergovernmental Payable	1,840,737	0	0	257,344	2,098,081
Retainage Payable	0	0	103,649	0	103,649
Matured Compensated Absences Payable	26,891	0	0	0	26,891
Interfund Payable	0	0	0	1,468,155	1,468,155
Unearned Revenue	0	0	0	250,000	250,000
Notes Payable	5,376,752	0	0	0	5,376,752
<i>Total Liabilities</i>	<u>13,665,285</u>	<u>0</u>	<u>662,676</u>	<u>3,472,992</u>	<u>17,800,953</u>
Deferred Inflows of Resources					
Property Taxes Levied for the Next Fiscal Year	16,575,951	2,248,587	0	204,093	19,028,631
Unavailable Revenue - Delinquent Property Taxes	4,487,575	606,839	0	54,961	5,149,375
Unavailable Revenue - Other	115,972	0	24,964,113	2,401,088	27,481,173
<i>Total Deferred Inflows of Resources</i>	<u>21,179,498</u>	<u>2,855,426</u>	<u>24,964,113</u>	<u>2,660,142</u>	<u>51,659,179</u>
Fund Balances					
Nonspendable	32,309	0	0	0	32,309
Restricted	0	1,821,895	52,032,378	6,764,242	60,618,515
Unassigned	(2,171,264)	0	0	(210,495)	(2,381,759)
<i>Total Fund Balances</i>	<u>(2,138,955)</u>	<u>1,821,895</u>	<u>52,032,378</u>	<u>6,553,747</u>	<u>58,269,065</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$ 32,705,828</u>	<u>\$ 4,677,321</u>	<u>\$ 77,659,167</u>	<u>\$ 12,686,881</u>	<u>\$ 127,729,197</u>

See accompanying notes to the basic financial statements.

Lorain City School District
Lorain County, Ohio
*Reconciliation of Total Governmental Fund Balances to
Net Position of Governmental Activities
For the Fiscal Year Ended June 30, 2014*

Total Governmental Fund Balances		\$ 58,269,065
<i>Amounts reported for governmental activities in the statement of net position are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		121,979,563
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Property Taxes	\$ 5,149,375	
Tuition	115,972	
Prepaid Expenses	4,238,299	
Intergovernmental	27,365,201	36,868,847
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 position.		549,420
In the statement of activities, a loss on refunding is amortized over the term on the bonds, whereas in governmental funds, a refunding loss is reported when bonds are issued.		929,536
In the statement of activities, interest is accrued on outstanding bonds, whereas in the governmental funds, an interest expenditure is not reported.		(103,345)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
General Obligation Bonds	30,920,000	
Capital Appreciation Bonds	2,485,544	
Bond Premium	1,412,666	
Accretion of Interest - Capital Appreciation Bonds	1,215,635	
Compensated Absences	6,820,644	(42,854,489)
<i>Net Position of Governmental Activities</i>		\$ 175,638,597

See accompanying notes to the basic financial statements.

Lorain City School District
Lorain County, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2014

	General Fund	Debt Service Fund	Classroom Facilities Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Property and Other Local Taxes	\$ 18,592,740	\$ 2,433,911	\$ 0	\$ 228,546	\$ 21,255,197
Intergovernmental	72,613,401	419,591	9,765,395	16,703,146	99,501,533
Investment Income	169,621	0	131,064	3,557	304,242
Tuition and Fees	1,168,242	0	0	0	1,168,242
Extracurricular Activities	174,435	0	0	94,092	268,527
Rentals	52,121	0	0	0	52,121
Charges for Services	23,182	0	0	168,916	192,098
Contributions and Donations	2,634	0	0	272,098	274,732
Payment in Lieu of Taxes	4,025	0	0	0	4,025
Miscellaneous	176,316	0	0	14,151	190,467
<i>Total Revenues</i>	<u>92,976,717</u>	<u>2,853,502</u>	<u>9,896,459</u>	<u>17,484,506</u>	<u>123,211,184</u>
Expenditures:					
Current:					
Instruction:					
Regular	27,855,344	0	0	4,597,553	32,452,897
Special	12,521,087	0	0	1,094,286	13,615,373
Vocational	2,286,533	0	0	246,718	2,533,251
Other	25,129,210	0	0	226,572	25,355,782
Support Services:					
Pupils	2,805,148	0	0	1,322,750	4,127,898
Instructional Staff	1,830,882	0	0	4,158,576	5,989,458
Board of Education	284,051	0	0	0	284,051
Administration	5,890,358	0	0	364,119	6,254,477
Fiscal	1,195,503	40,892	0	250,783	1,487,178
Business	474,957	0	0	0	474,957
Operation and Maintenance of Plant	8,179,070	0	0	17,583	8,196,653
Pupil Transportation	2,525,874	0	0	47,760	2,573,634
Central	835,337	0	0	111,846	947,183
Extracurricular Activities	355,707	0	0	662,165	1,017,872
Operation of Non-Instructional Services:					
Food Service Operations	0	0	0	3,546,067	3,546,067
Community Services	399	0	0	585,583	585,982
Capital Outlay	50,761	0	3,703,102	320,301	4,074,164
Debt Service:					
Principal Retirement	0	1,248,427	0	0	1,248,427
Interest and Fiscal Charges	152,163	1,561,570	0	0	1,713,733
<i>Total Expenditures</i>	<u>92,372,384</u>	<u>2,850,889</u>	<u>3,703,102</u>	<u>17,552,662</u>	<u>116,479,037</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>604,333</u>	<u>2,613</u>	<u>6,193,357</u>	<u>(68,156)</u>	<u>6,732,147</u>
Other Financing Sources (Uses):					
Proceeds from Sale of Capital Assets	868	0	0	0	868
Insurance Recoveries	224,179	0	0	0	224,179
Transfers In	0	0	0	1,453,808	1,453,808
Transfers Out	(615,923)	0	(837,885)	0	(1,453,808)
<i>Total Other Financing Sources (Uses)</i>	<u>(390,876)</u>	<u>0</u>	<u>(837,885)</u>	<u>1,453,808</u>	<u>225,047</u>
<i>Net Change in Fund Balance</i>	213,457	2,613	5,355,472	1,385,652	6,957,194
<i>Fund Balances Beginning of Year</i>	<u>(2,352,412)</u>	<u>1,819,282</u>	<u>46,676,906</u>	<u>5,168,095</u>	<u>51,311,871</u>
<i>Fund Balances End of Year</i>	<u>\$ (2,138,955)</u>	<u>\$ 1,821,895</u>	<u>\$ 52,032,378</u>	<u>\$ 6,553,747</u>	<u>\$ 58,269,065</u>

See accompanying notes to the basic financial statements.

Lorain City School District
Lorain County, Ohio
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2014*

Net Change in Fund Balances - Total Governmental Funds	\$	6,957,194
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital additions exceeded depreciation in the current period.		
Capital Asset Additions	\$ 4,161,983	
Current Year Depreciation	<u>(2,815,979)</u>	1,346,004
Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.		
Disposals		(153,157)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Property Taxes	964,523	
Charges for Services	(42,631)	
Intergovernmental	(11,346,363)	
Prepaid Expenses	<u>989,188</u>	(9,435,283)
Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		
General Obligation Bond Principal	45,000	
Capital Appreciation Bonds	1,203,427	
Matured Capital Appreciation Bonds	<u>446,573</u>	1,695,000
In the statement of activities, interest is accrued on outstanding bonds; bond premium and the gain/loss on refunding are amortized over the term of the bonds, whereas in governmental funds, an interest expenditure is reported when bonds are issued.		
Accrued Interest Payable	3,322	
Amortization of Issuance Costs *	(164,080)	
Amortization of Premium on Bonds	134,636	
Amortization of Refunding Loss	<u>(89,481)</u>	(115,603)
The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental expenditures and related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.		
		88,505
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Compensated Absences		826,815
Accretion on capital appreciation bonds is an expenditure in the governmental funds but is allocated as an expense over the life of the bonds in the statement of activities.		
		<u>(184,797)</u>
<i>Change in Net Position of Governmental Activities</i>	\$	<u>1,024,678</u>

* Prior year bond issuance costs written off in current year (immaterial) with the implementation of GASB 65.

