



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  
2601 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 School District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School 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 11.1 percent, 6.6 percent, and 36.9 percent, respectively, of the assets, net position/fund balances and revenues of the aggregate remaining fund information. 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, and additional audit procedures to meet the relevant requirements of auditing standards generally accepted in the United States of America performed by, the other auditors. We audited 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 School 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 School District's internal control. Accordingly, we express no such 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.

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

### **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, 2016, 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*, and schedules of net pension liabilities and pension contributions 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 School District's basic financial statements taken as a whole.

The Schedule of Federal Award Receipts and Expenditures presents additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards 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 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 29, 2017 on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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 School 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 29, 2017

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**Lorain City School District**  
**Lorain County, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2016*  
*Unaudited*

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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, 2016. 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 2016 are as follows:

- Net position increased \$7.9 million, which represents a 13 percent increase from 2015.
- Construction of the new high school and administration building continued adding \$30.9 million to construction in progress. Total acquisitions less disposals and depreciation account for an increase in capital assets of \$29.2 million over fiscal year 2015.
- The School District made principal payments of \$1.4 million and \$1.6 million for bonds and notes payable, respectively. Outstanding debt obligations decreased from \$40.2 million to \$36.3 million in fiscal year 2016.
- Net position as previously recorded was reduced by \$3.8 million due to a change in delinquent taxes.

***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 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 2016?" 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.

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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 20. 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 26.

***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 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 29 and 30. 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.

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**The School District as a Whole**

Recall that the Statement of Net Position provides the perspective of the School District as a whole. Because of the discussion below, many end users of this financial statement will gain a clearer understanding of the School District's actual financial condition by adding deferred inflows of resources and the net pension liability and subtracting deferred outflows of resources related to pension to the reported net position. Table 1 provides a summary of the School District's net position for 2016 compared to 2015:

**Table 1**  
**Net Position**

	Governmental Activities	
	2016	Restated 2015
<b>Assets</b>		
Current and Other Assets	\$ 83,049,673	\$ 111,170,196
Capital Assets	178,517,001	149,325,652
<i>Total Assets</i>	<u>261,566,674</u>	<u>260,495,848</u>
<b>Deferred Outflows of Resources</b>		
Deferred Charges on Refunding	750,579	840,055
Pension	11,359,971	7,718,512
<i>Deferred Outflows of Resources</i>	<u>12,110,550</u>	<u>8,558,567</u>
<b>Liabilities</b>		
Other Liabilities	18,796,402	22,050,670
Long-Term Liabilities:		
Due Within One Year	3,487,192	3,567,607
Due in More Than One Year		
Net Pension Liability	113,791,831	104,638,863
Other Amounts	36,420,404	38,957,100
<i>Total Liabilities</i>	<u>172,495,829</u>	<u>169,214,240</u>
<b>Deferred Inflows of Resources</b>		
Property Taxes	19,602,595	19,583,549
Pension	12,332,974	18,902,359
<i>Total Deferred Inflows of Resources</i>	<u>31,935,569</u>	<u>38,485,908</u>
<b>Net Position</b>		
Net Investment in Capital Assets	142,033,856	111,160,365
Restricted	28,884,684	60,731,025
Unrestricted	<u>(101,672,714)</u>	<u>(110,537,123)</u>
<i>Total Net Position</i>	<u>\$ 69,245,826</u>	<u>\$ 61,354,267</u>

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During 2015, the School District adopted GASB Statement 68, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27*, which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the School District's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the new standards required by GASB 68, the net pension liability equals the School District's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the School District is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

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In accordance with GASB 68, the School District's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows.

At year end, capital assets represented 68 percent of total assets. Capital assets include, land, land improvements, buildings and improvements, furniture and equipment, vehicles and construction in progress. The net investment in capital assets was \$142.0 million at June 30, 2016. 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, \$28.9 million represents resources that are subject to external restrictions on how they may be used. The balance of government-wide unrestricted net position is a deficit balance of \$101.7 million, which is primarily caused by GASB 68.

Total assets increased \$1.1 million over fiscal year 2015. Overall cash decreased \$26.8 million mainly due to the costs for the new high school and administration building construction in addition to spending the remaining capital lease proceeds for technology improvements. These costs contributed to the \$29.2 million increase in capital assets. Intergovernmental receivable decreased \$2.2 million due to the decline in drawdowns from the school facilities loan.

Cost sharing payable, related to the Jointly Administered Health Trust, was written off as a special item in fiscal year 2016 (see Note 2). Intergovernmental payables increased \$0.3 million due, in part, to the adjustment for full time equivalents which reconciles the foundation funds received by the School District to the allocation calculated at year end. Notes payable decreased \$1.6 million due principal payments made during the year.

Deferred outflows of resources increased \$3.6 million due to differences between the pension plans' expected and actual expenses while the net pension liability increased \$9.2 million from fiscal year 2015. Deferred inflows related to pension decreased \$6.6 million.

In order to further understand what makes up the changes in net position for the current year, the following table gives readers further details regarding the results of activities for 2016 and 2015.

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**Table 2**  
**Changes in Net Position**

	Governmental Activities	
	2016	Restated 2015
<b>Revenues</b>		
<i>Program Revenues:</i>		
Charges for Services	\$ 1,291,155	\$ 1,501,494
Operating Grants	26,234,258	25,958,589
<i>Total Program Revenues</i>	<u>27,525,413</u>	<u>27,460,083</u>
<i>General Revenues:</i>		
Property Taxes	21,615,104	17,860,654
Grants and Entitlements Not Restricted	72,617,612	68,105,190
Other	458,229	494,402
<i>Total General Revenues</i>	<u>94,690,945</u>	<u>86,460,246</u>
<i>Total Revenues</i>	<u>122,216,358</u>	<u>113,920,329</u>
<b>Program Expenses</b>		
Instruction:		
Regular	32,073,901	30,746,756
Special	13,301,350	12,938,258
Vocational	1,881,340	2,353,429
Other	27,008,809	26,264,024
Support Services:		
Pupils	3,450,487	3,563,439
Instructional Staff	4,660,312	5,210,612
Board of Education	487,528	282,651
Administration	7,217,655	5,894,486
Fiscal	1,659,543	1,568,750
Business	455,921	397,835
Operation and Maintenance of Plant	9,318,906	9,561,703
Pupil Transportation	2,850,066	2,635,227
Central	3,782,431	952,400
Operation of Non-Instructional Services:		
Food Service Operations	4,414,736	4,682,175
Community Services	650,334	713,827
Extracurricular Activities	1,347,328	1,460,358
Interest and Fiscal Charges	1,250,767	1,173,325
Issuance Costs	0	72,628
<i>Total Expenses</i>	<u>115,811,414</u>	<u>110,471,883</u>
Special Item (See Note 2)	<u>1,486,615</u>	<u>0</u>
<i>Increase (Decrease) in Net Position</i>	7,891,559	3,448,446
<i>Net Position at Beginning of Year</i>	<u>61,354,267</u>	<u>57,905,821</u>
<i>Net Position at End of Year</i>	<u>\$ 69,245,826</u>	<u>\$ 61,354,267</u>

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Property tax revenue increased \$3.8 million over fiscal year 2015, primarily due to increases in assessed values and the amount available for advance at year end. Grants and entitlements increased \$4.5 million due to capacity aid funding being introduced in fiscal year 2016. Capacity funding provides additional funding for school districts whose income generated for one mill of property tax is below the State median.

The School District determined that expenses for early college were better reflected as regular instruction than vocational as recorded previously which accounts for the \$0.5 decrease in vocational expenses. Instructional staff expenses also showed a decrease of \$0.6 million from a decrease in purchased services. Administration expenses increased \$1.3 million from fiscal year 2015, mainly due to a retroactive pay adjustment made in fiscal year 2016 and central expenses increased \$2.8 million from technology purchases from the lease purchase agreement entered into in fiscal year 2015.

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	
	2016	2015	2016	2015
Instruction:				
Regular	\$ 32,073,901	\$ 30,746,756	\$ 27,844,490	\$ 26,357,047
Special	13,301,350	12,938,258	1,349,428	1,579,207
Vocational	1,881,340	2,353,429	420,662	915,397
Other	27,008,809	26,264,024	26,877,265	26,166,670
Support Services:				
Pupils	3,450,487	3,563,439	2,650,473	2,672,860
Instructional Staff	4,660,312	5,210,612	2,227,600	2,317,703
Board of Education	487,528	282,651	487,528	282,651
Administration	7,217,655	5,894,486	6,803,244	5,469,284
Fiscal	1,659,543	1,568,750	1,391,106	1,331,041
Business	455,921	397,835	455,507	397,835
Operation and Maintenance of Plant	9,318,906	9,561,703	9,268,739	9,489,836
Pupil Transportation	2,850,066	2,635,227	2,371,051	2,170,763
Central	3,782,431	952,400	3,782,367	925,400
Operation of Non-Instructional Services:				
Food Service Operations	4,414,736	4,682,175	22,889	273,377
Community Services	650,334	713,827	(155,893)	72,088
Extracurricular Activities	1,347,328	1,460,358	1,238,778	1,344,688
Interest and Fiscal Charges	1,250,767	1,173,325	1,250,767	1,173,325
Issuance Costs	0	72,628	0	72,628
<i>Total Expenses</i>	<b>\$ 115,811,414</b>	<b>\$ 110,471,883</b>	<b>\$ 88,286,001</b>	<b>\$ 83,011,800</b>

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The dependence upon general revenues for governmental activities is apparent. Nearly 76 percent of governmental activities are supported through taxes and other general revenues; such revenues are 77 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 20. These funds are accounted for using the modified accrual basis of accounting. The net change in fund balances for the fiscal year was a decrease of \$24.8 million for all governmental funds. The most significant changes were a decrease in the classroom facilities fund and an increase in the general fund.

