



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

**SINGLE AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2005**



**Auditor of State  
Betty Montgomery**



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

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## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major fund and the aggregate remaining fund information of the Lorain County Joint Vocational School District, Lorain County, Ohio, (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund and the aggregate remaining fund information of the Lorain County Joint Vocational School District, Lorain County, Ohio, as of June 30, 2005, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 2, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

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

**Betty Montgomery**  
Auditor of State

June 2, 2006

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

Lorain County

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2005*

*Unaudited*

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As management of the Lorain County Joint Vocational School (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here, in conjunction with additional information we have provided in the notes to the basic financial statements and the basic financial statements to enhance their understanding of the District's financial performance.

This discussion and analysis of the District's financial performance is intended to serve as an introduction to the District's basic financial statements, and provides an overall review of the District's financial activities for the fiscal year ended June 30, 2005. The District's basic financial statements are comprised of the three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

### **Financial Highlights**

Key financial highlights for 2005 are as follows:

- In total, net assets increased \$1.7M in the governmental activities.
- General revenues accounted for \$18.8M in revenue or 84 percent of total revenues. Program specific revenues in the form of charges for services, and operating grants and contributions accounted for \$3.6M or 16 percent of total revenues of \$22.4M.
- The District had \$20.7M in expenses related to governmental activities; only \$3.6M of these expenses were offset by program specific charges for services, operating grants or contributions. General revenues (primarily grants, entitlements and property taxes) of \$18.8M were used to provide for these programs along with cash balances from prior years.

### **Using the Basic Financial Statements**

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

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

## Lorain County Joint Vocational School District

Lorain County

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2005*

*Unaudited*

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### Reporting the District as a Whole

One of the most important questions asked about the District is “How did we do financially during 2005?”

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

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

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

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

### Reporting the District's Most Significant Funds

#### Fund Financial Statements

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

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



**Lorain County Joint Vocational School District**  
 Lorain County  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2005*  
*Unaudited*

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**The District as a Whole**

Table 1 provides a summary of the District's net assets for 2005 compared to 2004:

(Table 1)  
**Net Assets**  
 (In Millions)

	<u>Governmental Activities</u>		<u>Total</u>
	<u>2005</u>	<u>2004</u>	<u>Change</u>
<b>Assets</b>			
Current and other assets	\$ 21.0	\$ 21.2	\$ (.2)
Capital assets, net	<u>6.8</u>	<u>5.4</u>	<u>1.4</u>
Total assets	<u>27.8</u>	<u>26.6</u>	<u>1.2</u>
<b>Liabilities</b>			
Current and other liabilities	11.4	12.2	(.8)
Long-term liabilities:			
Due within one year	.1	.1	.0
Due in more than one year	<u>2.2</u>	<u>1.9</u>	<u>.3</u>
Total liabilities	<u>13.7</u>	<u>14.2</u>	<u>(.5)</u>
<b>Net Assets</b>			
Invested in capital assets	6.8	5.4	1.4
Restricted	2.1	1.4	.7
Unrestricted	<u>5.2</u>	<u>5.6</u>	<u>(.4)</u>
Total net assets	<u>\$ 14.1</u>	<u>\$ 12.4</u>	<u>\$ 1.7</u>

Total assets increased by \$1.2 million. This was primarily due to an increase in property tax revenues and capital construction projects. Total liabilities decreased \$.5M mainly because of a \$1M decrease in deferred revenue caused by an increased amount of property taxes collected and available for advance at fiscal year end 2005. This decrease was offset by a \$.2M increase in accrued wages and a \$.3M increase in long-term compensated absences, which were the result of negotiated increases in payroll costs.

**Lorain County Joint Vocational School District**

Lorain County

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2005*

*Unaudited*

Table 2 shows the changes in net assets for fiscal year 2005 as compared to fiscal year 2004.  
(Table 2)

**Changes in Net Assets**  
(In Millions)

	<u>Governmental Activities</u>		<u>Total Change</u>
	<u>2005</u>	<u>2004</u>	
<b>Program revenues:</b>			
Charges for services	\$ 1.4	\$ 1.3	\$ .1
Operating grants and contributions	2.2	1.6	.6
Capital grants and contributions	.0	.5	(.5)
<b>General revenues:</b>			
Property taxes – general purposes	10.8	9.5	1.3
Grants and entitlements not restricted to specific programs	7.8	8.2	(.4)
Investment earnings	<u>.2</u>	<u>.1</u>	<u>.1</u>
Total revenues	<u>22.4</u>	<u>21.2</u>	<u>1.2</u>
<b>Program expenses</b>			
Instruction			
Regular	1.6	1.0	.6
Vocational	9.9	9.2	.7
Adult education	1.3	1.7	(.4)
Support services			
Pupils	1.1	1.0	.1
Instructional staff	1.5	1.2	.3
Board and administration	1.4	1.3	.1
Fiscal and business	.8	.7	.1
Plant operation and maintenance	2.1	2.4	(.3)
Pupil transportation	.1	.1	.0
Central services	.2	.2	.0
Non-instructional services	.5	.5	.0
Extracurricular activities	<u>.2</u>	<u>.2</u>	<u>.0</u>
Total expenses	<u>20.7</u>	<u>19.5</u>	<u>1.2</u>
Change in net assets	\$ <u>1.7</u>	\$ <u>1.7</u>	\$ <u>.0</u>