See accompanying notes to the basic financial statements.

Lorain City School District
Lorain County, Ohio
Statement of Revenues, Expenditures, and Changes in Fund Balance -
Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2014

	Budgeted Amounts			Variance
	Original	Final	Actual	
Revenues				
Property and Other Local Taxes	\$ 17,769,982	\$ 18,221,013	\$ 18,221,013	\$ 0
Intergovernmental	70,840,597	72,798,883	72,798,883	0
Investment Income	10,000	8,956	8,956	0
Tuition and Fees	1,057,500	1,209,661	1,209,661	0
Extracurricular Activities	0	22,208	22,208	0
Rentals	42,500	52,080	52,080	0
Payment in Lieu of Taxes	4,025	4,025	4,025	0
Miscellaneous	5,113	172,933	172,933	0
<i>Total Revenues</i>	<u>89,729,717</u>	<u>92,489,759</u>	<u>92,489,759</u>	<u>0</u>
Expenditures				
Current:				
Instruction:				
Regular	19,170,485	27,716,073	27,716,073	0
Special	10,032,869	12,710,910	12,710,910	0
Vocational	2,599,979	2,630,780	2,630,780	0
Other	37,299,093	25,182,920	25,182,920	0
Support Services:				
Pupils	1,784,649	2,753,919	2,753,919	0
Instructional Staff	1,543,975	1,829,556	1,829,556	0
Board of Education	569,545	340,033	340,033	0
Administration	4,750,868	5,695,171	5,695,171	0
Fiscal	1,326,489	1,190,673	1,190,673	0
Business	359,835	478,150	478,150	0
Operation and Maintenance of Plant	7,454,489	8,673,263	8,673,263	0
Pupil Transportation	3,277,845	2,635,129	2,635,129	0
Central	951,689	869,210	869,210	0
Extracurricular Activities	269,162	388,979	388,979	0
Capital Outlay	37,232	51,768	51,768	0
Debt Service:				
Principal Retirement	1,583,838	1,583,838	1,583,838	0
Interest and Fiscal Charges	152,163	152,163	152,163	0
<i>Total Expenditures</i>	<u>93,164,205</u>	<u>94,882,535</u>	<u>94,882,535</u>	<u>0</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(3,434,488)</u>	<u>(2,392,776)</u>	<u>(2,392,776)</u>	<u>0</u>
Other Financing Sources (Uses)				
Proceeds from Sale of Capital Assets	0	868	868	0
Insurance Recoveries	25,000	224,179	224,179	0
Advances In	600,000	1,056,546	1,056,546	0
Advances Out	(600,000)	(1,487,556)	(1,487,556)	0
Transfers Out	(550,000)	(615,923)	(615,923)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(525,000)</u>	<u>(821,886)</u>	<u>(821,886)</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	<u>(3,959,488)</u>	<u>(3,214,662)</u>	<u>(3,214,662)</u>	<u>0</u>
<i>Fund Balance Beginning of Year</i>	1,831,228	1,831,228	1,831,228	0
Prior Year Encumbrances Appropriated	2,137,210	2,137,210	2,137,210	0
<i>Fund Balance End of Year</i>	<u>\$ 8,950</u>	<u>\$ 753,776</u>	<u>\$ 753,776</u>	<u>\$ 0</u>

See accompanying notes to the basic financial statements.

Lorain City School District
Lorain County, Ohio
Statement of Fund Net Position
Proprietary Fund
June 30, 2014

	Governmental Activities - Internal Service Fund
	Fund
Assets	
<i>Current Assets</i>	
Equity in Pooled Cash and Investments	\$ 1,718,551
Cash and Cash Equivalents in Segregated Accounts	256,002
Prepaid Items	79,545
	2,054,098
<i>Total Assets</i>	2,054,098
Liabilities	
<i>Current Liabilities</i>	
Accounts Payable	10,479
Intergovernmental Payable	134,273
Claims Payable	940,962
Cost Sharing Payable	418,964
	1,504,678
<i>Total Liabilities</i>	1,504,678
Net Position	
Unrestricted	549,420
	549,420
<i>Total Net Position</i>	\$ 549,420

See accompanying notes to the basic financial statements.

Lorain City School District
Lorain County, Ohio
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Fund
For the Fiscal Year Ended June 30, 2014

	Governmental Activities - Internal Service Fund
Operating Revenue	
Charges for Services	\$ 9,112,960
Other	519,434
	9,632,394
<i>Total Operating Revenues</i>	<i>9,632,394</i>
Operating Expenses	
Fringe Benefits	373,995
Purchased Services	1,130,228
Claims	8,026,534
	9,530,757
<i>Total Operating Expenses</i>	<i>9,530,757</i>
<i>Operating Income (Loss)</i>	<i>101,637</i>
Non-Operating Revenues	
Investment Interest	(13,132)
	88,505
<i>Change in Net Position</i>	<i>88,505</i>
<i>Net Position Beginning of Year</i>	<i>460,915</i>
<i>Net Position End of Year</i>	<i>\$ 549,420</i>

See accompanying notes to the basic financial statements.

Lorain City School District
Lorain County, Ohio
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2014

	<u>Governmental Activities - Internal Service Fund</u>
Cash Flows From Operating Activities	
Cash Received from Interfund Services	\$ 9,112,960
Other Cash Receipts	519,434
Cash Paid for Goods and Services	(1,853,126)
Cash Paid for Claims	<u>(8,228,591)</u>
<i>Net Cash Provided By (Used For) Operating Activities</i>	<u>(449,323)</u>
Cash Flows From Investing Activities	
Investment Interest	(13,132)
Sale of Investments	<u>800,722</u>
<i>Net Cash Provided By (Used For) Investing Activities</i>	<u>787,590</u>
<i>Net Increase (Decrease) in Cash and Investments</i>	338,267
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>1,636,286</u>
<i>Cash and Cash Equivalents End of Year</i>	<u><u>\$ 1,974,553</u></u>
Reconciliation of Operating Income to Net Cash Provided By Operating Activities	
Operating Income (Loss)	\$ 101,637
(Increase) Decrease Assets:	
Prepaid Items	(16,721)
Increase (Decrease) in Liabilities:	
Accounts Payable	9,489
Intergovernmental Payable	(8,312)
Claims Payable	(202,057)
Cost Sharing Payable	<u>(333,359)</u>
<i>Total Adjustments</i>	<u>(550,960)</u>
<i>Net Cash Provided By (Used For) Operating Activities</i>	<u><u>\$ (449,323)</u></u>

See accompanying notes to the basic financial statements.