The general fund's net change in fund balance for fiscal year 2016 was an increase of \$6.8 million. Revenues increased \$6.4 million over fiscal year 2015 mostly through an increase in State foundation revenue. Expenditures increased \$6.4 million over fiscal year 2015 mainly in regular instruction and administration expenditures, due in part, to hiring new personnel and retroactive pay paid in fiscal year 2016.

The fund balance of the debt service fund increased by \$94,345. 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 decreased \$29.8 million from fiscal year 2015. The decrease is due to the timing of capital expenditures as compared to the collection of grant and investment earnings coupled by the transfer out to fund the locally funded portion of the facilities project.

***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 2016, 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 \$104.4 million was higher than the original budget basis revenue by \$3.2 million with intergovernmental revenue originally estimated lower.

Final budgeted appropriation expenditures equaled actual expenditures of \$102.6 million.

Original estimated appropriation expenditures of \$104.0 million were higher than final budgeted expenditures by \$1.4 million with fiscal expenditures originally estimated higher.

There were no significant variances to discuss within other financing sources and uses.



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***Capital Assets and Debt Administration***

**Capital Assets**

At the end of fiscal year 2016, the School District had \$178.5 million invested in capital assets, net of depreciation. Table 4 shows fiscal year 2016 balances compared with 2015.

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

	Governmental Activities	
	2016	2015
Land	\$ 10,436,236	\$ 10,129,230
Construction in Progress	66,950,927	36,021,076
Land Improvements	298,097	321,007
Buildings and Improvements	99,209,103	101,633,658
Furniture and Equipment	1,450,106	1,055,627
Vehicles	172,532	165,054
<i>Totals</i>	\$ 178,517,001	\$ 149,325,652

The \$29.2 million increase in capital assets was attributable to acquisitions exceeding depreciation and disposals. See Note 8 for more information about the capital assets of the School District.

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*Unaudited*

**Debt**

At June 30, 2016, the School District had \$32.3 million in general obligation bonds, \$2.2 million in tax anticipation notes and \$1.7 million in a capital lease outstanding. Table 5 summarizes outstanding debt.

**Table 5**  
**Outstanding Debt at Year End**

	Governmental Activities	
	2016	2015
2005 Qualified Zone Academy Bonds	\$ 5,400,000	\$ 5,400,000
2003 Classroom Facilities Bonds		
Capital Appreciation Bonds	0	1,212,147
Accretion on CABs	0	522,787
2006 Classroom Facilities Refunding Bonds	3,720,000	3,770,000
Capital Appreciation Bonds	64,995	64,995
Accretion on CABs	454,575	351,949
Premium on Debt Issuance	151,975	182,369
2007 School Improvement Refunding Bonds	8,860,000	8,860,000
Premium on Debt Issuance	532,464	585,711
2012 Classroom Facilities Refunding Bonds	9,335,000	9,335,000
Premium on Debt Issuance	458,955	509,950
2015 Classroom Facilities Refunding Bonds	3,405,000	3,500,000
Capital Appreciation Bonds	4,995	4,995
Accretion on CABs	2,659	116
Tax Anticipation Notes	2,209,076	3,792,914
Capital Lease	1,695,114	2,100,000
<i>Total</i>	<u>\$ 36,294,808</u>	<u>\$ 40,192,933</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. In 2015, the School District issued \$3.5 million in refunding bonds, the proceeds of which were used to refund the remaining 2003 Classroom Facilities Bonds. In 2015 the School District also entered into a capital lease to purchase technology. More information about the long-term obligations is in Notes 13 and 14 of the basic financial statements.

**Lorain City School District**  
**Lorain County, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2016*  
*Unaudited*

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***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 of 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, 2016*

	Governmental Activities	Component Unit Digital Academy
<b>Assets</b>		
Equity in Pooled Cash and Investments	\$ 36,126,752	\$ 357,604
Cash and Cash Equivalents in Segregated Accounts	6,257,595	0
Cash and Cash Equivalents with Fiscal Agent	5,745,299	0
Cash and Cash Equivalents with Escrow Agent	31,664	0
Investments in Segregated Accounts	499,050	0
Receivables:		
Intergovernmental	5,540,956	191,524
Property Taxes	24,560,893	0
Prepays	4,287,464	0
Nondepreciable Capital Assets	77,387,163	0
Depreciable Capital Assets (Net)	101,129,838	0
<i>Total Assets</i>	<u>261,566,674</u>	<u>549,128</u>
<b>Deferred Outflows of Resources</b>		
Deferred Charges on Refunding	750,579	0
Pension	11,359,971	0
<i>Total Deferred Outflows of Resources</i>	<u>12,110,550</u>	<u>0</u>
<b>Liabilities</b>		
Accounts Payable	1,631,257	12,529
Accrued Wages and Benefits	6,315,910	0
Contracts Payable	4,646,822	0
Intergovernmental Payable	2,355,689	88,581
Retainage Payable	653,518	0
Matured Compensated Absences Payable	69,120	0
Accrued Interest Payable	92,010	0
Claims Payable	823,000	0
Notes Payable	2,209,076	0
Long Term Liabilities:		
Due Within One Year	3,487,192	0
Due In More Than One Year:		
Net Pension Liability (See Note 11)	113,791,831	0
Other Amonts Due in More Than One Year	36,420,404	0
<i>Total Liabilities</i>	<u>172,495,829</u>	<u>101,110</u>
<b>Deferred Inflows of Resources</b>		
Property Taxes Levied for the Next Fiscal Year	19,602,595	0
Pension	12,332,974	0
<i>Total Deferred Inflows of Resources</i>	<u>31,935,569</u>	<u>0</u>
<b>Net Position</b>		
Net Investment in Capital Assets	142,033,856	0
Restricted For:		
Capital Outlay	20,596,250	0
Debt Service	2,221,417	0
Classroom Facilities Maintenance	3,008,400	0
Academic Assistance	597,387	0
Other Purposes	2,461,230	254,433
Unrestricted	(101,672,714)	193,585
<i>Total Net Position</i>	<u>\$ 69,245,826</u>	<u>\$ 448,018</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, 2016*

	Program Revenues		
	Expenses	Charges for Services and Sales	Operating Grants, Contributions and Interest
<b>Governmental Activities</b>			
Instruction:			
Regular	\$ 32,073,901	\$ 662,442	\$ 3,566,969
Special	13,301,350	168,884	11,783,038
Vocational	1,881,340	16,801	1,443,877
Other	27,008,809	0	131,544
Support Services:			
Pupils	3,450,487	0	800,014
Instructional Staff	4,660,312	246	2,432,466
Board of Education	487,528	0	0
Administration	7,217,655	50,527	363,884
Fiscal	1,659,543	122,529	145,908
Business	455,921	0	414
Operation and Maintenance of Plant	9,318,906	0	50,167
Pupil Transportation	2,850,066	0	479,015
Central	3,782,431	0	64
Operation of Non-Instructional Services:			
Food Service Operations	4,414,736	161,176	4,230,671
Community Services	650,334	0	806,227
Extracurricular Activities	1,347,328	108,550	0
Debt Service:			
Interest and Fiscal Charges	1,250,767	0	0
<i>Total</i>	<u>115,811,414</u>	<u>1,291,155</u>	<u>26,234,258</u>
<b>Component Unit</b>			
Digital Academy	957,002	0	263,226
<i>Total Component Unit</i>	<u>957,002</u>	<u>0</u>	<u>263,226</u>
<i>Totals</i>	<u>\$ 116,768,416</u>	<u>\$ 1,291,155</u>	<u>\$ 26,497,484</u>

**General Revenues**

Property Taxes Levied for:

General Purposes

Debt Service

Classroom Facilities Maintenance

Grants and Entitlements Not Restricted to Specific Programs

Investment Earnings

Miscellaneous

*Total General Revenues*

Special Item (See Note 2)

*Change in Net Position*

*Net Position Beginning of Year, Restated (See Note 2)*

*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
\$ (27,844,490)	\$ 0
(1,349,428)	0
(420,662)	0
(26,877,265)	0
(2,650,473)	0
(2,227,600)	0
(487,528)	0
(6,803,244)	0
(1,391,106)	0
(455,507)	0
(9,268,739)	0
(2,371,051)	0
(3,782,367)	0
(22,889)	0
155,893	0
(1,238,778)	0
(1,250,767)	0
(88,286,001)	0
0	(693,776)
0	(693,776)
(88,286,001)	(693,776)
18,752,268	0
2,634,716	0
228,120	0
72,617,612	757,247
226,866	0
231,363	113
94,690,945	757,360
1,486,615	0
7,891,559	63,584
61,354,267	384,434
\$ 69,245,826	\$ 448,018

See accompanying notes to the basic financial statements.