**Lorain County Joint Vocational School District**

Lorain County

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2005*

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**Governmental Activities**

Several revenue sources fund our governmental activities with property taxes being the largest contributor; \$10.8M or 48 percent. Grants and Entitlements not restricted to a specific program of \$7.8M made up 35 percent of revenues for governmental activities of the District for fiscal year 2005. Instruction expenses comprise \$12.8M or 62 percent of governmental program expenses. Support services expenses make up \$7.2M or 35 percent of governmental expenses.

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

(Table 3)  
**Governmental Activities**  
(In Millions)

	2005		2004	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
<b>Program Expenses</b>				
Instruction:				
Regular	\$ 1.6	\$ (1.6)	\$ 1.0	\$ (1.0)
Vocational	9.9	(8.7)	9.2	(7.7)
Adult Education	1.3	.1	1.7	(.3)
Support Services:				
Pupil Services	1.1	(.8)	1.0	(.9)
Instructional Staff	1.5	(1.3)	1.2	(1.2)
Board and Administration	1.4	(1.3)	1.3	(1.3)
Fiscal and Business	.8	(.8)	.7	(.7)
Plant Operation and Maintenance	2.1	(2.1)	2.4	(2.4)
Pupil Transportation	.1	(.1)	.1	(.1)
Central Services	.2	(.2)	.2	(.2)
Non-Instructional Services	.5	(.1)	.5	(.1)
Extracurricular Activities	<u>.2</u>	<u>(.2)</u>	<u>.2</u>	<u>(.2)</u>
 Total Expenses	 \$ <u>20.7</u>	 \$ <u>(17.1)</u>	 \$ <u>19.5</u>	 \$ <u>(16.1)</u>

**Lorain County Joint Vocational School District**  
Lorain County  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2005*  
*Unaudited*

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**The District's Funds**

Information about the District's major fund starts on page 13. This fund is accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$24.1M and expenditures and other financing uses of \$23M. The net change in fund balance for the year was most significant in the general fund, an increase of \$.8M. This increase was primarily due to increased property tax revenues.

**General Fund – Budget Highlights**

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

During the course of fiscal year 2005, the District amended its general fund budget throughout the fiscal year. Requests for budget changes are made by the building administrators. Final approval is obtained from the treasurer and superintendent and is presented to the Board of Education for their adoption.

For the General Fund, budget basis revenue of \$17.7M was amended upward from the original budget of \$17.3M during fiscal year 2005. The \$.4M difference was due to conservative tax estimates.

The original appropriations of \$23M were reallocated but did not change in total for the final budget. Expenditures, however, were only \$18.2M or \$4.8M less than anticipated due to surplus appropriations and frugal spending, in regular and vocational instruction, pupil services, administrative, and plant operation and maintenance, extracurricular costs, and capital outlay.

The District's ending unobligated budgetary fund balance was \$5M above the final budgeted amount.

**Lorain County Joint Vocational School District**  
 Lorain County  
*Management's Discussion and Analysis*  
 For the Fiscal Year Ended June 30, 2005  
 Unaudited

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**Capital Assets**

At the end of fiscal year 2005, at historical cost, the District had \$20.4M invested in land, land improvements, construction in progress, buildings and improvements, furniture, fixtures, and equipment, vehicles, and infrastructure as compared to \$18.9M in 2004; all of which was related to governmental activities. Table 4 shows fiscal year 2005 net balances compared to 2004:

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

	Governmental Activities	
	2005	2004
Land, land improvement, and CIP	\$ .6	\$ .7
Buildings and improvements	4.4	2.8
Furniture, fixtures, and equipment	1.7	1.8
Vehicles	.1	.1
Infrastructure	<u>.0</u>	<u>.0</u>
Totals	<u>\$ 6.8</u>	<u>\$ 5.4</u>

Net capital assets increased \$1.4M from the prior year. This was primarily due to an increase in purchases of buildings and improvements for use in vocational education.

For more information on capital assets, refer to the notes to the basic financial statements (See Note 8).