Lorain City School District
Lorain County, Ohio
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2014

	Private Purpose Trust	Agency
Assets		
Equity in Pooled Cash and Investments	\$ 95,272	\$ 46,318
Liabilities		
Undistributed Monies	0	\$ 21,379
Due to Students	0	24,939
<i>Total Liabilities</i>	0	\$ 46,318
Net Position		
Held in Trust for Scholarships	\$ 95,272	

See accompanying notes to the basic financial statements.

Lorain City School District
Lorain County, Ohio
Statement of Changes in Fiduciary Net Position
Private Purpose Trust Fund
For the Fiscal Year Ended June 30, 2014

	Private Purpose Trust
Additions	
Gifts and Contributions	\$ 75,477
Investment Earnings	26
	75,503
<i>Total Additions</i>	<i>75,503</i>
Deductions	
Payments in Accordance with Trust Agreements	62,087
	13,416
<i>Change in Net Position</i>	<i>13,416</i>
<i>Net Position Beginning of Year</i>	<i>81,856</i>
	95,272
<i>Net Position End of Year</i>	<i>\$ 95,272</i>

See accompanying notes to the basic financial statements.

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Lorain City School District
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

Note 1 - Description of the School District

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

Reporting Entity

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

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

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

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

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

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

Lorain City School District
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

Financial information for the Trust's year ended December 31, 2013, is presented in these financial statements as an Internal Service Fund. Complete financial statements for the Trust may be obtained by contacting the Plan Administrator at 10045 College Park, Concord, Ohio 44060.

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

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

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

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

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

Note 2 - Summary of Significant Accounting Policies

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

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 position 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 position 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.

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

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

B. Fund Accounting

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

Governmental Funds Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and deferred outflows of resources and liabilities and deferred inflows of resources 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 Fund The classroom facilities fund is used to account for monies received and expended in connection with contracts entered into by the School District and the Ohio Department of Education for the building and equipping of classroom facilities.

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

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

C. Measurement Focus

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

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 deferred outflows of resources and current liabilities and deferred inflows of resources 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 deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of these funds are included on the statement of net position. The statement of changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net position. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its proprietary fund activities.

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

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 inflows of resources, and in the presentation of expenses versus expenditures.

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

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

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

Deferred Inflows of Resources and Deferred Outflows of Resources A deferred inflow of resources is an acquisition of assets by the School District that is applicable to a future reporting period. A deferred outflow of resources is a consumption of assets by the School District that is applicable to a future reporting period.

Property taxes for which there is an enforceable legal claim as of June 30, 2014, but which were levied to finance fiscal year 2015 operations, and other revenues received in advance of the year for which they were intended to finance, have been recorded as deferred inflows of resources. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at June 30, 2014, are recorded as deferred inflows of resources in governmental funds.

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On governmental fund financial statements receivables that will not be collected within the available period have been reported as a deferred inflow of resources.

On the accrual basis of accounting, unamortized deferred charges on debt refunding are reported as a deferred outflow of resources. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

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

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

E. Cash and Cash Investments

Cash received by the School District is deposited in one central bank account with individual fund balance integrity maintained through School District records. Monies for all funds are maintained in this account or other short term investments. Under existing Ohio statutes, interest earnings are allocated to funds based on average monthly cash balances. Interest revenue credited to the general fund during fiscal year 2014 amounted to \$169,621, which includes \$144,727 assigned from other School District funds.

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

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

During fiscal year 2014, investments were limited to a repurchase agreement, Federal Farm Credit Bank and STAR Ohio, (the State Treasurer's Investment Pool) and STAR Plus.

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.

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STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2014. Certificates of deposit are reported at cost.

The School District also invests in STAR Plus, a federally insured cash account powered by the Federally Insured Cash Account (FICA) program. STAR Plus enables political subdivisions to generate a competitive yield on cash deposits in a network of carefully-selected FDIC-insured banks via a single, convenient account. STAR Plus offers attractive yields with no market or credit risk, weekly liquidity and penalty free withdrawals. All deposits with STAR Plus have full FDIC insurance, with no term commitment on deposits.

Investments of the cash management pool and investments with a maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents. Investments with an original maturity of more than three months that are not made from the pool are reported as investments. Further details on investments held by the School District can be found in Note 6.

F. Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets may include amounts required by statute to be set-aside for capital improvements. See Note 21 for additional information regarding set asides.

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 position but are not reported in the fund financial statements.

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

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

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

H. Interfund Balances

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

I. Prepaid Expenses

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

J. Compensated Absences

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

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

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

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

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K. Accrued Liabilities and Long-term Obligations

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

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

L. Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net investment in capital assets 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. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is 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. At June 30, 2014, there was no net position restricted by enabling legislation.

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

M. Fund Balance

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

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

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

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

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

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

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

N. Interfund Activity

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

O. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2014.

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P. Operating Revenues and Expenses

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

Q. Estimates

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

R. Budgetary Data

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

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

Estimated Resources The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the School District by March 1. As part of the certification, the School District receives the official certificate of estimated resources which states the projected revenue of each fund type. Prior to June 30, the School District must revise its budget ensuring that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of 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 2014.

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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 restricted, committed or assigned fund balance for subsequent-year expenditures for governmental funds. An assignment for encumbrances is not reported on government-wide financial statements.

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

S. Changes in Accounting Principles

For the fiscal year ended June 30, 2014, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, GASB Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*, and GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*.

GASB Statement No. 65 properly classifies certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or recognizes certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). These changes were incorporated in the School District's fiscal year 2014 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 66 resolves conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting and thereby enhance the usefulness of the financial reports. The implementation of GASB Statement No. 66 did not have an effect on the financial statements of the School District.

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GASB Statement No. 70 improves comparability of financial statements by requiring consistent reporting and specifying information required to be disclosed for extending and receiving nonexchange financial guarantees. The implementation of GASB Statement No. 70 did not have an effect on the financial statements of the School District.

Note 3 – Fund Deficits

Fund balances at June 30, 2014, included the following individual fund deficits:

	<u>Deficit Fund Balance</u>
General Fund	\$2,138,955
NonMajor Governmental Funds:	
Athletics	617
EMIS	4,373
Public Preschool	6,723
Alternative Education	2,043
Race to the Top	1,171
Title III	1,489
Title I	181,536
Preschool Handicapped Grant	12,543

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.

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Lorain City School District
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Notes to the Basic Financial Statements
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Note 4 – Fund Balance

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

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

	General Fund	Debt Service Fund	Classroom Facilities Fund	Other Governmental Funds	Total
Nonspendable for:					
Unclaimed Monies	\$ 32,309	\$ 0	\$ 0	\$ 0	\$ 32,309
Restricted for:					
Debt Service	0	1,821,895	0	0	1,821,895
Capital Outlay	0	0	52,032,378	973,101	53,005,479
Non-Public Schools	0	0	0	19,495	19,495
Special Education	0	0	0	165,027	165,027
Food Service	0	0	0	725,429	725,429
Classroom Facilities Maintenance	0	0	0	4,426,188	4,426,188
Other Purposes	0	0	0	455,002	455,002
Total Restricted	0	1,821,895	52,032,378	6,764,242	60,618,515
Unassigned	(2,171,264)	0	0	(210,495)	(2,381,759)
Total Fund Balance (Deficit)	<u>\$ (2,138,955)</u>	<u>\$ 1,821,895</u>	<u>\$ 52,032,378</u>	<u>\$ 6,553,747</u>	<u>\$ 58,269,065</u>

Note 5 - Budgetary Basis of Accounting

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

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

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3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).
4. Advances In and Advances Out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).
5. Some funds are included in the general fund (GAAP), but have separate legally adopted budgets (budget).