**Lorain City School District**  
**Lorain County, Ohio**  
*Balance Sheet*  
*Governmental Funds*  
*June 30, 2016*

	General Fund	Debt Service Fund	Classroom Facilities Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Equity in Pooled Cash and Investments	\$ 14,653,589	\$ 1,695,699	\$ 10,236,826	\$ 7,532,709	\$ 34,118,823
Cash and Cash Equivalents in Segregated Accounts	0	0	5,241,424	0	5,241,424
Cash and Cash Equivalents with Fiscal Agent	5,137,743	0	552,876	54,680	5,745,299
Cash and Cash Equivalents with Escrow Agent	0	0	0	31,664	31,664
Receivables:					
Interfund	574,647	0	0	0	574,647
Intergovernmental	104,600	0	2,433,220	3,003,136	5,540,956
Property Taxes	21,320,942	2,980,487	0	259,464	24,560,893
<i>Total Assets</i>	<u>\$ 41,791,521</u>	<u>\$ 4,676,186</u>	<u>\$ 18,464,346</u>	<u>\$ 10,881,653</u>	<u>\$ 75,813,706</u>
<b>Liabilities</b>					
Accounts Payable	\$ 910,734	\$ 0	\$ 21,809	\$ 476,626	\$ 1,409,169
Accrued Wages and Benefits	5,546,349	0	0	769,561	6,315,910
Contracts Payable	413,654	0	3,837,048	396,120	4,646,822
Intergovernmental Payable	2,153,847	0	1,092	200,750	2,355,689
Retainage Payable	45,962	0	552,876	54,680	653,518
Matured Compensated Absences Payable	69,120	0	0	0	69,120
Interfund Payable	0	0	0	574,647	574,647
Notes Payable	2,209,076	0	0	0	2,209,076
<i>Total Liabilities</i>	<u>11,348,742</u>	<u>0</u>	<u>4,412,825</u>	<u>2,472,384</u>	<u>18,233,951</u>
<b>Deferred Inflows of Resources</b>					
Property Taxes Levied for the Next Fiscal Year	17,029,115	2,366,905	0	206,575	19,602,595
Delinquent Property Taxes	1,927,418	269,437	0	23,456	2,220,311
Other	0	0	2,433,220	2,064,007	4,497,227
<i>Total Deferred Inflows of Resources</i>	<u>18,956,533</u>	<u>2,636,342</u>	<u>2,433,220</u>	<u>2,294,038</u>	<u>26,320,133</u>
<b>Fund Balances</b>					
Nonspendable	156,364	0	0	0	156,364
Restricted	5,091,781	2,039,844	11,618,301	6,366,857	25,116,783
Committed	2,034,967	0	0	0	2,034,967
Assigned	1,572,557	0	0	0	1,572,557
Unassigned	2,630,577	0	0	(251,626)	2,378,951
<i>Total Fund Balances</i>	<u>11,486,246</u>	<u>2,039,844</u>	<u>11,618,301</u>	<u>6,115,231</u>	<u>31,259,622</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$ 41,791,521</u>	<u>\$ 4,676,186</u>	<u>\$ 18,464,346</u>	<u>\$ 10,881,653</u>	<u>\$ 75,813,706</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, 2016*

<b>Total Governmental Fund Balances</b>		<b>\$ 31,259,622</b>
 <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.		178,517,001
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Property Taxes	\$ 2,220,311	
Intergovernmental	4,497,227	6,717,538
Governmental funds have reported expenditures for monthly premium payments to the Jointly Administered Trust Fund (See Note 1) for the period January 1, 2016 through June 30, 2016. Since the Trust is reported as an Internal Service Fund as of December 31, 2015, and subsequently consolidated at the entity-wide level, these payments have been recorded as prepaid expenses on the entity-wide statements.		4,180,252
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.		2,585,274
In the statement of activities, interest is accrued on outstanding bonds, whereas in the governmental funds, an interest expenditure is not reported.		(92,010)
In the statement of activities, a gain/loss on refunding is amortized over the term of the bonds, whereas in governmental funds a refunding gain/loss is reported when bonds are issued.		750,579
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds:		
Deferred Outflows - Pension	11,359,971	
Deferred Inflows - Pension	(12,332,974)	
Net Pension Liability	(113,791,831)	(114,764,834)
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	(25,320,000)	
QZAB Bonds	(5,400,000)	
Capital Appreciation Bonds	(69,990)	
Bond Premium	(1,143,394)	
Accretion of Interest - Capital Appreciation Bonds	(457,234)	
Capital Leases	(1,695,114)	
Compensated Absences	(5,821,864)	(39,907,596)
 <i>Net Position of Governmental Activities</i>		 <b><u>\$ 69,245,826</u></b>

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, 2016*

	General Fund	Debt Service Fund	Classroom Facilities Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>					
Property and Other Local Taxes	\$ 18,981,850	\$ 2,672,784	\$ 0	\$ 231,090	\$ 21,885,724
Intergovernmental	84,256,113	452,402	1,950,429	13,498,525	100,157,469
Investment Income	169,934	0	55,168	1,834	226,936
Tuition and Fees	1,019,494	0	0	0	1,019,494
Extracurricular Activities	50,527	0	0	108,550	159,077
Rentals	59,555	0	0	0	59,555
Charges for Services	17,048	0	0	161,176	178,224
Contributions and Donations	1,988	0	0	393,826	395,814
Miscellaneous	231,042	0	0	321	231,363
<i>Total Revenues</i>	<u>104,787,551</u>	<u>3,125,186</u>	<u>2,005,597</u>	<u>14,395,322</u>	<u>124,313,656</u>
<b>Expenditures:</b>					
Current:					
Instruction:					
Regular	28,199,699	0	0	3,493,985	31,693,684
Special	12,736,021	0	0	942,375	13,678,396
Vocational	1,472,812	0	0	218,755	1,691,567
Other	26,883,812	0	0	127,489	27,011,301
Support Services:					
Pupils	2,775,548	0	0	740,563	3,516,111
Instructional Staff	2,253,897	0	0	2,522,111	4,776,008
Board of Education	486,788	0	0	0	486,788
Administration	6,934,289	0	0	338,660	7,272,949
Fiscal	1,434,865	63,247	0	150,356	1,648,468
Business	428,387	0	0	0	428,387
Operation and Maintenance of Plant	8,103,278	0	0	3	8,103,281
Pupil Transportation	2,803,921	0	0	38,562	2,842,483
Central	1,200,100	0	0	2,049,558	3,249,658
Extracurricular Activities	397,178	0	0	846,912	1,244,090
Operation of Non-Instructional Services:					
Food Service Operations	0	0	0	4,151,561	4,151,561
Community Services	0	0	0	677,910	677,910
Capital Outlay	678,437	0	27,751,896	4,742,300	33,172,633
Debt Service:					
Principal Retirement	404,886	1,357,147	0	0	1,762,033
Interest and Fiscal Charges	107,647	1,610,447	0	0	1,718,094
<i>Total Expenditures</i>	<u>97,301,565</u>	<u>3,030,841</u>	<u>27,751,896</u>	<u>21,041,100</u>	<u>149,125,402</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>7,485,986</u>	<u>94,345</u>	<u>(25,746,299)</u>	<u>(6,645,778)</u>	<u>(24,811,746)</u>
<b>Other Financing Sources (Uses):</b>					
Proceeds from Sale of Assets	338	0	0	0	338
Transfers In	0	0	0	4,744,200	4,744,200
Transfers Out	(717,880)	0	(4,026,320)	0	(4,744,200)
<i>Total Other Financing Sources (Uses)</i>	<u>(717,542)</u>	<u>0</u>	<u>(4,026,320)</u>	<u>4,744,200</u>	<u>338</u>
<i>Net Change in Fund Balance</i>	6,768,444	94,345	(29,772,619)	(1,901,578)	(24,811,408)
<i>Fund Balances Beginning of Year</i>	<u>4,717,802</u>	<u>1,945,499</u>	<u>41,390,920</u>	<u>8,016,809</u>	<u>56,071,030</u>
<i>Fund Balances End of Year</i>	<u>\$ 11,486,246</u>	<u>\$ 2,039,844</u>	<u>\$ 11,618,301</u>	<u>\$ 6,115,231</u>	<u>\$ 31,259,622</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, 2016*

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**Net Change in Fund Balances - Total Governmental Funds** \$ (24,811,408)

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

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.

Capital Asset Additions	\$ 31,975,284	
Current Year Depreciation	<u>(2,770,232)</u>	29,205,052

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		(13,703)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Property Taxes	(226,012)	
Charges for Services	(125,194)	
Intergovernmental	<u>(1,747,856)</u>	(2,099,062)

Governmental funds have reported expenditures for monthly premium payments to the Jointly Administered Trust Fund (See Note 1) for the period January 1, 2016 through June 30, 2016. Since the Trust is reported as an Internal Service Fund as of December 31, 2015, and subsequently consolidated at the entity-wide level, these payments have been recorded as prepaid expenses on the entity-wide statements. For the current year, the statement of activities reported a net change in prepaid expenses related to these premiums.

219,207

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	145,000	
Capital Appreciation Bonds	1,212,147	
Accretion on Matured Capital Appreciation Bonds	547,853	
Capital Leases	<u>404,886</u>	2,309,886

Amortization of gain/loss on refundings on the bonds are not reported in the fund but but are allocated as an expense over the life of the debt in the statement of activities.

(89,476)

Contractually required pension contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows.

6,484,012

Except for amount reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities

(5,426,136)  
*(continued)*

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, 2016*

In the statement of activities, interest is accrued on outstanding bonds and bond premiums are amortized over the term of the bonds, whereas in governmental funds, and interest expenditure is reported when bonds are issued.

Accrued Interest Payable	\$	4,549	
Amortization of Premium on Bonds		134,636	139,185

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.

1,801,413

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			302,824
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Accretion on capital appreciation bonds is an expenditure in the governmental funds when paid but is allocated as an expense over the life of the bonds in the statement of activities.