**Current Issues**

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

**Contacting the School District's Financial Management**

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

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**Lorain County Joint Vocational School District**

Lorain County  
Statement of Net Assets  
June 30, 2005

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash and cash equivalents	\$9,100,079
Cash with fiscal agent	135,869
Receivables:	
Taxes	10,930,528
Accounts	314,423
Accrued Interest	51,142
Intergovernmental	359,582
Inventory	107,477
Capital assets:	
Land and construction in progress	512,444
Depreciable capital assets, net of depreciation	<u>6,297,450</u>
<i>Total assets</i>	<u>27,808,994</u>
<b>Liabilities</b>	
Accounts and contracts payable	80,777
Accrued wages and benefits	2,399,974
Intergovernmental payable	35,528
Claims payable	384,912
Matured compensated absences	39,573
Deferred revenue	8,491,663
Long-term liabilities:	
Due within one year	115,042
Due in more than one year	<u>2,207,292</u>
<i>Total liabilities</i>	<u>13,754,761</u>
<b>Net assets</b>	
Invested in capital assets	6,809,894
Restricted for:	
Capital purposes	1,198,202
Other purposes	800,705
Unrestricted	<u>5,245,432</u>
<i>Total net assets</i>	<u><u>\$14,054,233</u></u>

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

**Lorain County Joint Vocational School District**

Lorain County

Statement of Activities

For the Fiscal Year Ended June 30, 2005

		Program Revenues		Net (Expense) Revenue and Changes In Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
<b>Governmental Activities:</b>				
Instruction:				
Regular	\$1,596,936	\$0	\$0	(\$1,596,936)
Vocational	9,932,021	378,167	851,042	(8,702,812)
Adult education	1,333,597	901,483	526,441	94,327
Support services:				
Pupil services	1,122,943	0	336,294	(786,649)
Instruction staff	1,482,651	0	180,154	(1,302,497)
Board and administration	1,355,521	0	5,000	(1,350,521)
Fiscal and business	833,071	211	0	(832,860)
Plant operation and maintenance	2,102,139	0	0	(2,102,139)
Pupil transportation	68,237	0	0	(68,237)
Central services	192,763	0	0	(192,763)
Non-instructional services	441,621	93,812	295,549	(52,260)
Extracurricular activities	220,034	0	0	(220,034)
<i>Total governmental activities primary government</i>	<u>\$20,681,534</u>	<u>\$1,373,673</u>	<u>\$2,194,480</u>	<u>(17,113,381)</u>
General revenues:				
Property taxes - general purposes				10,770,448
Grants and entitlements not restricted to specific program				7,751,804
Investment earnings				<u>240,753</u>
<i>Total general revenues</i>				<u>18,763,005</u>
Changes in net assets				1,649,624
<i>Net assets - beginning</i>				<u>12,404,609</u>
<i>Net assets - ending</i>				<u>\$14,054,233</u>

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



**Lorain County Joint Vocational School District**

Lorain County  
Balance Sheet  
Governmental Funds  
June 30, 2005

	General Fund	All Other Governmental Funds	Total Governmental Funds
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Assets</b>			
Cash and Cash Equivalents	\$7,362,100	\$1,737,979	\$9,100,079
Receivables:			
Taxes	10,930,528	0	10,930,528
Accounts	40,000	113,049	153,049
Accrued interest	51,142	0	51,142
Intergovernmental	0	359,582	359,582
Interfund	69,786	0	69,786
Inventory	13,438	94,039	107,477
	<u>          </u>	<u>          </u>	<u>          </u>
<i>Total assets</i>	<u>\$18,466,994</u>	<u>\$2,304,649</u>	<u>\$20,771,643</u>
<b>Liabilities and fund balances</b>			
Accounts and contracts payable	\$33,154	\$47,623	\$80,777
Accrued wages and benefits	2,215,789	184,185	2,399,974
Intergovernmental payable	33,480	2,048	35,528
Deferred revenue	8,695,660	258,413	8,954,073
Compensated absences	37,473	2,100	39,573
Interfund payable	0	69,786	69,786
	<u>          </u>	<u>          </u>	<u>          </u>
<i>Total liabilities</i>	<u>11,015,556</u>	<u>564,155</u>	<u>11,579,711</u>
<b>Fund balances</b>			
Reserved for encumbrances	230,646	1,154,995	1,385,641
Reserved for property taxes	2,248,332	0	2,248,332
Reserved for inventory	13,438	94,039	107,477
Unreserved:			
Undesignated, reported in:			
General fund	4,959,022	0	4,959,022
Special revenue funds	0	342,289	342,289
Capital projects funds	0	149,171	149,171
	<u>          </u>	<u>          </u>	<u>          </u>
<i>Total fund balances</i>	<u>7,451,438</u>	<u>1,740,494</u>	<u>9,191,932</u>
<i>Total liabilities and fund balances</i>	<u>\$18,466,994</u>	<u>\$2,304,649</u>	<u>\$20,771,643</u>

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

**Lorain County Joint Vocational School District**  
 Lorain County  
 Reconciliation of Total Governmental Fund Balances to  
 Net Assets of Governmental Activities  
 June 30, 2005