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

Net Change in Fund Balance

	General
GAAP Basis	\$ 213,457
Net Adjustment for Revenue Accruals	(305,493)
Advances In	1,056,546
Net Adjustment for Expenditure Accruals	(911,010)
Advances Out	(1,487,556)
Funds Budgeted Elsewhere **	4,489
Adjustment for Encumbrances	(1,785,095)
Budget Basis	\$ (3,214,662)

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

Note 6 - Deposits and Investments

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

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

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

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

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

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

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

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8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

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

Custodial credit risk for an investment is the risk that in the event of failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District's \$18,665,000 investment in repurchase agreements is to be secured by the specific government securities upon which the repurchase agreements are based. These securities, held by the counterparty and not in the School District's name, must be obligations of or guaranteed by the United States and mature or be redeemable within five years of the date of the related repurchase agreement. Ohio law requires the market value of the securities subject to repurchase agreements must exceed the principal value of the securities subject to a repurchase agreement by 2 percent. The School District's policy is to invest money with financial institutions that are able to abide by the laws governing insurance and collateral of public funds.

Deposits At fiscal year-end, the carrying amount of the School District's deposits was \$52,291,064 and the bank balance was \$52,380,357. Of the bank balance:

1. \$20,826,334 of the bank balance was covered by depository insurance, which includes \$15,002,628 held in a STAR Plus account; and
2. \$31,554,023 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.

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Investments

Investments are reported at fair value. As of June 30, 2014, the School District had the following investments:

Standard & Poor's	Investment	Fair Value	Investment Maturities (in years)			% Total Investments
			less than 1	1 - 2	More than 2	
N/A *	Repurchase Agreement	\$ 18,665,000	\$ 18,665,000	\$ 0	\$ 0	94.9%
AAAm	STAR Ohio	11	11	0	0	0.0%
Aaa	Federal Farm Credit Bank	1,000,131	0	0	1,000,131	5.1%
		<u>\$ 19,665,142</u>	<u>\$ 18,665,011</u>	<u>\$ 0</u>	<u>\$ 1,000,131</u>	<u>100.0%</u>

* Underlying securities exempt

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

STAR Ohio is an investment pool operated by the Ohio State Treasurer. It is unclassified since it is not evidenced by securities that exist in physical or book entry form. Ohio law requires STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The weighted average of maturity of the portfolio held by STAR Ohio as of June 30, 2014, is 51 days.

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

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

Note 7 - Property Taxes

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

Property taxes include amounts levied against all real and public utility property located in the School District. Real property tax revenue received in calendar year 2014 represents collections of calendar year 2013 taxes. Real property taxes received in calendar year 2014 were levied after April 1, 2013, on the assessed value listed as of January 1, 2013, the lien date. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semiannually, the first

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payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar year 2014 represents collections of calendar year 2013 taxes. Public utility real and tangible personal property taxes received in calendar year 2014 became a lien December 31, 2012, were levied after April 1, 2013 and are collected in 2014 with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

The School District receives property taxes from Lorain County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2014, are available to finance fiscal year 2014 operations. The amount available as an advance at June 30, 2014 was \$2,364,687 in the general fund, \$320,318 in the debt service fund, and \$29,019 in the classroom facilities maintenance fund, a nonmajor governmental fund. This amount is recorded as revenue. The amount available for advance at June 30, 2013, was \$1,992,960 in the general fund, \$249,567 in the debt service fund, and \$25,102 in the classroom facilities maintenance fund, a nonmajor governmental fund. The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and delinquent tangible personal property taxes which are measurable as of June 30, 2014 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred inflow of resources.

On the accrual basis of accounting, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis of accounting the revenue has been reported as a deferred inflow of resources.

The assessed values upon which the fiscal year 2014 taxes were collected are:

	2013 Second Half Collections		2014 First Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$ 546,345,910	97.70%	\$ 543,346,690	97.53%
Public Utility Personal Property	12,873,990	2.30%	13,748,570	2.47%
	<u>\$ 559,219,900</u>	<u>100.00%</u>	<u>\$ 557,095,260</u>	<u>100.00%</u>
 Tax rate per \$1,000 assessed valuation	 \$ 66.64		 \$ 67.33	

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Note 8 - Receivables

Receivables at June 30, 2014, consisted of taxes, accounts (student fees), interfund, accrued interest, intergovernmental grants and excess costs. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. Intergovernmental receivables consisted of excess costs and miscellaneous receivable in general fund of \$224,335, classroom facilities grant receivable of \$24,964,113 and other state and federal grants of \$4,317,068.

Note 9 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2014, was as follows:

	Balance 6/30/2013	Additions	Reductions	Balance 6/30/2014
Governmental Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	\$ 8,798,847	\$ 948,578	\$ (11,343)	\$ 9,736,082
Construction in Progress	3,367,814	2,592,377	0	5,960,191
Total Capital Assets, being depreciated	12,166,661	3,540,955	(11,343)	15,696,273
<i>Capital Assets, being depreciated:</i>				
Land Improvements	850,666	28,500	(85,331)	793,835
Buildings and Improvements	127,004,749	182,188	(1,660,543)	125,526,394
Furniture and Equipment	3,483,657	396,740	(318,304)	3,562,093
Vehicles	478,635	13,600	0	492,235
Textbooks	4,088,546	0	(4,088,546)	0
Total Capital Assets, being depreciated	135,906,253	621,028	(6,152,724)	130,374,557
Less Accumulated Depreciation:				
Land Improvements	(507,390)	(23,227)	85,331	(445,286)
Buildings and Improvements	(19,990,583)	(2,503,720)	1,565,345	(20,928,958)
Furniture and Equipment	(2,387,255)	(234,531)	271,688	(2,350,098)
Vehicles	(339,247)	(27,678)	0	(366,925)
Textbooks	(4,061,723)	(26,823)	4,088,546	0
Total Accumulated Depreciation	(27,286,198)	(2,815,979)	6,010,910	(24,091,267)
Total Capital Assets being depreciated, net	108,620,055	(2,194,951)	(141,814)	106,283,290
Governmental Activities Capital Assets, Net	<u>\$ 120,786,716</u>	<u>\$ 1,346,004</u>	<u>\$ (153,157)</u>	<u>\$ 121,979,563</u>

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Depreciation expense was charged to governmental functions as follows:

<i>Governmental Activities:</i>	
Instruction:	
Regular	\$ 1,322,749
Special	93,465
Vocational	53,774
Support Services:	
Pupil	2,069
Instructional Staff	188,229
Administration	107,330
Business	18,237
Operation and Maintenance of Plant	664,851
Pupil Transportation	6,386
Central	4,185
Operation of Non-Instructional Services:	
Community Services	4,029
Food Service	261,580
Extracurricular Activities	89,095
Total Governmental Activities	\$ 2,815,979

Note 10 - Risk Management

A. Property and Liability

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

Type of Coverage	Per Occurance	Aggregate
General Liability	\$ 1,000,000	\$ 2,000,000
Automobile	1,000,000	0
Excess Liability	1,000,000	1,000,000
Blanket Building/Contents	0	219,192,905

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

B. Workers' Compensation

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

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The School District pays 4.3 percent discounted premiums to the BWC for 10 years and incurs the liability dollar-to-dollar on all claim costs. Estimated premiums for 2014 are \$205,560. The firm of CompManagement, Inc. provides administrative, cost control services, and is the third party administrator of the School District. CompManagement also serves as the school district's Managed Care Organization (MCO).