(130,235)

*Change in Net Position of Governmental Activities*

\$ 7,891,559

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, 2016*

	Budgeted Amounts		Actual	Variance
	Original	Final		
<b>Revenues</b>				
Property and Other Local Taxes	\$ 18,163,157	\$ 18,585,499	\$ 18,585,499	\$ 0
Intergovernmental	81,795,403	84,713,579	84,713,579	0
Investment Income	9,108	9,079	9,079	0
Tuition and Fees	1,022,509	970,290	970,290	0
Rentals	50,000	59,555	59,555	0
Miscellaneous	154,080	108,486	108,486	0
<i>Total Revenues</i>	<u>101,194,257</u>	<u>104,446,488</u>	<u>104,446,488</u>	<u>0</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	2,422,611	28,410,954	28,410,954	0
Special	2,724,561	13,182,942	13,182,942	0
Vocational	1,312,432	1,673,736	1,673,736	0
Other	28,472,057	26,917,665	26,917,665	0
Support Services:				
Pupils	156,300	2,774,376	2,774,376	0
Instructional Staff	1,041,504	2,290,406	2,290,406	0
Board of Education	413,096	626,878	626,878	0
Administration	248,838	6,961,363	6,961,363	0
Fiscal	60,963,344	1,443,911	1,443,911	0
Business	64,878	437,504	437,504	0
Operation and Maintenance of Plant	2,555,506	8,654,240	8,654,240	0
Pupil Transportation	1,568,023	2,850,009	2,850,009	0
Central	323,245	1,246,898	1,246,898	0
Extracurricular Activities	0	408,438	408,438	0
Capital Outlay	77,541	2,667,612	2,667,612	0
Debt Service:				
Principal Retirement	1,583,838	1,988,724	1,988,724	0
Interest and Fiscal Charges	72,179	107,647	107,647	0
<i>Total Expenditures</i>	<u>103,999,953</u>	<u>102,643,303</u>	<u>102,643,303</u>	<u>0</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(2,805,696)</u>	<u>1,803,185</u>	<u>1,803,185</u>	<u>0</u>
<b>Other Financing Sources (Uses)</b>				
Proceeds from Sale of Assets	0	338	338	0
Refund of Prior Year Receipts	0	(484)	(484)	0
Advances In	(1,200,000)	1,111,828	1,111,828	0
Advances Out	1,200,000	(579,251)	(579,251)	0
Transfers Out	(715,923)	(740,696)	(740,696)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(715,923)</u>	<u>(208,265)</u>	<u>(208,265)</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	(3,521,619)	1,594,920	1,594,920	0
<i>Fund Balance Beginning of Year</i>	5,851,978	5,851,978	5,851,978	0
Prior Year Encumbrances Appropriated	1,857,132	1,857,132	1,857,132	0
<i>Fund Balance End of Year</i>	<u>\$ 4,187,491</u>	<u>\$ 9,304,030</u>	<u>\$ 9,304,030</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, 2016*

	Governmental Activities - Internal Service Fund
<b>Assets</b>	
<i>Current Assets</i>	
Equity in Pooled Cash and Investments	\$ 2,007,929
Cash and Cash Equivalents in Segregated Accounts	1,016,171
Investments in Segregated Accounts	499,050
Prepaid Items	107,212
<i>Total Assets</i>	3,630,362
<b>Liabilities</b>	
<i>Current Liabilities</i>	
Accounts Payable	222,088
Claims Payable	823,000
<i>Total Liabilities</i>	1,045,088
<b>Net Position</b>	
Unrestricted	2,585,274
<i>Total Net Position</i>	\$ 2,585,274

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, 2016*

	Governmental Activities - Internal Service Fund
<b>Operating Revenue</b>	
Charges for Services	\$ 9,658,275
Other	480,756
	<u>10,139,031</u>
<i>Total Operating Revenues</i>	
<b>Operating Expenses</b>	
Fringe Benefits	297,001
Purchased Services	1,416,343
Claims	8,112,653
	<u>9,825,997</u>
<i>Total Operating Expenses</i>	
<i>Operating Income (Loss)</i>	<u>313,034</u>
<b>Non-Operating Revenues</b>	
Investment Interest	1,764
	<u>1,764</u>
<i>Income (Loss) Before Special Item</i>	314,798
Special Item (See Note 2)	1,486,615
	<u>1,486,615</u>
<i>Change in Net Position</i>	1,801,413
<i>Net Position Beginning of Year</i>	<u>783,861</u>
<i>Net Position End of Year</i>	<u>\$ 2,585,274</u>

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, 2016

	Governmental Activities - Internal Service Fund
<b>Cash Flows From Operating Activities</b>	
Cash Received from Interfund Services	\$ 9,658,275
Other Cash Receipts	480,756
Cash Paid for Goods and Services	(1,820,963)
Cash Paid for Claims	(8,164,653)
	<u>153,415</u>
<i>Net Cash Provided By (Used For) Operating Activities</i>	<i>153,415</i>
<b>Cash Flows From Investing Activities</b>	
Investment Interest	1,764
	<u>1,764</u>
<i>Net Cash Provided By (Used For) Investing Activities</i>	<i>1,764</i>
<i>Net Increase (Decrease) in Cash and Investments</i>	<i>155,179</i>
<i>Cash and Investments Beginning of Year</i>	<i>3,367,971</i>
	<u>3,367,971</u>
<i>Cash and Investments End of Year</i>	<i>\$ 3,523,150</i>
	<u>\$ 3,523,150</u>
<b>Reconciliation of Operating Income to Net Cash Provided By Operating Activities</b>	
Operating Income (Loss)	\$ 313,034
(Increase) Decrease Assets:	
Prepaid Items	(16,092)
Increase (Decrease) in Liabilities:	
Accounts Payable	(28,912)
Intergovernmental Payable	(62,615)
Claims Payable	(52,000)
	<u>(159,619)</u>
<i>Total Adjustments</i>	<i>(159,619)</i>
<i>Net Cash Provided By (Used For) Operating Activities</i>	<i>\$ 153,415</i>
	<u>\$ 153,415</u>

Noncash item: The cost-savings liability of \$1,486,615 was written off as a special item.

See accompanying notes to the basic financial statements.



**Lorain City School District**  
**Lorain County, Ohio**  
*Statement of Fiduciary Net Position*  
*Fiduciary Funds*  
*June 30, 2016*

	Private Purpose Trust	Agency
<b>Assets</b>		
Equity in Pooled Cash and Investments	\$ 112,990	\$ 41,698
<b>Liabilities</b>		
Undistributed Monies	0	\$ 1,251
Due to Students	0	40,447
<i>Total Liabilities</i>	0	\$ 41,698
<b>Net Position</b>		
Held in Trust for Scholarships	\$ 112,990	

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, 2016*

	Private Purpose Trust
<b>Additions</b>	
Gifts and Contributions	\$ 82,424
Investment Earnings	28
	82,452
<i>Total Additions</i>	<i>82,452</i>
<b>Deductions</b>	
Payments in Accordance with Trust Agreements	103,175
	(20,723)
<i>Change in Net Position</i>	<i>(20,723)</i>
<i>Net Position Beginning of Year</i>	<i>133,713</i>
<i>Net Position End of Year</i>	<i>\$ 112,990</i>

See accompanying notes to the basic financial statements.

**Lorain City School District**  
**Lorain County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2016*

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**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 9 to the financial statements.

**Lorain City School District**  
**Lorain County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2016*

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Financial information for the Trust's year ended December 31, 2015 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 government-wide 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.

*META Solutions* – The Lorain City School District participates in the Metropolitan Educational Technology Association (META). META 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.

### ***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**  
**Lorain County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2016*

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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.

***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.

**Lorain City School District**  
**Lorain County, Ohio**  
*Notes to the Basic Financial Statements*  
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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.

***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.

**Lorain City School District**  
**Lorain County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2016*

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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.

***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 6) Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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*** In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School District, deferred outflows of resources are reported on the government-wide statement of net position for deferred charges on refunding and for pension. 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. The deferred outflows of resources related to pension are explained in Note 11.

**Lorain City School District**  
**Lorain County, Ohio**  
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*For the Fiscal Year Ended June 30, 2016*

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In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the School District, deferred inflows of resources include property taxes, pension, and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2016, but which were levied to finance fiscal year 2017 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the School District, unavailable revenue may include delinquent property taxes, intergovernmental grants, and miscellaneous revenues. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension are reported on the government-wide statement of net position. (See Note 11).

***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.

***Cash and 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 2016 amounted to \$169,934, which includes \$131,572 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” and “investments 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 agent” and represent monies held for the School District. The School District also has an escrow account for unspent proceeds on a capital lease which is presented on the financial statement as “cash and cash equivalents with escrow agent.”

During fiscal year 2016, investments were limited to a repurchase agreement, Federal Home Loan Mortgage, U.S. Treasury Notes, certificate of deposit, STAR Ohio, (the State Treasurer's Investment Pool) and STAR Plus.



**Lorain City School District**  
**Lorain County, Ohio**  
*Notes to the Basic Financial Statements*  
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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.

STAR Ohio (the State Treasury Asset Reserve of 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 has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, *Certain External Investment Pools and Pool Participants*. The School District measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For the fiscal year 2016, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

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 5.

### ***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.

**Lorain City School District**  
**Lorain County, Ohio**  
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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:

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

***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.

***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.

***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.

**Lorain City School District**  
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*Notes to the Basic Financial Statements*  
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***Pensions***

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

***Accrued Liabilities and Long-term Obligations***

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments, compensated absences and net pension liability 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.

***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, 2016, 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.

***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:

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

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

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

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

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

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

***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.

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***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 management and that are either unusual in nature or infrequent in occurrence. Late in 2015, the Jointly Administered Trust Fund for the Benefit of Lorain City School District Employees updated their cost sharing policy, which eliminated the cost savings-sharing payable liability until the insurance reserve is fully funded. Since the reserve is not fully funded, the existing liability of \$1,486,615 was written off as a special item.