<b>Total fund balances - governmental funds</b>	<b>\$9,191,932</b>
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore, are not reported as assets in governmental funds. The cost of the assets is \$20,382,819 and the accumulated depreciation is \$13,572,925.	6,809,894
Some of the District's revenues will be collected after fiscal year-end, but are not available soon enough to pay for the current period expenditures and are deferred in the funds. These deferrals are attributed to property taxes, grants and accrued interest.	462,410
An internal service fund is used by management to charge the cost of insurance to individual funds. The assets less liabilities of the internal service fund are included in governmental activities in the statement of net assets.	(87,669)
Compensated absences not due and payable in the current period and therefore, not reported in the funds.	<u>(2,322,334)</u>
<b>Total net assets - governmental activities</b>	<b><u><u>\$14,054,233</u></u></b>

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

**Lorain County Joint Vocational School District**  
Lorain County  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
For the Fiscal Year Ended June 30, 2005

	General Fund	All Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>			
Taxes	\$10,747,813	\$0	\$10,747,813
Earnings on investments	227,289	0	227,289
Classroom materials and fees	362,779	995,295	1,358,074
Intergovernmental	8,019,771	2,214,429	10,234,200
Other	113,382	18,938	132,320
<i>Total revenues</i>	<u>19,471,034</u>	<u>3,228,662</u>	<u>22,699,696</u>
<b>Expenditures</b>			
Current:			
Instruction:			
Regular	1,480,102	0	1,480,102
Vocational	9,090,922	310,884	9,401,806
Adult education	0	1,339,398	1,339,398
Support services:			
Pupil services	793,265	292,562	1,085,827
Instructional staff	1,220,072	170,187	1,390,259
Board and administration	1,277,279	30,665	1,307,944
Fiscal and business	855,549	0	855,549
Plant operation and maintenance	2,001,316	0	2,001,316
Pupil transportation	49,866	0	49,866
Central	192,763	0	192,763
Non-instructional services	14,044	411,504	425,548
Extracurricular activities	220,034	0	220,034
Capital outlay facilities	4,238	1,787,570	1,791,808
<i>Total expenditures</i>	<u>17,199,450</u>	<u>4,342,770</u>	<u>21,542,220</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>2,271,584</u>	<u>(1,114,108)</u>	<u>1,157,476</u>
<b>Other financing sources (uses)</b>			
Operating transfers in	0	1,425,000	1,425,000
Operating transfers out	(1,425,000)	0	(1,425,000)
Other sources	24,873	0	24,873
Other uses	(50,000)	0	(50,000)
<i>Total other financing sources (uses)</i>	<u>(1,450,127)</u>	<u>1,425,000</u>	<u>(25,127)</u>
Net change in fund balances	821,457	310,892	1,132,349
<i>Fund balances - beginning</i>	<u>6,629,981</u>	<u>1,429,602</u>	<u>8,059,583</u>
<i>Fund balances - ending</i>	<u><u>\$7,451,438</u></u>	<u><u>\$1,740,494</u></u>	<u><u>\$9,191,932</u></u>

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

**Lorain County Joint Vocational School District**  
Lorain County  
Reconciliation of the Change in Fund Balances of Governmental Funds  
to the Statement of Activities  
For the Fiscal Year Ended June 30, 2005

**Net changes in fund balances - total governmental funds** \$1,132,349

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

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

Capital asset additions, net	\$1,902,209	
Depreciation expense	<u>(492,046)</u>	
Excess of capital outlay over depreciation expense		1,410,163

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

Decrease in grant revenue	(272,317)	
Increase in earnings on investments	13,464	
Increase in property taxes	<u>22,635</u>	
Total additional revenues		(236,218)

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

Increase in compensated absences	<u>(337,556)</u>	
Total additional expenditures		(337,556)

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

(319,114)