C. Health Insurance

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

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

The claims liability of \$940,962 at June 30, 2014, 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
2013	\$ 833,586	\$ 8,238,303	\$ (7,928,870)	\$ 1,143,019
2014	\$ 1,143,019	\$ 8,026,534	\$ (8,228,591)	\$ 940,962

Note 11 - Compensated Absences

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

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

Upon retirement, employees receive payment for one-fourth of the total accumulated sick leave, up to a maximum accumulation which ranges from 30 through 75 days, depending on the individual contract.

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

In February 2010, the School District approved an early retirement incentive plan for employees in the State Employee Retirement System (SERS) and employees in the State Teachers Retirement System (STRS). For this incentive plan, the Lorain Education Association was excluded. Applicable employees in SERS receive 60% of their salary. Applicable employees in STRS receive \$80,000 over a four year period.

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

Per the Memorandum of Understanding between the Board of Education of the Lorain City School District and the Lorain Education Association, effective July 1, 2012, the payment of severance/incentive pay for retiring LEA members will be mandatorily paid into an annuity contract or custodial account that is designed to meet the tax qualifications of IRC section 403b. Such payment will be in lieu of the payment being made directly to the retired teacher, as long as the teacher reaches age 55 anytime during their retirement year. Otherwise payment will be made directly to the teacher in one lump sum, or two equal installments – one in the year of retirement and the other in the 2nd year of retirement in January.

Note 12 - Defined Benefit Pension Plans

A. School Employees Retirement System

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the School District’s contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2014, 13.05 percent and .05 percent of annual covered salary was the portion used to fund pension obligations and death

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benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School District's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2014, 2013 and 2012 were \$1,566,352, \$1,218,904 and \$1,367,045, respectively; 69 percent has been contributed for fiscal year 2014 and 100 percent for the fiscal years 2013 and 2012.

B. State Teachers Retirement System

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

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

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

Funding Policy - For fiscal year 2014, plan members were required to contribute 11 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 11 percent for members and 14 percent for employer contributions. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

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The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2014, 2013 and 2012 were \$4,463,726, \$4,416,636 and \$5,272,058 respectively; 82 percent has been contributed for fiscal year 2014 and 100 percent for the fiscal years 2013 and 2012. Contributions to the DC and Combined Plans for fiscal year 2014 were \$119,004 made by the School District and \$93,503 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2014, one member of the Board of Education has elected social security. The Board's liability is 6.2 percent of wages paid.

Note 13 - Postemployment Benefits

A. School Employees Retirement System

Plan Description – The School District participates in two cost-sharing, multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage and traditional indemnity plans. A prescription drug plan is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code Section 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2014 was \$104.90 for most participants, but could be as high as \$335.70 per month depending on their income. SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on SERS' website at www.ohsers.org under Employers/Audit Resources.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For fiscal year 2014, 0.14 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2014, the actuarially determined amount was \$20,250.

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

The School District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2014, 2013, and 2012 were \$160,740, \$176,137, and \$228,703, respectively; 69 percent has been contributed for fiscal year 2014 and 100 percent for fiscal years 2013 and 2012.

The Retirement Board, acting with advice of the actuary, allocates a portion of the current employer contribution to the Medicare B Fund. For fiscal year 2014, the actuarially required allocation was 0.76 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2014, 2013, and 2012 were \$90,872, \$68,854, and \$80,731, respectively; 69 percent has been contributed for fiscal year 2014 and 100 percent for fiscal years 2013 and 2012.

B. State Teachers Retirement System

Plan Description - The School District contributes to the cost sharing, multiple-employer defined benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the financial report of STRS. Interested parties can view the most recent Comprehensive Annual Financial Report by visiting www.strsoh.org or by requesting a copy by calling toll-free (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2014, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District's contributions for health care for the fiscal years ended June 30, 2014, 2013, and 2012 were \$343,364, \$339,725, and \$424,996, respectively; 82 percent has been contributed for fiscal year 2014 and 100 percent for fiscal years 2013 and 2012.

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Note 14 - Long - Term Obligations

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

	Outstanding 6/30/13	Additions	Reductions	Outstanding 6/30/14	Amounts Due in One Year
Governmental Activities:					
<i>General Obligation Bonds Payable:</i>					
Qualified Zone Academy Bonds:					
Due 2018	\$ 5,400,000	\$ 0	\$ 0	\$ 5,400,000	\$ 0
2003 Classroom Facilities Bonds					
1.45%-5.25% through 2025	3,505,000	0	0	3,505,000	0
Capital Appreciation Bonds	3,623,976	0	1,203,427	2,420,549	1,208,402
Accretion on CABs	1,273,905	118,709	446,573	946,041	472,315
2006 Classroom Facilities Refunding Bonds					
3.50%-4.25% through 2020	3,865,000	0	45,000	3,820,000	50,000
Capital Appreciation Bonds	64,995	0	0	64,995	0
Accretion on CABs	203,506	66,088	0	269,594	0
Premium on Debt Issuance	243,157	0	30,394	212,763	0
2007 School Improvement Refunding Bonds					
4.00%-5.50% through 2025	8,860,000	0	0	8,860,000	0
Premium on Debt Issuance	692,205	0	53,247	638,958	0
2012 Classroom Facilities Refunding Bonds					
3.00%-4.00% through 2024	9,335,000	0	0	9,335,000	0
Premium on Debt Issuance	611,940	0	50,995	560,945	0
Total	<u>37,678,684</u>	<u>184,797</u>	<u>1,829,636</u>	<u>36,033,845</u>	<u>1,730,717</u>
Compensated Absences	<u>7,647,459</u>	<u>1,383,980</u>	<u>2,210,795</u>	<u>6,820,644</u>	<u>1,526,347</u>
Total Governmental Activities Long-Term Liabilities	<u>\$ 45,326,143</u>	<u>\$ 1,568,777</u>	<u>\$ 4,040,431</u>	<u>\$ 42,854,489</u>	<u>\$ 3,257,064</u>

2003 Classroom Facilities Bonds

In fiscal year 2002, the School District issued \$41,094,096 in general obligation bonds for renovation, construction, and equipping school facilities. These bonds were partially refunded in fiscal years 2007 and 2012. This issue included three capital appreciation bonds, one that matured December 1, 2013 and two that mature in fiscal year 2014 and 2015. These bonds were purchased at a substantial discount at the time of issuance. At maturity all compounded interest is paid and the bond holder receives the face value of the bonds. As the value of the bonds increase, the accretion is reflected as principal liability. The maturity amount of the bonds due in fiscal year 2014 and 2015 are \$1,705,000 and \$1,760,000, respectively. For fiscal year 2014, \$118,709 was accreted to update the liability to \$3,366,590 at June 30, 2013.

Lorain City School District
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

2005 Qualified Zone Academy Bonds

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

2006 School Improvement Refunding Bonds

On December 21, 2006, the School District issued \$4,169,995 refunded general obligation bonds. The proceeds of the bonds were used to refund \$4,169,995 of the School District's outstanding Capital Improvement Bonds, Series 2003. The bonds were issued for a 14 year period with final maturity at December 1, 2020. At the date of the refunding, \$4,595,516 (including premium and after underwriting fees) was deposited in an irrevocable trust to provide for all future payments on the refunded bonds. As of June 30, 2014, \$4,169,995 of these bonds are considered defeased (which will mature on December 1, 2016 through December 1, 2020).