***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.

***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.

***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

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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 2016.

***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.

***Changes in Accounting Principles***

For the fiscal year ended June 30, 2016, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and *Amendments to Certain Provisions of GASB Statements 67 and 68*, GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* and GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*.

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GASB Statement No. 72 clarifies the definition of fair value for financial reporting purposes, establishes general principles for measuring fair value, provides additional fair value application guidance, and enhances disclosures about fair value measurements. These changes were incorporated in the School District’s fiscal year 2016 note disclosures; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 73 establishes requirements for defined benefit pensions that are not within the scope of GASB Statement No. 68 as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also clarifies the application of certain provisions of GASB Statements 67 and 68. The implementation of GASB Statement No. 73 did not have an effect on the financial statements of the School District.

GASB Statement No. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The implementation of GASB Statement No. 76 did not have an effect on the financial statements of the School District.

GASB Statement No. 79 addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. These changes were incorporated in the School District’s fiscal year 2016 note disclosures; however, there was no effect on beginning net position/fund balance.

***Change in Net Position***

It was determined that the delinquent real estate taxes were overstated in fiscal year 2015. See below for the effect on net position as previously reported.

	Governmental Activities
Previously Reported Net Position	\$ 65,108,419
Change in Delinquent Taxes Reported as Revenue	(3,754,152)
Restated Net Position, July 1, 2015	\$ 61,354,267

**Note 3 – 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.

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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	\$ 156,364	\$ 0	\$ 0	\$ 0	\$ 156,364
Restricted for:					
Debt Service	5,091,781	2,039,844	0	0	7,131,625
Capital Outlay	0	0	11,618,301	1,704,005	13,322,306
Non-Public Schools	0	0	0	144,752	144,752
Extracurricular	0	0	0	30,396	30,396
Food Service	0	0	0	1,225,204	1,225,204
Classroom Facilities Maintenance	0	0	0	2,984,944	2,984,944
Other Purposes	0	0	0	277,556	277,556
Total Restricted	<u>5,091,781</u>	<u>2,039,844</u>	<u>11,618,301</u>	<u>6,366,857</u>	<u>25,116,783</u>
Committed to:					
Construction Contracts	2,034,967	0	0	0	2,034,967
Assigned for:					
Assigned for Encumbrances:					
Instruction	850,070	0	0	0	850,070
Support Services	722,487	0	0	0	722,487
Total Assigned	<u>1,572,557</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,572,557</u>
Unassigned	<u>2,630,577</u>	<u>0</u>	<u>0</u>	<u>(251,626) *</u>	<u>2,378,951</u>
Total Fund Balance (Deficit)	<u>\$ 11,486,246</u>	<u>\$ 2,039,844</u>	<u>\$ 11,618,301</u>	<u>\$ 6,115,231</u>	<u>\$ 31,259,622</u>

\* Unassigned fund balance included the following individual fund deficits:

	<u>Deficit Fund Balance</u>
NonMajor Governmental Funds:	
Public Preschool	\$ 37,441
Alternative Education	3,926
Title VI-B	60,515
Vocational Education	9,713
Title I School Improvement	25,319
Title III	17,507
Title I	97,205



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

**Note 4 - Budgetary Basis of Accounting**

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

1. Revenues and other sources are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures/expenses and other uses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as an assignment or commitment of fund balance (GAAP).
4. 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.

GAAP Basis	\$ 6,768,444
Net Adjustment for Revenue Accruals	962,884
Net Adjustment for Expenditure Accruals	(4,173,949)
Funds Budgeted Elsewhere **	(105,327)
Adjustment for Encumbrances	<u>(1,857,132)</u>
Budget Basis	<u>\$ 1,594,920</u>

\*\* 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.

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**Note 5 - Deposits and Investments**

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

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

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

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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 (STAR Ohio 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 forty percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

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 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 \$12,867,525 and the bank balance was \$12,895,427. Of the bank balance:

1. \$1,047,166 of the bank balance was covered by depository insurance; and

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2. \$11,848,261 was exposed to custodial credit risk as previously discussed. Although the securities serving as collateral were held by the pledging institution in the pledging institution's name, and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

***Investments***

Investments are reported at fair value. As of June 30, 2016, the School District had the following investments:

Rating	Investment	Measurement Amount	Investment Maturities (in years)			% Total Investments
			< 12 months	12-36 months	> 36 months	
N/A	Repurchase Agreement	\$ 22,580,000	\$ 22,580,000	\$ 0	\$ 0	62.7%
AAAm	STAR Ohio	12,868,473	12,868,473	0	0	35.8%
N/A	Certificate of Deposit	100,279	0	0	100,279	0.3%
AA+	Federal Home Loan Mortgage	199,510	199,510	0	0	0.6%
AA+	Treasury Notes	199,261	99,648	99,613	0	0.6%
		<u>\$ 35,947,523</u>	<u>\$ 35,747,631</u>	<u>\$ 99,613</u>	<u>\$ 100,279</u>	<u>100.0%</u>

The School District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs. The above table identifies the School District's recurring fair value measurements as of June 30, 2016. As discussed further in Note 2, the repurchase agreement is reported at cost and STAR Ohio is reported at its share price. All other investments of the School District are valued using quoted market prices (Level 1 inputs).

**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, 2016, is 49 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 and the School District's other investments were rated by S&P Global Ratings.

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

**Note 6 - Property Taxes**

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

Property taxes include amounts levied against all real and public utility property located in the School District. Real property tax revenue received in calendar year 2016 represents collections of calendar year 2015 taxes. Real property taxes received in calendar year 2016 were levied after April 1, 2015, on the assessed value listed as of January 1, 2015, 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 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 2016 represents collections of calendar year 2015 taxes. Public utility real and tangible personal property taxes received in calendar year 2016 became a lien December 31, 2014, were levied after April 1, 2015 and are collected in 2016 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, 2016, are available to finance fiscal year 2016 operations. The amount available as an advance at June 30, 2016 in the general, debt service and classroom facilities maintenance funds was \$2,364,409, \$344,145, and \$29,434, respectively. The amount available for advance at June 30, 2015, in the general, debt service and classroom facilities maintenance funds was \$1,968,057, \$289,652, and \$24,949, respectively. 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, 2016 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 inflows 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.

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The assessed values upon which the fiscal year 2016 taxes were collected are:

	2015 Second Half Collections		2016 First Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$ 541,653,990	97.38%	\$ 541,106,610	96.33%
Public Utility Personal Property	14,556,700	2.62%	20,638,810	3.67%
	\$ 556,210,690	100.00%	\$ 561,745,420	100.00%
Tax rate per \$1,000 assessed valuation	\$ 67.82		\$ 67.70	

**Note 7 - Receivables**

Receivables at June 30, 2016, consisted of taxes, interfund, 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.

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**Note 8 - Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2016, was as follows:

	Balance 6/30/2015	Additions	Reductions	Balance 6/30/2016
<b>Governmental Activities</b>				
<i>Capital Assets, not being depreciated:</i>				
Land	\$ 10,129,230	\$ 307,006	\$ 0	\$ 10,436,236
Construction in Progress	36,021,076	30,964,849	(34,998)	66,950,927
Total Capital Assets, being depreciated	46,150,306	31,271,855	(34,998)	77,387,163
<i>Capital Assets, being depreciated:</i>				
Land Improvements	734,978	0	0	734,978
Buildings and Improvements	124,241,457	46,000	0	124,287,457
Furniture and Equipment	3,653,805	647,527	(89,058)	4,212,274
Vehicles	563,653	44,900	(15,831)	592,722
Total Capital Assets, being depreciated	129,193,893	738,427	(104,889)	129,827,431
Less Accumulated Depreciation:				
Land Improvements	(413,971)	(22,910)	0	(436,881)
Buildings and Improvements	(22,607,799)	(2,470,555)	0	(25,078,354)
Furniture and Equipment	(2,598,178)	(239,345)	75,355	(2,762,168)
Vehicles	(398,599)	(37,422)	15,831	(420,190)
Total Accumulated Depreciation	(26,018,547)	(2,770,232)	91,186	(28,697,593)
Total Capital Assets being depreciated, net	103,175,346	(2,031,805)	(13,703)	101,129,838
Governmental Activities Capital Assets, Net	<u>\$ 149,325,652</u>	<u>\$ 29,240,050</u>	<u>\$ (48,701)</u>	<u>\$ 178,517,001</u>

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Depreciation expense was charged to governmental functions as follows:

<i>Governmental Activities:</i>	
Instruction:	
Regular	\$ 1,274,144
Special	93,448
Vocational	62,589
Support Services:	
Pupil	1,035
Instructional Staff	156,685
Administration	103,818
Business	16,716
Operation and Maintenance of Plant	678,030
Pupil Transportation	6,386
Central	43,759
Operation of Non-Instructional Services:	
Community Services	5,272
Food Service	266,160
Extracurricular Activities	62,190
Total Governmental Activities	\$ 2,770,232

**Note 9 - Risk Management**

***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	210,508,897

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.

***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 a premium of 45 percent (which is a 55 percent discount to the Bureau of Workers' Compensation) and incurs the liability dollar to dollar on all claim costs. Estimated premiums for 2016 are \$310,630. 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).

***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 \$823,000 at June 30, 2016, 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
2015	\$ 940,962	\$ 6,525,548	\$ (6,591,510)	\$ 875,000
2016	\$ 875,000	\$ 8,112,653	\$ (8,164,653)	\$ 823,000

**Note 10 - Compensated Absences**

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

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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 1<sup>st</sup> of each school year. The incentive of up to \$40,000 was paid over three years in equal installments. The final payments were made in July 2014.