**Change in net assets of governmental activities** \$1,649,624

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

**Lorain County Joint Vocational School District**  
Lorain County  
Statement of Revenues, Expenditures, and Changes  
In Fund Balance - Budget and Actual (Non-GAAP Basis)  
General Fund  
For the Fiscal Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Encumbrances	Actual Plus Encumbrances
<b>Revenues</b>					
Taxes	\$9,421,500	\$9,421,500	\$9,592,432		\$9,592,432
Earnings on investments	168,000	168,000	216,701		216,701
Intergovernmental	7,691,705	8,070,000	8,019,771		8,019,771
Other	35,000	35,000	63,783		63,783
Refund prior year expenditure	5,500	5,500	24,873		24,873
<i>Total revenues</i>	<u>17,321,705</u>	<u>17,700,000</u>	<u>17,917,560</u>		<u>17,917,560</u>
<b>Expenditures</b>					
Current:					
Instruction:					
Regular	1,349,045	1,543,645	1,422,946	\$7,666	1,430,612
Special	2,500	2,500	756		756
Vocational	10,234,390	10,271,315	8,661,204	110,372	8,771,576
Supporting services:					
Pupil Services	1,058,875	1,099,875	763,627	2,234	765,861
Instructional staff	1,486,445	1,495,445	1,194,298	2,212	1,196,510
Board and administration	1,364,370	1,540,500	1,263,970	10,815	1,274,785
Fiscal and business	819,310	981,565	859,071	25,255	884,326
Plant operation and maintenance	2,581,560	2,614,560	1,987,420	51,820	2,039,240
Pupil transportation	100,275	100,275	49,866	150	50,016
Central	541,575	570,175	190,497	43,557	234,054
Non-instructional	35,000	35,770	14,044	4,679	18,723
Extracurricular activities	256,300	276,300	206,817	4,438	211,255
Capital outlay	550,000	550,000	3,638	600	4,238
<i>Total expenditures</i>	<u>20,379,645</u>	<u>21,081,925</u>	<u>16,618,154</u>	<u>263,798</u>	<u>16,881,952</u>
Excess of revenues over (under) expenditures	<u>(3,057,940)</u>	<u>(3,381,925)</u>	<u>1,299,406</u>	<u>(263,798)</u>	<u>1,035,608</u>
<b>Other financing sources (uses)</b>					
Advances - out	(300,000)	(380,000)	(69,786)	0	(69,786)
Advances - in	700,000	700,000	651,322	0	651,322
Operating transfers - out	(2,270,355)	(1,488,075)	(1,425,000)	0	(1,425,000)
Endowment fund donation	(50,000)	(50,000)	(50,000)	0	(50,000)
<i>Total other financing sources (uses)</i>	<u>(1,920,355)</u>	<u>(1,218,075)</u>	<u>(893,464)</u>	<u>0</u>	<u>(893,464)</u>
Net change in fund balance	(4,978,295)	(4,600,000)	405,942	<u>(\$263,798)</u>	<u>\$142,144</u>
<i>Fund balance - beginning</i>	<u>6,773,354</u>	<u>6,773,354</u>	<u>6,773,354</u>		
<i>Fund balance - ending</i>	<u>\$1,795,059</u>	<u>\$2,173,354</u>	<u>\$7,179,296</u>		

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

**Lorain County Joint Vocational School District**

Lorain County  
Statement of Fund Net Assets  
Internal Service Fund  
June 30, 2005

	<u>Governmental Activities - Internal Service Fund</u>
<b>Assets</b>	
Current assets:	
Cash and cash equivalents	\$135,869
Accounts Receivable	<u>161,374</u>
<i>Total assets</i>	<u>297,243</u>
<b>Liabilities</b>	
Current liabilities:	
Claims payable	<u>384,912</u>
<i>Total liabilities</i>	<u>384,912</u>
<b>Net assets</b>	
Unrestricted	<u>(87,669)</u>
<i>Total net assets</i>	<u><u>(\$87,669)</u></u>

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

**Lorain County Joint Vocational School District**  
 Lorain County  
 Statement of Revenues, Expenses, and Changes in Fund Net Assets  
 Internal Service Fund  
 For the Fiscal Year Ended June 30, 2005

	<u>Governmental Activities - Internal Service Fund</u>
<b>Operating revenues</b>	
Charges for services	<u>\$1,944,641</u>
<i>Total Operating Revenues</i>	<u>1,944,641</u>
<b>Operating expenses</b>	
Purchased services	390,524
Claims	<u>1,879,863</u>
<i>Total operating expenses</i>	<u>2,270,387</u>
Operating income	(325,746)
<b>Non-operating revenues (expenses)</b>	
Earnings on investments	<u>6,632</u>
<i>Total non-operating revenues</i>	<u>6,632</u>
Change in net assets	<u>(319,114)</u>
<i>Total net assets - beginning</i>	<u>231,445</u>
<i>Total net assets - ending</i>	<u><u>(\$87,669)</u></u>

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

**Lorain County Joint Vocational School District**  
Lorain County  
Statement of Cash Flows  
Internal Service Fund  
For the Fiscal Year Ended June 30, 2005

	<u>Governmental Activities - Internal Service Fund</u>
<b>Cash flows from operating activities:</b>	
Quasi external transactions with other funds	\$1,783,267
Payments for goods and services	(390,524)
Payments for claims	<u>(1,803,651)</u>
<i>Net cash provided by operating activities</i>	<u>(410,908)</u>
<b>Cash flows from investing activities:</b>	
Interest	<u>6,632</u>
Net increase in cash and cash equivalents	(404,276)
<i>Cash and cash equivalents - beginning</i>	<u>540,145</u>
<i>Cash and cash equivalents - ending</i>	<u><u>\$135,869</u></u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>	
Operating loss	(\$325,746)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Changes in assets and liabilities:	
Increase in accounts receivable	(161,374)
Increase in claims payable	<u>76,212</u>
Net cash provided by operating activities	<u><u>(\$410,908)</u></u>

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



**Lorain County Joint Vocational School District**  
Lorain County  
Statement of Fiduciary Assets and Liabilities  
Agency Fund  
June 30, 2005

	<u>Agency</u>
<b>Assets</b>	
Cash and cash equivalents	<u><u>\$49,577</u></u>
<b>Liabilities</b>	
Due to students	<u><u>\$49,577</u></u>

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

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

**Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005**

**Note 1: Nature of Basic Operations and Description of Entity**

**Reporting Entity:** The Lorain County Joint Vocational School District (the District) is a school district corporation established with rights and privileges conveyed to it by the Constitution and laws of the State of Ohio. The District is governed by an elected Board of Education comprised of representatives from each participating school district. As required by accounting principles generally accepted in the United States of America (GAAP), these financial statements present all funds of the primary government. The primary government consists of all funds, departments, boards, organizations, and agencies that are not legally separate for financial reporting purposes.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based on the foregoing criteria, the District has no component units.