These refunding bonds were issued with a premium of \$425,521, which is reported as an increase to bonds payable. The amounts are being amortized to interest expenses over the life of the bonds using the straight-line method. There was amortization of \$30,394 recorded for June 30, 2014. The issuance costs have been reported as an expenditure. The issuance resulted in a difference between the cash flows required to service the old debt and the cash flows required to service the new debt of \$335,648. The issuance resulted in an economic gain of \$122,127.

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

The capital appreciation bond matures December 1, 2016. This bond was purchased at a substantial discount at the time of issuance. At maturity all compounded interest is paid and the bond holder receives the face value of the bond. As the value of the bond increases, the accretion is reflected as principal liability. The maturity amount of the bonds is \$580,000. For fiscal year 2014, \$66,088 was accreted for a liability of \$334,589.

2007 School Improvement Refunding Bonds

On March 6, 2007, the School District issued \$8,985,000 refunded general obligation bonds. The proceeds of the bonds were used to refund \$9,050,000 of the School District's outstanding Capital Improvement Bonds, Series 2003. The bonds were issued for a 18 year period with final maturity at December 1, 2025. At the date of the refunding, \$9,996,687 (including premium and after underwriting fees) was deposited in an irrevocable trust to provide for all future payments on the refunded bonds. As of June 30, 2014, \$9,050,000 of these bonds are considered defeased, (which will mature on December 1, 2016 through December 1, 2019).

Lorain City School District
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

These refunding bonds were issued with a premium of \$1,011,687, which is reported as an increase to bonds payable. The amounts are being amortized to interest expenses over the life of the bonds using the straight-line method. There was amortization of \$53,247 recorded for June 30, 2014. The issuance costs have been reported as an expenditure. The issuance resulted in a difference between the cash flows required to service the old debt and the cash flows required to service the new debt of \$781,937. The issuance resulted in an economic gain of \$317,942.

2012 Classroom Facilities Refunding Bonds

On June 27, 2012, the School District issued \$9,335,000 in refunded general obligation bonds. The proceeds of the bonds were used to refund \$9,530,000 of the School District's outstanding Capital Improvement Bonds, Series 2003. The bonds were issued for a 13 year period with final maturity at December 1, 2024. At the date of the refunding, \$9,846,557 (including premium and after underwriting fees) was deposited in an irrevocable trust to provide for all future payments on the refunded bonds. As of June 30, 2014, \$9,530,000 of these bonds are considered defeased, (which will mature on December 1, 2020 through December 1, 2023).

These refunding bonds were issued with a premium of \$662,935, which is reported as an increase to bonds payable. The amounts are being amortized to interest expenses over the life of the bonds using the straight-line method. There was amortization of \$50,995 recorded for June 30, 2014. The issuance costs have been reported as an expenditure. The issuance resulted in a difference between the cash flows required to service the old debt and the cash flows required to service the new debt of \$1,521,452. The issuance resulted in an economic gain of \$1,280,893.

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

Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2014, are as follows:

Fiscal Year Ending June 30,	Serial Bonds		Capital Appreciation Bonds		Total	
	Principal	Interest	Principal	Accretion	Principal	Accretion/ Interest
2015	\$ 50,000	\$ 1,113,157	\$1,208,402	\$ 496,598	\$ 1,258,402	\$ 1,609,755
2016	50,000	1,111,188	1,212,147	547,853	1,262,147	1,659,041
2017	1,240,000	1,082,803	64,995	515,005	1,304,995	1,597,808
2018	1,945,000	988,651	0	0	1,945,000	988,651
2019	2,115,000	877,301	0	0	2,115,000	877,301
2020 - 2024	13,390,000	2,734,447	0	0	13,390,000	2,734,447
2025 - 2026	6,730,000	293,118	0	0	6,730,000	293,118
Total	\$25,520,000	\$ 8,200,665	\$2,485,544	\$ 1,559,456	\$ 28,005,544	\$ 9,760,121

Lorain City School District
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

Note 15 – Tax Anticipation Notes

In December 2011, the School District issued a tax anticipation note in the amount of \$4,793,000 at 2.90 percent, maturing December 1, 2016. In December 2012, the School District issued a tax anticipation note in the amount of \$3,126,190 at 1.95 percent, maturing December 1, 2017. These notes are paid from the general fund.

	Outstanding 6/30/13	Additions	Reductions	Outstanding 6/30/14
2011 Tax Anticipation Note 2.90% though 2016	\$ 3,834,400	\$ 0	\$ 958,600	\$ 2,875,800
2012 Tax Anticipation Note 1.95% though 2017	3,126,190	0	625,238	2,500,952
Total	\$ 6,960,590	\$ 0	\$ 1,583,838	\$ 5,376,752

Principal and interest requirements to retire the notes payable at June 30, 2014 are as follows:

Fiscal Year Ending June 30,	Tax Anticipation Notes		
	Principal	Interest	Total
2015	\$ 1,583,838	\$ 112,170	\$ 1,696,008
2016	1,583,838	72,179	1,656,017
2017	1,583,838	32,188	1,616,026
2018	625,238	6,096	631,334
Totals	\$ 5,376,752	\$ 222,633	\$ 5,599,385

Note 16 - Interfund Transfers

Transfers for the year ended June 30, 2014 consisted of the following:

Fund	Transfer In	Transfer Out
General Fund	\$ 0	\$ 615,923
Classroom Facilities Fund	0	837,885
Nonmajor Governmental Funds	1,453,808	0
Total	\$ 1,453,808	\$ 1,453,808

Lorain City School District
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

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.

The classroom facilities fund transferred \$837,885 to the building capital projects fund as part of the Locally Funding Initiative requirement related to the OFCC project. General fund transferred \$535,360 to the athletics fund and \$80,563 to the EMIS fund to offset operating costs of the programs.

Note 17 - Interfund Balances

Interfund balances at June 30, 2014 consisted of the following:

	Interfund Receivable	Interfund Payable
General Fund	\$ 1,468,155	\$ 0
Nonmajor Governmental Funds	0	1,468,155
	\$ 1,468,155	\$ 1,468,155

The general fund advanced monies to nonmajor governmental funds to cover expenditures until expected revenues were received. All interfund loans will be repaid in fiscal year 2015 with monies to be received from reimbursable expenditures incurred during fiscal year 2014.

Note 18 - Contractual and Other Commitments

A. Contractual Commitments

As of June 30, 2014, the School District had contractual commitments for the new High School is as follows:

	Contractual Commitment	Expended	Balance 6/30/2014
Lorain High School	\$ 7,221,377	\$1,689,934	\$ 5,531,443

Lorain City School District
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

B. Encumbrance Commitments

The School District utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year end may be reported as part of restricted, committed or assigned classifications of fund balance. At year end, the School District's commitments for encumbrances in the governmental funds were as follows:

<u>Fund</u>	<u>Amount</u>
Classroom Facilities	\$ 3,515,643
Nonmajor Governmental Funds	<u>1,826,054</u>
	<u>\$ 5,341,697</u>

Note 19 - Jointly Governed Organizations

A. Tri-Rivers Educational Computer Association

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

The Governing Board of TRECA consists of one representative from each county elected by majority vote of all charter member districts within each county, one representative from the city districts, and the superintendent from Tri-Rivers Joint Vocational School. Financial information can be obtained from the Tri-Rivers Educational Computer Association, 100 Executive Drive, Marion, Ohio 43302. During the year ended June 30, 2014, the School District paid \$31,190 in basic services to TRECA.