In February 2010, the School District approved an early retirement incentive plan for employees in the School 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 percent 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 LEA, 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 his/her 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 second year of retirement in January.

**Note 11 - Defined Benefit Pension Plans**

***Net Pension Liability***

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the School District's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

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Ohio Revised Code limits the School District’s obligation for this liability to annually required payments. The School District cannot control benefit terms or the manner in which pensions are financed; however, the School District does receive the benefit of employees’ services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan’s board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan’s unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting.

***Plan Description - School Employees Retirement System (SERS)***

Plan Description – School District non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. 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 Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS’ fiduciary net position. That report can be obtained by visiting the SERS website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017*	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

\*Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on years of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

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Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, the allocation to pension, death benefits, and Medicare B was 14 percent. SERS did not allocate any employer contributions to the Health Care Fund for fiscal year 2016.

The School District's contractually required contribution to SERS was \$1,546,469 for fiscal year 2016. Of this amount, \$78,464 is reported as an intergovernmental payable.

***Plan Description - State Teachers Retirement System (STRS)***

Plan Description – School District licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS website at [www.strsoh.org](http://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. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. 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.

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The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2016, plan members were required to contribute 13 percent of their annual covered salary. The School District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

The School District's contractually required contribution to STRS was \$4,937,543 for fiscal year 2016. Of this amount, \$817,815 is reported as an intergovernmental payable.

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School District's proportion of the net pension liability was based on the School District's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

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	<u>STRS</u>	<u>SERS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$ 90,697,031	\$ 23,094,800	\$ 113,791,831
Proportion of the Net Pension Liability	0.32817160%	0.40473900%	
Pension Expense	\$ 3,802,590	\$ 1,623,546	\$ 5,426,136

At June 30, 2016, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>STRS</u>	<u>SERS</u>	<u>Total</u>
<b>Deferred Outflows of Resources</b>			
Differences between expected and actual experience	\$ 4,168,713	\$ 369,411	\$ 4,538,124
Changes in proportion and differences between School District contributions and proportionate share of contributions	0	337,835	337,835
School District contributions subsequent to the measurement date	<u>4,937,543</u>	<u>1,546,469</u>	<u>6,484,012</u>
<b>Total Deferred Outflows of Resources</b>	<b><u>\$ 9,106,256</u></b>	<b><u>\$ 2,253,715</u></b>	<b><u>\$ 11,359,971</u></b>
<b>Deferred Inflows of Resources</b>			
Net difference between projected and actual earnings on pension plan investments	\$ 7,177,595	\$ 718,177	\$ 7,895,772
Changes in proportion and differences between School District contributions and proportionate share of contributions	<u>4,437,202</u>	<u>0</u>	<u>4,437,202</u>
<b>Total Deferred Inflows of Resources</b>	<b><u>\$ 11,614,797</u></b>	<b><u>\$ 718,177</u></b>	<b><u>\$ 12,332,974</u></b>

\$6,484,012 reported as deferred outflows of resources related to pension resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>STRS</u>	<u>SERS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2017	\$ (2,788,184)	\$ (155,106)	\$ (2,943,290)
2018	(2,788,184)	(155,106)	(2,943,290)
2019	(2,788,185)	(156,835)	(2,945,020)
2020	<u>918,469</u>	<u>456,117</u>	<u>1,374,586</u>
	<b><u>\$ (7,446,084)</u></b>	<b><u>\$ (10,930)</u></b>	<b><u>\$ (7,457,014)</u></b>

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***Actuarial Assumptions - SERS***

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases, actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2015, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22.00 percent
COLA or Ad Hoc COLA	3.00 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2010.

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Cash	1.00 %	0.00 %
US Stocks	22.50	5.00
Non-US Stocks	22.50	5.50
Fixed Income	19.00	1.50
Private Equity	10.00	10.00
Real Assets	10.00	5.00
Multi-Asset Strategies	15.00	7.50
	<u>100.00 %</u>	

**Discount Rate** The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.75 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

**Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact, the following table presents the net pension liability calculated using the discount rate of 7.75 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
School District's proportionate share of the net pension liability	\$ 32,024,188	\$ 23,094,800	\$ 15,575,518

**Changes Between Measurement Date and Report Date**

In April 2016, the SERS Board adopted certain assumption changes which impacted their annual actuarial valuation prepared as of June 30, 2016. The most significant change is a reduction in the discount rate from 7.75 percent to 7.5 percent. Although the exact amount of these changes is not known, the impact to the School District's net position liability is expected to be significant.



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***Actuarial Assumptions - STRS***

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Projected Salary Increase	2.75 percent at 70 to 12.25 percent at age 20
Investment Rate of Return	7.75 percent, net of investment expenses
Cost-of-Living Adjustments (COLA)	2.00 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year, for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

Actuarial assumptions used in the June 30, 2015, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

The 10 year expected real rate of return on pension plan investments was determined by STRS' investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
	<u>100.00 %</u>	

***Discount Rate*** The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2015. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2015. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2015.

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***Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*** The following table presents the School District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent) or one percentage point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$ 125,985,018	\$ 90,697,031	\$ 60,855,776

**Note 12 - Postemployment Benefits**

***School Employees Retirement System***

Health Care Plan Description - The School District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) 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 as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. Active employee members do not contribute to the Health Care Plan. 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.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, SERS did not allocate any employer contributions to the Health Care Fund. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2016, this amount was \$23,000. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge.

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The School District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2016, 2015, and 2014 were \$149,925, \$241,232 and \$160,740, respectively. For fiscal year 2016, 95 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2015 and 2014.

***State Teachers Retirement System***

Plan Description – The School District participates in the cost-sharing multiple-employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS which can be obtained by visiting [www.strsoh.org](http://www.strsoh.org) or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS 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. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2016, STRS did not allocate any employer contributions to post-employment health care. The School District's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$0, and \$343,364, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

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**Note 13 - Long - Term Obligations**

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

	Outstanding 6/30/15	Additions	Reductions	Outstanding 6/30/16	Amounts Due in One Year
<b>Governmental Activities:</b>					
<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					
Capital Appreciation Bonds	1,212,147	0	1,212,147	0	0
Accretion on CABs	522,787	25,066	547,853	0	0
2006 School Improvement Refunding Bonds					
3.50%-4.25% through 2020					
Capital Appreciation Bond	64,995	0	0	64,995	64,995
Accretion on CAB	351,949	102,626	0	454,575	454,575
Premium on Debt Issuance	182,369	0	30,394	151,975	0
2007 School Improvement Refunding Bonds					
4.00%-5.50% through 2025					
Premium on Debt Issuance	585,711	0	53,247	532,464	0
2012 Classroom Facilities Refunding Bonds					
3.00%-4.00% through 2024					
Premium on Debt Issuance	509,950	0	50,995	458,955	0
2015 Classroom Facilities Refunding Bonds					
3.25% through 2025					
Capital Appreciation Bond	3,500,000	0	95,000	3,405,000	45,000
Accretion on CAB	4,995	0	0	4,995	0
Premium on Debt Issuance	116	2,543	0	2,659	0
<b>Total</b>	<b>34,300,019</b>	<b>130,235</b>	<b>2,039,636</b>	<b>32,390,618</b>	<b>1,804,570</b>
Net Pension Liability					
STRS	84,541,605	6,155,426	0	90,697,031	0
SERS	20,097,258	2,997,542	0	23,094,800	0
<b>Total</b>	<b>104,638,863</b>	<b>9,152,968</b>	<b>0</b>	<b>113,791,831</b>	<b>0</b>
Capital Lease	2,100,000	0	404,886	1,695,114	412,307
Compensated Absences	6,124,688	1,415,798	1,718,622	5,821,864	1,270,315
<b>Total Governmental Activities</b>					
Long-Term Liabilities	<b>\$147,163,570</b>	<b>\$ 10,699,001</b>	<b>\$ 4,163,144</b>	<b>\$153,699,427</b>	<b>\$ 3,487,192</b>

*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 and the remaining balance was refunded in fiscal year 2015. This issue included three capital appreciation bonds, two that matured in fiscal years 2014 and 2015 and one that matured in fiscal year

**Lorain City School District**  
**Lorain County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2016*

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2016. 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.

*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 paid by general fund. 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, 2016, \$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. 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.

*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, 2015, \$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, 2016*

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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. 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, 2015, \$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 expensed over the life of the bonds using the straight-line method. 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.

*2015 Classroom Facilities Current Refunding Bonds*

On May 13, 2015, the School District issued \$3,504,995 in refunded general obligation bonds. The proceeds of the bonds were used to refund \$3,505,000 of the School District's outstanding 2003 Classroom Facilities Bonds. The bonds were issued for a 11 year period with final maturity at December 1, 2025. This issuance included a capital appreciation bond that matures on December 1, 2025. 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 bonds. As the value of the bonds increase, the accretion is reflected as principal liability. The maturity amount of the bond due in fiscal year 2026 is \$355,000.

These refunding bonds were issued with a premium of \$162,352, which has been reported as an expense in addition to the issuance costs.

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. Obligations related to employee compensation will be paid from the fund benefitting from their service.