The District is associated with and participates in the Lake Erie Educational Computer Association (LEECA) and Lake Erie Regional Council (LERC), which are defined as jointly governed organizations. Additional information concerning the jointly governed organizations is presented in Notes 6 and 13.

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

**Note 2: Summary of Significant Accounting Policies**

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

**A. Basis of Presentation**

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

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

**Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005  
(Continued)**

**Note 2: Summary of Significant Accounting Policies - continued**

**Government-wide Financial Statements**

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

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

**Fund Financial Statements**

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

**B. Fund Accounting**

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

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

**Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005  
(Continued)**

**Note 2: Summary of Significant Accounting Policies - continued**

**Governmental Funds**

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

General – The general fund is the operating fund of the District and is used to account for all financial resources, except those required to be accounted for in another fund. The general fund balance is available to the District for any purpose provided it is expended or transferred according to the general laws of Ohio.

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

**Proprietary Fund**

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

**Internal Service Fund**

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

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

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

**Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005  
(Continued)**

**Note 2: Summary of Significant Accounting Policies - continued**

**Fiduciary Funds**

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

**C. Measurement Focus**

**Government-wide Financial Statements**

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

**Fund Financial Statements**

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

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

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

**Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005  
(Continued)**

**Note 2: Summary of Significant Accounting Policies - continued**

Fiduciary funds are reported using the economic resources measurement focus and are excluded from the government-wide statements.

**D. Basis of Accounting**

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

**Revenue – Exchange and Non-exchange Transactions**

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

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 10). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from a non-exchange transaction must also be available before it can be recognized.

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

Related receivables at June 30, 2005 are considered collectible in full due to the ability to foreclose for nonpayment of taxes, the stable condition of the State programs, and the guarantee of federal funds.

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

**Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005  
(Continued)**

**Note 2: Summary of Significant Accounting Policies - continued**

**Deferred Revenue**

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

Property taxes for which there is an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue, such as accrued interest. (See Note 9).

**Expenses/Expenditures**

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

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

**E. Interfund Balances**

On fund financial statements, outstanding interfund loans are reported as "Interfund Receivables" and "Interfund Payables." These amounts are eliminated in the statement of net assets (See Note 7).

**F. Restricted Assets**

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

**G. Inventory**

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



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

**Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005  
(Continued)**

**Note 2: Summary of Significant Accounting Policies - continued**

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

**H. Capital Assets**

All capital assets of the School District are classified as general capital assets. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

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

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

<u>Description</u>	<u>Governmental Activities - Estimated Lives</u>
Land Improvements	20 years
Building and Improvements	15-30 years
Furniture, Fixtures, and Equipment	7-20 years
Vehicles	5-10 years
Infrastructure	50 years

**I. Compensated Absences**

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

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

**Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005  
(Continued)**

**Note 2: Summary of Significant Accounting Policies - continued**

Sick leave benefits are accrued as a liability using the termination method. The liability is calculated by developing a ratio based on historical data of sick leave paid at termination compared with sick leave accumulated and by applying that ratio to the sick leave accumulated balances as of June 30, 2005. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the District's termination policy (See Note 9).

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount that is matured and payable at year end, using expendable available financial resources. These amounts, if significant, are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported in the fund statements. The entire compensated absences liability is reported on the government-wide statements.

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

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

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

**K. Fund Balance Reserves**

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

The reserve for property taxes represents taxes recognized as revenue under GAAP but not available for appropriation under State statute for fiscal year 2005. The reserve for inventory represents assets that are not available to be spent against future obligations.

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

**Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005  
(Continued)**

**Note 2: Summary of Significant Accounting Policies - continued**

**L. Net Assets**

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

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

**M. Interfund Transactions**

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

**N. Operating Revenues and Expenses**

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

**O. Estimates**

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

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

**Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005  
(Continued)**

**Note 2: Summary of Significant Accounting Policies - continued**

**P. Budgetary Process**

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

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

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

**Q. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed. No prepaids were recorded.

**R. Cash and Cash Equivalents**

Cash received by the District is deposited in one pooled central bank account to improve cash management with individual fund balance integrity maintained through District records. Each fund's interest in the pool is presented as "Cash and Cash Equivalents" on the financial statements. Monies for all funds are maintained in this account or temporarily transferred to the State Treasurer's investment pool (STAROhio) or other short term investments. STAR Ohio is an investment pool managed by the State Treasurer's Office of Ohio. Governments within the State are allowed to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a

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

**Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005  
(Continued)**

**Note 2: Summary of Significant Accounting Policies – continued**

manner consistent with rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at its share price on June 30, 2005. Under existing Ohio statutes, interest earnings are allocated to funds based on average monthly cash balances. Interest income was earned and credited to the general fund for the year ended June 30, 2005 totaled \$227,289.