B. Ohio Schools Council

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

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

OSC is governed by a board of directors chosen from the general membership. Financial information can be obtained by contacting the Executive Director at 6133 Rockside Road, Suite 10, Independence, Ohio 44131. For the 2013-14 school year, the School District paid \$2,320 for membership and services.

Lorain City School District
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

Note 20 – Contingencies

A. Grants

The School District received financial assistance from Federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2014, if applicable, cannot be determined at this time.

B. Litigation

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

Note 21 - Set-Asides

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

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

	Capital Improvement Reserve
Set Aside Restricted Balance Jun 30, 2013	\$ 0
Current Year Set-Aside Requirement	1,142,864
Prior Year Offset from Bond Proceeds	(1,142,864)
Total	\$ 0
Balance Carried Forward to Fiscal Year 2015	\$ 0
Set Aside Balance June 30, 2014	\$ 0

Lorain City School District
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

Note 22 – Related Party Transactions

During 2013, the School District provided accounting and fiscal services to the Lorain K-12 Digital Academy (the “Academy”), a discretely presented component unit of the School District. The School District acts as the Sponsor for the Academy. The School District and the Academy entered into a 5-year sponsorship agreement commencing on August 26, 2009. Pursuant to the Sponsor’s authority under section 3314.08(G) of the Ohio Revised Code to provide the Academy with services, the Sponsor shall be the fiscal agent of the Academy and shall direct the Sponsor’s treasurer to serve as the Academy’s fiscal officer.

During fiscal year 2014, the School District and the Academy entered into a “Successor Community School Sponsorship Contract” which extended the sponsorship until June 30, 2019.

Note 23 – Lorain K-12 Digital Academy

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

Basis of Presentation

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

Restatement of Net Position

The Academy changed their capital asset policy to exclude capital assets below the \$5,000 threshold. The following is the change to net position:

Net Position, June 30, 2013	\$ 860,677
Change in Capital Assets	<u>(46,648)</u>
Restated Net Position, July 1, 2013	<u>\$ 814,029</u>

Deposits

As of June 30, 2014, the carrying amount of the Academy’s deposits was \$460,408. Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, as of June 30, 2014, \$250,000 of the Academy’s bank balance of \$460,408 was covered by the Federal Deposit Insurance Corporation (FDIC) and \$210,408 was uninsured and uncollateralized.

Lorain City School District
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

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

Note 24 – Fiscal Distress

On June 23, 2007 the School District was declared to be in a state of "Fiscal Caution" by the Auditor of State. In accordance with this law, within sixty days of the Auditor's declaration of fiscal caution, the Board of Education of the School District had to prepare and submit to the Superintendent of Public Instruction a financial plan outlining the steps the Board will take to eliminate the School District's current operating deficit and avoid future deficits. The most recent financial recovery plan was submitted on December 7, 2012 and the School District projects a general fund balance on June 30, 2015 of approximately \$26,298.

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**LORAIN CITY SCHOOL DISTRICT
LORAIN COUNTY
SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2014**

Federal Grantor/ Pass Through Grantor Program Title	Federal CFDA Number	Grant Year	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
U. S. Department of Education						
<i>Passed Through Ohio Department of Education:</i>						
<i>Title I Cluster:</i>						
Title I - School Improvement Grant	84.010	2013	\$ 53,768	\$ 0	\$ 51,184	0
Title I - School Improvement Grant	84.010	2014	450,318	0	447,632	0
Title I - Grants to LEA's	84.010	2013	499,613	0	594,009	0
Title I - Grants to LEA's	84.010	2014	<u>4,508,405</u>	<u>0</u>	<u>4,506,041</u>	<u>0</u>
<i>Total Title I Cluster</i>			<u>5,512,104</u>	<u>0</u>	<u>5,598,866</u>	<u>0</u>
<i>Special Education Cluster:</i>						
Special Education - Grants to States	84.027	2013	176,280	0	228,026	0
Special Education - Grants to States	84.027	2014	<u>1,404,358</u>	<u>0</u>	<u>1,546,282</u>	<u>0</u>
<i>Total Special Education - Grants to States</i>			<u>1,580,638</u>	<u>0</u>	<u>1,774,308</u>	<u>0</u>
Special Education - Preschool Grants	84.173	2013	4,061	0	4,850	0
Special Education - Preschool Grants	84.173	2014	<u>49,418</u>	<u>0</u>	<u>49,418</u>	<u>0</u>
<i>Total Special Education - Preschool Grants</i>			<u>53,479</u>	<u>0</u>	<u>54,268</u>	<u>0</u>
<i>Total Special Education Cluster</i>			<u>1,634,117</u>	<u>0</u>	<u>1,828,576</u>	<u>0</u>
Vocational Education - Carl D. Perkins Secondary	84.048	2013	9,069	0	18,806	0
Vocational Education - Carl D. Perkins Secondary	84.048	2014	<u>248,031</u>	<u>0</u>	<u>252,053</u>	<u>0</u>
<i>Total Vocational Education - Carl D. Perkins Secondary</i>			<u>257,100</u>	<u>0</u>	<u>270,859</u>	<u>0</u>
Title II-D - Education Technology	84.318	2014	40	0	221	0
School Improvement Grant	84.377	2014	215	0	215	0
Twenty First Century Community Learning Centers	84.287	2013	152,922	0	171,971	0
Twenty First Century Community Learning Centers	84.287	2014	<u>450,305</u>	<u>0</u>	<u>451,349</u>	<u>0</u>
<i>Total Twenty First Century Community Learning Centers</i>			<u>603,227</u>	<u>0</u>	<u>623,320</u>	<u>0</u>
Title III-A - English Language Acquisition	84.365	2013	8,327	0	10,996	0
Title III-A - English Language Acquisition	84.365	2014	<u>67,202</u>	<u>0</u>	<u>68,097</u>	<u>0</u>
<i>Total Title III-A - English Language Acquisition</i>			<u>75,529</u>	<u>0</u>	<u>79,093</u>	<u>0</u>
Title II-A - Improving Teacher Quality	84.367	2013	205,547	0	205,041	0
Title II-A - Improving Teacher Quality	84.367	2014	<u>682,407</u>	<u>0</u>	<u>669,404</u>	<u>0</u>
<i>Total Title II-A - Improving Teacher Quality</i>			<u>887,954</u>	<u>0</u>	<u>874,445</u>	<u>0</u>
ARRA-SFSF Race to the Top	84.395	2013	124,377	0	126,850	0
ARRA-SFSF Race to the Top	84.395	2014	<u>963,759</u>	<u>0</u>	<u>981,237</u>	<u>0</u>
<i>Total Race to the Top</i>			<u>1,088,136</u>	<u>0</u>	<u>1,108,087</u>	<u>0</u>
ARRA - SFSF Investing in Innovation (i3) Fund	84.396	2014	8,932	0	272	0
<i>Total Passed Through Ohio Department of Education</i>			<u>10,067,354</u>	<u>0</u>	<u>10,383,954</u>	<u>0</u>
<i>Direct Awards:</i>						
<i>Title V-C - Magnet Schools Assistance</i>	84.165	2014	739	0	739	0
Improvement for Education - Smaller Learning Communities	84.215	2014	787	0	787	0
Gaining Early Awareness and Readiness for Undergraduate Programs #2	84.334	2014	61,319	0	61,319	0
Gaining Early Awareness and Readiness for Undergraduate Programs #3	84.334	2013	156,785	0	156,785	0
Gaining Early Awareness and Readiness for Undergraduate Programs #3	84.334	2014	<u>466,080</u>	<u>0</u>	<u>466,080</u>	<u>0</u>
<i>Total Gaining Early Awareness and Readiness for Undergraduate Programs</i>			<u>684,184</u>	<u>0</u>	<u>684,184</u>	<u>0</u>
<i>Total Direct Awards</i>			<u>685,710</u>	<u>0</u>	<u>685,710</u>	<u>0</u>
Total U.S. Department of Education			<u>10,753,064</u>	<u>0</u>	<u>11,069,664</u>	<u>0</u>
U. S. Department of Agriculture						
<i>Passed Through Ohio Department of Education:</i>						
Fresh Fruit and Vegetable Program	10.582	2014	19,551	0	19,551	0
<i>Child Nutrition Cluster:</i>						
School Breakfast Program	10.553	2014	1,228,105	0	1,228,105	0
National School Lunch Program	10.555	2014	<u>2,416,439</u>	<u>192,961</u>	<u>2,416,439</u>	<u>192,961</u>
<i>Total Child Nutrition Cluster</i>			<u>3,644,544</u>	<u>192,961</u>	<u>3,644,544</u>	<u>192,961</u>
Total U.S. Department of Agriculture			<u>3,664,095</u>	<u>192,961</u>	<u>3,664,095</u>	<u>192,961</u>
U.S. Department of Health & Human Services						
<i>Passed Through Lorain County Jobs and Family Services</i>						
Substance Abuse & Mental Health Services - PRNS	93.243	2014	158	0	158	0
Total U.S. Department of Health & Human Services			<u>158</u>	<u>0</u>	<u>158</u>	<u>0</u>
Total Federal Financial Assistance			<u>\$ 14,417,317</u>	<u>\$ 192,961</u>	<u>\$ 14,733,917</u>	<u>\$ 192,961</u>