**Lorain City School District**  
**Lorain County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2016*

Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2016, are as follows:

Fiscal Year Ending June 30,	Serial Bonds		Capital Appreciation Bonds		Total	
	Principal	Interest	Principal	Accretion	Principal	Accretion/ Interest
2017	\$ 1,285,000	\$ 1,019,531	\$ 64,995	\$ 515,005	\$ 1,349,995	\$ 1,534,536
2018	1,990,000	930,631	0	0	1,990,000	930,631
2019	2,165,000	817,738	0	0	2,165,000	817,738
2020	2,345,000	702,269	0	0	2,345,000	702,269
2021	2,565,000	591,369	0	0	2,565,000	591,369
2012 - 2026	14,970,000	1,347,620	4,995	350,005	14,974,995	1,697,625
<b>Total</b>	<b>\$25,320,000</b>	<b>\$ 5,409,158</b>	<b>\$ 69,990</b>	<b>\$ 865,010</b>	<b>\$ 25,389,990</b>	<b>\$ 6,274,168</b>

**Note 14 – 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 6/30/15	Additions	Reductions	Outstanding 6/30/16
2011 Tax Anticipation Note 2.90% though 2016	\$ 1,917,200	\$ 0	\$ 958,600	\$ 958,600
2012 Tax Anticipation Note 1.95% though 2017	1,875,714	0	625,238	1,250,476
<b>Total</b>	<b>\$ 3,792,914</b>	<b>\$ 0</b>	<b>\$ 1,583,838</b>	<b>\$ 2,209,076</b>

**Lorain City School District**  
**Lorain County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2016*

Principal and interest requirements to retire the notes payable at June 30, 2016 are as follows:

Fiscal Year Ending June 30,	Tax Anticipation Notes		
	Principal	Interest	Total
2017	\$ 1,583,838	\$ 32,188	\$ 1,616,026
2018	625,238	6,096	631,334
Totals	<u>\$ 2,209,076</u>	<u>\$ 38,284</u>	<u>\$ 2,247,360</u>

**Note 15 – Capitalized Leases**

During fiscal year 2015, the School District entered into a lease-purchase agreement for technology improvements for \$2,100,000 at an interest rate of 1.82 percent. The School District is leasing the technology from PNC Equipment Finance, LLC. The School District will make annual lease payments to PNC Bank.

As of June 30, 2016 assets acquired by the lease in the amount of \$447,817 have been capitalized as furniture and equipment with accumulated depreciation of \$37,318. Supplies and equipment purchases under the capitalization threshold amounting to \$1,620,582 have been expensed. The School District holds \$31,601 in unspent proceeds at year end. Payments will be made from the general fund.

Year	Amount
2017	\$ 440,354
2018	440,354
2019	440,354
2020	<u>440,354</u>
Total Minimum Lease Payments	1,761,416
Less Amount Representing Interest	<u>66,302</u>
Present Value of Minimum Lease Payments	<u>\$ 1,695,114</u>



**Lorain City School District**  
**Lorain County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2016*

**Note 16 - Interfund Transfers**

Transfers for the year ended June 30, 2016 consisted of the following:

Fund	Transfer In	Transfer Out
General Fund	\$ 0	\$ 717,880
Classroom Facilities Fund	0	4,026,320
Nonmajor Governmental Funds	4,744,200	0
 Total	 \$ 4,744,200	 \$ 4,744,200

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 \$4,026,320 to the building capital projects fund as part of the Locally Funding Initiative requirement related to the OFCC project and general fund transferred \$717,880 to the athletics fund.

**Note 17 - Interfund Balances**

Interfund balances at June 30, 2016 consisted of the following:

	Interfund Receivable	Interfund Payable
General Fund	\$ 574,647	\$ 0
Nonmajor Governmental Funds	0	574,647
	\$ 574,647	\$ 574,647

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 2017 with monies to be received from reimbursable expenditures incurred during fiscal year 2016.

**Lorain City School District**  
**Lorain County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2016*

**Note 18 - Contractual and Other Commitments**

***Contractual Commitments***

As of June 30, 2016, the School District had contractual commitments as follows:

	Contractual Commitment	Expended	Balance 6/30/2016
Lorain High School	\$ 39,766,554	\$ 39,158,000	\$ 608,554
Administration Building	2,267,820	413,654	1,854,166
Total	\$ 42,034,374	\$ 39,571,654	\$ 2,462,720

***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:

Fund	Amount
General Fund	\$ 3,607,524
Classroom Facilities	3,446,071
Nonmajor Governmental Funds	1,407,592
	\$ 8,461,187

**Note 19 - Jointly Governed Organizations**

***META Solutions***

The Academy is a participant in META (Metropolitan Educational Technology Association) Solutions. META Solutions is an association of public school districts throughout Ohio. 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 school districts. The governing board of META Solutions consists of the superintendent from 11 member districts. During fiscal year 2016, the Academy paid \$70,467 to META Solutions for various services. Financial information can be obtained from the Metropolitan Educational Technology Association, 100 Executive Drive, Marion, Ohio 43302.

**Lorain City School District**  
**Lorain County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2016*

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***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 2015-16 school year, the School District paid \$1,739 for membership and services.

**Note 20 – Contingencies**

***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, 2016, if applicable, cannot be determined at this time.

***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.

**School District Funding**

School District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the school districts, which can extend past the fiscal year end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2016 Foundation funding for the School District; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or liability of the School District.

**Lorain City School District**  
**Lorain County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2016*

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**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, 2015	\$ 0
Current Year Set-Aside Requirement	1,093,313
Prior Year Offset from Bond Proceeds	(1,093,313)
Total	\$ 0
Balance Carried Forward to Fiscal Year 2017	\$ 0
Set Aside Balance June 30, 2016	\$ 0

**Note 22 – Related Party Transactions**

During 2016, 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 2700 Washington Avenue, Lorain, Ohio, 44052 or by visiting the Auditor of State’s website at [www.ohioauditor.gov](http://www.ohioauditor.gov).

**Lorain City School District**  
**Lorain County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2016*

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***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.

***Deposits***

As of June 30, 2016, the carrying amount of the Academy's deposits was \$357,604. Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, as of June 30, 2016, \$250,000 of the Academy's bank balance of \$357,604 was covered by the Federal Deposit Insurance Corporation (FDIC) and \$107,608 was exposed to custodial credit risk as described below.

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.

***Subsequent Event***

The Academy's sponsor, Lorain City School District, received a poor rating on their 2015-2016 sponsor evaluation. The sponsorship authority of Lorain City School District had been revoked by law pursuant to Ohio Revised Code section 3314.016(B)(7)(c) effective December 6, 2016. Lorain City School District's intention is to no longer sponsor the Academy after the end of fiscal year 2017.

**Note 24 – Fiscal Caution**

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.

**Lorain City School District**  
**Lorain County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2016*

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**Note 25 – Subsequent Event**

Under the provisions of House Bill 70, which became law in 2015, when any school district has three years of failing grades the state superintendent has the authority to create the Academic Distress Commission (ADC). The ADC then has the task of appointing a Chief Executive Officer with the authority over the school board and superintendent. Subsequent to the Balance Sheet date, it has been determined the School District will fall under these House Bill rules, however it is unknown at this time the financial implications of the this pending state takeover that starts April 6th, 2017.

**Lorain City School District**  
**Lorain County, Ohio**  
*Required Supplementary Information*  
*Schedule of the School District's Proportionate Share of the Net Pension Liability*  
*Last Three Fiscal Years (1)*

	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b><i>State Teachers Retirement System (STRS)</i></b>			
School District's Proportion of the Net Pension Liability	0.32817160%	0.34757227%	0.34757227%
School District's Proportionate Share of the Net Pension Liability	\$ 90,697,031	\$ 84,541,605	\$ 100,705,407
School District's Covered-Employee Payroll	\$ 35,912,143	\$ 38,244,000	\$ 33,974,123
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	252.55%	221.06%	296.42%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.10%	74.70%	69.30%
<b><i>School Employees Retirement System (SERS)</i></b>			
School District's Proportion of the Net Pension Liability	0.40473900%	0.39710500%	0.39710500%
School District's Proportionate Share of the Net Pension Liability	\$ 23,094,800	\$ 20,097,258	\$ 23,614,560
School District's Covered-Employee Payroll	\$ 12,942,838	\$ 11,655,635	\$ 9,304,610
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	178.44%	172.43%	253.79%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.16%	71.70%	65.52%

(1) Information prior to 2013 is not available.

Note: The amounts presented for each fiscal year were determined as of the measurement date.

**Lorain City School District**  
**Lorain County, Ohio**  
*Required Supplementary Information*  
*Schedule of School District Contributions*  
*Last Ten Fiscal Years*

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b><i>State Teachers Retirement System (STRS)</i></b>				
Contractually Required Contribution	\$ 4,937,543	\$ 5,027,700	\$ 4,971,720	\$ 4,416,636
Contributions in Relation to the Contractually Required Contribution	<u>(4,937,543)</u>	<u>(5,027,700)</u>	<u>(4,971,720)</u>	<u>(4,416,636)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
School District's Covered-Employee Payroll	\$ 35,268,164	\$ 35,912,143	\$ 38,244,000	\$ 33,974,123
Contributions as a Percentage of Covered-Employee Payroll	14.00%	14.00%	13.00%	13.00%
 <b><i>School Employees Retirement System (SERS)</i></b>				
Contractually Required Contribution	\$ 1,546,469	\$ 1,705,866	\$ 1,615,471	\$ 1,287,758
Contributions in Relation to the Contractually Required Contribution	<u>(1,546,469)</u>	<u>(1,705,866)</u>	<u>(1,615,471)</u>	<u>(1,287,758)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
School District's Covered-Employee Payroll	\$ 11,046,207	\$ 12,942,838	\$ 11,655,635	\$ 9,304,610
Contributions as a Percentage of Covered-Employee Payroll	14.00%	13.18%	13.86%	13.84%

n/a - Information prior to 2008 is not available.