Investments and demand deposits of the pooled cash with an original maturity of three months or less are considered to be cash and cash equivalents as presented on the financial statements and are reported at cost or amortized cost. Investments are reported at fair value, which is based on quoted market prices. STAR Ohio is reported at the share price which the investment could have been sold for on June 30, 2005. (See Note 5.)

**S. Recently Issued Accounting Pronouncements**

For fiscal year 2005, the School District has implemented GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units," GASB Statement No. 40, "Deposit and Investment Risk Disclosures," and GASB Technical Bulletin No. 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers."

GASB Statement No. 39 states that entities for which a primary government is not financially accountable may still be reported as component units based on the nature and significance of their relationship with the primary government.

GASB Statement No. 40 establishes disclosure requirements for investment credit risk, interest rate risk, deposit custodial risk and foreign currency risk.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

The implementation of GASB Statement No. 39 and GASB Technical Bulletin No. 2004-2 did not affect the presentation of the financial statements of the School District.

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

**Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005  
(Continued)**

**Note 3: Budgetary Basis of Accounting**

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

Tax Budget: A budget of estimated cash receipts and disbursements is adopted prior to January 15 by the board. A budget of estimated revenue and expenditures is submitted to the county auditor, as secretary of the County Budget Commission, by January 20 of each year for the ensuing July 1 to June 30 fiscal year.

Estimated Resources: The County Budget Commission certifies its actions to the District. As part of this certification, the District receives the official certificate of estimated resources which states the projected receipts of each fund. On or about July 1, this certificate is amended to include any unencumbered balances from the preceding year. Prior to fiscal year end, the District must revise its budget so that the total contemplated expenditures from a fund during the year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. Budget receipts, as shown in the accompanying "Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Basis) – General Fund", do include July 1, 2004 unencumbered fund balances. However, those fund balances are available for appropriations. The amounts reported in the budgetary statements reflect the final budget figures.

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

Lapsing of Appropriation: At the close of each year, the unencumbered balance of each appropriation reverts to the respective funds from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated.

Encumbrances: As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the Non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. The Ohio Revised Code prohibits expenditures plus encumbrances from exceeding appropriations. On the fund financial statements, encumbrances outstanding at year end for governmental funds are reported as reservations of fund balance for subsequent year expenditures.

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

**Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005  
(Continued)**

**Note 3: Budgetary Basis of Accounting - continued**

Budgetary Basis of Accounting: Although reporting financial position, results of operations, and changes in fund balances on the GAAP basis, the budgetary basis as provided by law, is based upon accounting for transactions on a basis of cash receipts, disbursements, and encumbrances. Accordingly, the “Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual (Non-GAAP Basis) – General Fund” is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget and to demonstrate compliance with state statute. The major differences between the budget basis and GAAP basis are that:

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

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

**Net Change in Fund Balance**

	<b><u>General</u></b>
GAAP Basis	\$ 821,457
Net Adjustments for Revenue Accruals	(927,025)
Net Adjustments for Expenditure Accruals	511,511
Adjustments for Encumbrances	<u>(263,799)</u>
<b>Budget Basis</b>	<b>\$ <u>142,144</u></b>

**Note 4: Compliance and Accountability**

At June 30, 2005, the Internal Service Fund had a deficit fund balance of \$87,669. The General Fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balance resulted from adjustments for accrued liabilities.

**Note 5: Deposits and Investments**

**Legal Requirements:** Deposits and investments are restricted by provisions of the Ohio Revised Code. Statutes require the classification of monies held by the District into three categories.

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

**Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005  
(Continued)**

**Note 5: Deposits and Investments - continued**

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

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

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

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

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



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

**Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005  
(Continued)**

**Note 5: Deposits and Investments - continued**

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

***Custodial Credit Risk*** Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in possession of an outside party. At year end, the carrying amount of the District's deposits was \$9,172,382 and the bank balance was \$9,235,745. Of the bank balance, \$206,461 was covered by federal depository insurance. The remainder was collateralized with securities held by the pledging financial institution, or its trust department or agent in the District's name. Although there are securities serving as collateral held by the pledging financial institution's trust department or agent in the District's name and all state statutory requirements for the investment of money had been followed, noncompliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

The School District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

***Interest Rate Risk*** As a means of limiting its exposure to fair value losses caused by rising interest rates, the School District's investment policy requires that operating funds be invested primarily in short-term investments maturing within five years from the date of purchase and that the School District's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments. The stated intent of the policy is to avoid the need to sell securities prior to maturity. To date, no investments have been purchased with a life greater than two years.