The accompanying notes are an integral part of this schedule.

**LORAIN CITY SCHOOL DISTRICT
LORAIN COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2014**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

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

NOTE C- FOOD DONATION PROGRAM

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



Dave Yost • Auditor of State

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

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

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Lorain City School District, Lorain County, (the District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 19, 2015. Our report refers to other auditors who audited the financial statements of the Jointly Administered Trust for the Benefit of Lorain City School District Employees, as described in our report on the District's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters those auditors separately reported.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the District's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the District's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

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

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State
Columbus, Ohio

March 19, 2015



Dave Yost • Auditor of State

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

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

To the Board of Education:

Report on Compliance for the Major Federal Program

We have audited the Lorain City School District's (the District) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect the Lorain City School District's major federal program for the year ended June 30, 2014. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the District's major federal program.

Management's Responsibility

The District's Management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal program.

Auditor's Responsibility

Our responsibility is to opine on the District's compliance for the District's major federal program based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the District's major program. However, our audit does not provide a legal determination of the District's compliance.

Basis for Qualified Opinion on Title I Grants to Local Educational Agencies

As described in finding 2014-001 in the accompanying schedule of findings, the District did not comply with requirements regarding Special Tests and Provisions applicable to its Title I Grants to Local Educational Agencies' major federal program. Compliance with this requirement is necessary, in our opinion, for the District to comply with requirements applicable to this program.

Qualified Opinion on Title I Grant to Local Educational Agencies

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on Title I Grants to Local Educational Agencies* paragraph, the Lorain City School District complied, in all material respects, with the requirements referred to above that could directly and materially affect its Title I Grants to Local Educational Agencies for the year ended June 30, 2014.

The District's response to our noncompliance finding is described in the accompanying schedule of findings and corrective action plan. We did not audit the District's response and, accordingly, we express no opinion on it.

Report on Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the District's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. Therefore, we cannot assure we have identified all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program's compliance requirement will not be prevented, or timely detected and corrected. A *significant deficiency in internal control over compliance* is a deficiency or a combination of deficiencies in internal control over compliance with a federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings as item 2014-001 to be a material weakness.

The District's response to our internal control over compliance finding is described in the accompanying schedule of findings and corrective action plan. We did not audit the District's response and, accordingly, we express no opinion on it.

Lorain City School District
Lorain County
Independent Auditor's Report on Compliance with Requirements
Applicable to the Major Federal Program and on Internal Control Over
Compliance Required by OMB Circular A-133
Page 3

This report only describes the scope of our internal control compliance tests and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State
Columbus, Ohio

March 19, 2015

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**LORAIN CITY SCHOOL DISTRICT
LORAIN COUNTY**

**SCHEDULE OF FINDING
OMB CIRCULAR A -133 § .505
JUNE 30, 2014**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unmodified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	Yes
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Qualified
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	Yes
(d)(1)(vii)	Major Programs (list):	CFDA #84.010- Title I Grants to Local Educational Agencies
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 447,806 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

**LORAIN CITY SCHOOL DISTRICT
LORAIN COUNTY**

**SCHEDULE OF FINDING
OMB CIRCULAR A -133 § .505**

**JUNE 30, 2014
(CONTINUED)**

3. FINDINGS FOR FEDERAL AWARDS

1. Title I Graduation Rate Data

Finding Number	2014-001
CFDA Title and Number	84.010 -Title I Grants to Local Educational Agencies
Federal Award Number / Year	2014
Federal Agency	Department of Education
Pass-Through Agency	Ohio Department of Education

NONCOMPLIANCE AND MATERIAL WEAKNESS

Title 1, Sections 111(b)(2) and (h) of the ESEA (20 USC 6311(b)(2); and 34 CFR Section 200.19 (b) state in part that, graduation rate data must be reported both in the aggregate and disaggregate by each subgroup described in section 34 CFR section 200.13(b)(7)(ii) using a 4-year adjusted cohort graduation rate. To remove a student from the cohort, a school or local education agency (LEA) must confirm in writing the student transferred out, immigrated to another country, or is deceased. To confirm that a student transferred out, the school or LEA must have official written documentation that the student enrolled in another school or in an educational program that culminates in the award of a regular high school diploma. A student who is retained in grade, enrolls in a General Education Development (GED) program, or leaves school or any other reason may not be counted as having transferred out for purpose of calculating graduation rate and must remain in the adjusted cohort.

The District did not maintain the proper supporting documentation for two out of 25 students selected and therefore improperly excluded them from the adjusted cohort calculation. Reporting inaccurate graduation rate data could potentially lead to the loss of Title I funds.

We recommend the Title I Grant Coordinator obtain and maintain all documentation supporting that a student has transferred to another school district, immigrated to another country, or are deceased prior to removing the student from the graduation rate calculation.

Official's Response:

See response in the Corrective Action Plan

**LORAIN CITY SCHOOL DISTRICT
LORAIN COUNTY**

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A -133 § .315 (c)
June 30, 2014**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2014-001	In order to ensure that a withdrawn student has the required information in the cumulative files a change in procedure will be implemented. The current tracking form used by Registration has been modified to include a two-step verification process. On the Lorain City Schools Withdrawal/Shift form two check boxes have been added, Records Request received and Parent Signature received. Additionally, two signature lines are now on the form, Building Signature and Registrar Signature. Above the signature lines is a statement verifying that the person or persons signing the form have placed the withdraw documentation within the file.	June 30, 2015	Marc Evans

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Dave Yost • Auditor of State

LORAIN CITY SCHOOL DISTRICT

LORAIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 2, 2015**