<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 5,272,058	\$ 5,565,834	\$ 6,332,081	\$ 5,500,055	\$ 5,120,487	\$ 6,445,534
<u>(5,272,058)</u>	<u>(5,565,834)</u>	<u>(6,332,081)</u>	<u>(5,500,055)</u>	<u>(5,120,487)</u>	<u>(6,445,534)</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$ 40,554,292	\$ 42,814,108	\$ 48,708,315	\$ 42,308,115	\$ 39,388,362	\$ 49,581,031
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%
\$ 1,447,776	\$ 1,925,164	\$ 1,806,698	\$ 1,135,469	\$ 1,223,768	n/a
<u>(1,447,776)</u>	<u>(1,925,164)</u>	<u>(1,806,698)</u>	<u>(1,135,469)</u>	<u>(1,223,768)</u>	n/a
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	n/a
\$ 10,764,134	\$ 15,315,545	\$ 13,343,412	\$ 11,539,319	\$ 12,461,996	n/a
13.45%	12.57%	13.54%	9.84%	9.82%	n/a

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**LORAIN CITY SCHOOL DISTRICT  
LORAIN COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2016**

<b>FEDERAL GRANTOR Pass Through Grantor Program / Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Passed Through to Subrecipients</b>	<b>Expenditures</b>	<b>Non-Cash Expenditures</b>	<b>Receipts</b>	<b>Non-Cash Receipts</b>
<b>U.S. DEPARTMENT OF EDUCATION</b>						
<i>Passed Through Ohio Department of Education</i>						
Title I:						
Title I - School Improvement Grant FY15	84.010	\$ -	\$ 25,371	\$ -	\$ 25,436	\$ -
Title I - School Improvement Grant FY16	84.010	-	327,926	-	322,817	-
Title I - Grants to LEA's FY15	84.010	-	793,402	-	914,208	-
Title I - Grants to LEA's FY16	84.010	-	3,468,574	-	3,515,539	-
Total Title I		-	4,615,273	-	4,778,000	-
Special Education Cluster						
Special Educations - Grants to States FY15	84.027	-	204,406	-	199,890	-
Special Educations - Grants to States FY16	84.027	-	1,343,968	-	1,337,535	-
Total Special Education - Grants to States		-	1,548,374	-	1,537,425	-
Special Education - Preschool Grants FY16	84.173	-	49,306	-	49,306	-
Total Special Education Cluster		-	1,597,680	-	1,586,731	-
Vocational Education - Carl D. Perkins Secondary FY15	84.048	-	121,089	-	132,668	-
Vocational Education - Carl D. Perkins Secondary FY16	84.048	-	238,305	-	238,303	-
Total Vocational Education-Carl D. Perkins Secondary		-	359,394	-	370,971	-
Twenty First Century Community Learning Centers 5985	84.287	-	9,898	-	20,401	-
Twenty First Century Community Learning Centers 6021	84.287	-	9,898	-	20,333	-
Total Twenty First Century Community Learning Centers		-	19,796	-	40,734	-
Title III-A English Language Acquisition FY15	84.365	-	9,522	-	9,531	-
Title III-A English Language Acquisition FY16	84.365	-	56,042	-	56,034	-
Total Title III-A English Language Acquisition		-	65,564	-	65,565	-
Title II-A Improving Teacher Quality FY15	84.367	-	24,765	-	32,313	-
Title II-A Improving Teacher Quality FY16	84.367	-	547,865	-	492,316	-
Total Title II-A Improving Teacher Quality		-	572,630	-	524,629	-
Race to the Top	84.395	-	77,995	-	93,124	-
Race to the Top Avid Credit Recovery	84.395	-	255	-	2,604	-
Race to the Top Avid New Beginnings	84.395	-	-	-	1,239	-
Race to the Top QISA	84.395	-	-	-	68,000	-
Total Race to the Top		-	78,250	-	164,967	-
Total Passed Through Ohio Department of Education		-	7,308,587	-	7,531,597	-
<b>U.S. DEPARTMENT OF EDUCATION</b>						
<i>Direct Program</i>						
Improvement for Education - Smaller Learning Communities - BWC Rebate	84.215	-	514	-	-	-
Gaining Early Awareness and Readiness for Undergraduate Program #3 FY15	84.334	-	129,894	-	129,894	-
Gaining Early Awareness and Readiness for Undergraduate Program #3 FY16	84.334	-	265,546	-	265,546	-
Total Gaining Early Awareness and Readiness for Undergraduate Program		-	395,440	-	395,440	-
Total Direct Awards		-	395,954	-	395,440	-
Total U.S. Department of Education		-	7,704,541	-	7,927,037	-
<b>U.S. DEPARTMENT OF AGRICULTURE</b>						
<i>Passed Through Ohio Department of Education</i>						
Fresh Fruit and Vegetable Program FY15	10.582	-	2,244	-	2,244	-
Fresh Fruit and Vegetable Program FY16	10.582	-	120,368	-	116,937	-
Total Fresh Fruit and Vegetable Program		-	122,612	-	119,181	-
Child Nutrition Cluster						
School Breakfast Program	10.553	-	1,355,594	-	1,355,594	-
National School Lunch Program	10.555	-	2,717,888	216,126	2,717,888	216,126
Total Child Nutrition Cluster		-	4,073,482	216,126	4,073,482	216,126
Total U.S. Department of Agriculture		-	4,196,094	216,126	4,192,663	216,126
Total Federal Financial Assistance		\$ -	\$ 11,900,635	\$ 216,126	\$ 12,119,700	\$ 216,126

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  
2 CFR 200.510(b)(6)  
FOR THE YEAR ENDED JUNE 30, 2016**

**NOTE A – BASIS OF PRESENTATION**

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) includes the federal award activity of Lorain City School District (the School District's) under programs of the federal government for the year ended June 30, 2016. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the School District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the School District.

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. The School District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**NOTE C - CHILD NUTRITION CLUSTER**

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

**NOTE D – FOOD DONATION PROGRAM**

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

**NOTE E - TRANSFERS BETWEEN PROGRAM YEARS**

Federal regulations require schools to obligate certain federal awards by June 30. However, with ODE's consent, schools can transfer unobligated amounts to the subsequent fiscal year's program. The School District transferred the following amounts from 2016 to 2017 programs:

<u>PROGRAM TITLE</u>	<u>CFDA NUMBER</u>	<u>AMOUNT TRANSFERRED</u>
Title I Grants to Local Educational Agencies	84.010	\$689,744
Title I School Improvement Grants	84.010	\$259,991
Title IIA	84.367	\$106,245
Title III-A English Language Acquisition	84.365	\$ 49,896



# 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  
2601 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, Ohio (the School District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements and have issued our report thereon dated March 29, 2017. Our report refers to other auditors who audited the financial statements of the Jointly Administered Trust Fund for the Benefit of Lorain City School District Employees, as described in our report on the School District's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that those auditors separately reported.

### ***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the School 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 School 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 School 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 School 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 School District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the School 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 29, 2017



# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Lorain City School District  
Lorain County  
2601 Pole Avenue  
Lorain, Ohio 44052

To the Board of Education:

### ***Report on Compliance for the Major Federal Programs***

We have audited the Lorain City School District's (the School District) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect the Lorain City School District's major federal programs for the year ended June 30, 2016. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the District's major federal programs.

The School District's basic financial statements include the operations of Lorain K-12 Digital Academy, which received \$154,667 in federal awards which is not included in the School District's Schedule of Federal Awards Receipts and Expenditures for the year ended June 30, 2016. Our audit of Federal awards, described above, did not include the operations of Lorain K-12 Digital Academy because the discretely presented component unit is legally separate from the primary government which this report addresses, and because it expended less than \$750,000 of Federal awards for the year ended June 30, 2016, it was not subject to the Uniform Guidance audit requirements.

### ***Management's Responsibility***

The School District's Management is responsible for complying with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

### ***Auditor's Responsibility***

Our responsibility is to opine on the School District's compliance for the School District's major federal programs 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). These standards and the Uniform Guidance 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 School 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 each of the School District's major programs. However, our audit does not provide a legal determination of the School District's compliance.

***Opinion on the Major Federal Programs***

In our opinion, the Lorain City School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2016.

***Report on Internal Control Over Compliance***

The School 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 School 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 the Uniform Guidance, 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 School District's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program'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 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 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



Lorain City School District  
Lorain County  
Independent Auditor's Report on Compliance with Requirements  
Applicable to Each Major Federal Program and on Internal Control Over  
Compliance Required by the Uniform Guidance  
Page 3

This report only describes the scope of our internal control over compliance tests and the results of this testing based on Uniform Guidance 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 initial "D".

**Dave Yost**  
Auditor of State  
Columbus, Ohio

March 29, 2017

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**LORAIN CITY SCHOOL DISTRICT  
LORAIN COUNTY**

**SCHEDULE OF FINDINGS  
2 CFR § 200.515  
JUNE 30, 2016**

**1. SUMMARY OF AUDITOR'S RESULTS**

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unmodified
<b>(d)(1)(ii)</b>	<b>Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(ii)</b>	<b>Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iii)</b>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any material weaknesses in internal control reported for major federal programs?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any significant deficiencies in internal control reported for major federal programs?</b>	No
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Unmodified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under 2 CFR § 200.516(a)?</b>	No
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	Special Education Cluster (IDEA): Special Education - Grants to States - CFDA #84.027 and Special Education - Preschool Grants - CFDA #84.173 Child Nutrition Cluster: School Breakfast Program – CFDA #10.553 and National School Lunch Program – CFDA#10.555
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 750,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee under 2 CFR §200.520?</b>	No

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

None.

**3. FINDINGS FOR FEDERAL AWARDS**

None.

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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 11, 2017