***Custodial Credit Risk*** For an investment, custodial credit risk is the risk that, in the event of the 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 has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

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

**Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005  
(Continued)**

**Note 5: Deposits and Investments - continued**

**Credit Risk** STAROhio carries a rating of AAAM by Standard & Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The School District has no investment policy that would further limit its investment choices.

**Concentrations of Credit Risk** The School District places no limit on the amount it may invest in any one issuer. As of June 30, 2005, the District had the following investments:

<u>Investment Type</u>	
State Treasurer's investment pool	\$ <u>113,143</u>
Total fair value	\$ <u>113,143</u>

STAR Ohio carries a rating of AAAM by Standard and Poor's. The District has no investment policy dealing with investment credit risk beyond the requirements in state statutes. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

**Note 6: Jointly Governed Organizations**

A. Lake Erie Education Computer Association (LEECA)

The Lake Erie Educational Computer Association (LEECA) is a jointly governed organization comprised of thirty school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions for member districts. Each of the governments of these schools supports LEECA based upon a per pupil charge dependent upon the software package utilized. The LEECA assembly consists of a superintendent or designated representative from each participating school district and a representative from the fiscal agent. LEECA is governed by a board of directors chosen from the general membership of the LEECA assembly.

The board of directors consists of a representative from the fiscal agent, the chairman of each operating committee, and at least one assembly member from each county from which participating school districts are located. Financial information can be obtained by contacting the Treasurer at the Educational Service Center of Lorain County which serves as fiscal agent at 1885 Lake Avenue, Elyria, Ohio. During fiscal year 2005, the District contributed \$15,636 for services provided by LEECA.

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

**Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005  
(Continued)**

**Note 6: Jointly Governed Organizations - continued**

B. Lake Erie Regional Council (LERC)

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

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

The LERC assembly consists of a superintendent or designated representative from each participating school district and the fiscal agent. LERC is governed by a board of directors chosen from the general membership. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained by contacting the Treasurer at the Educational Service Center of Lorain County at 1885 Lake Avenue, Elyria, Ohio. During fiscal year 2005, the District paid approximately \$1,939,655 to LERC.

**Note 7: Interfund Transactions**

***A. Transfers***

The general fund reported transfers out of \$1,200,000 to the permanent improvement fund and \$225,000 to the adult education fund at June 30, 2005. The transfers represent the monies provided by the general fund to help support the future permanent improvements, and adult education for students in the District.

***B. Balances***

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

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

**Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005  
(Continued)**

**Note 7: Interfund Transactions - continued**

Interfund balances at June 30, 2005, consist of the following individual fund receivables and payables:

<u>Interfund Payable</u>	<u>Interfund Receivable</u>
<u>Other Governmental Funds</u>	<u>General Fund</u>
Career Development	\$ 6,354
A.B.L.E.	37,240
Vocational Education Grant	20,771
Title VI	1,357
Drug Free School	2,974
Improving Teacher Quality	<u>1,090</u>
<b>Total Governmental Activities</b>	<b><u>\$ 69,786</u></b>

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

**Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005  
(Continued)**

**Note 8: Capital Assets**

Capital assets activity for the year ended June 30, 2005, was as follows:

	Balance <u>7/1/04</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>6/30/05</u>
<b>Governmental Activities</b>				
<i>Capital Assets, not being depreciated:</i>				
Land	\$ 138,000	\$ 0	\$ 0	\$ 138,000
Construction in Progress	<u>555,967</u>	<u>311,519</u>	<u>(493,042)</u>	<u>374,444</u>
Total Capital Assets, not being depreciated	<u>693,967</u>	<u>311,519</u>	<u>(493,042)</u>	<u>512,444</u>
<i>Capital Assets, being depreciated:</i>				
Land Improvements	971,447	23,145	0	994,592
Buildings and Improvements	12,038,685	1,893,154	(48,173)	13,883,666
Furniture, Fixtures, and Equipment	4,708,935	305,721	(487,358)	4,527,298
Vehicles	430,058	21,649	(18,757)	432,950
Infrastructure	<u>31,869</u>	<u>0</u>	<u>0</u>	<u>31,869</u>
Total Capital Assets, being depreciated at historical cost	<u>18,180,994</u>	<u>2,243,669</u>	<u>(554,288)</u>	<u>19,870,375</u>
Less Accumulated Depreciation:				
Land Improvements	924,919	14,026	0	938,945
Building and Improvements	9,270,947	167,836	(803)	9,437,980
Furniture, Fixtures and Equipment	2,928,273	271,285	(374,791)	2,824,767
Vehicles	342,908	38,262	(18,757)	362,413
Infrastructure	<u>8,183</u>	<u>637</u>	<u>0</u>	<u>8,820</u>
Total Accumulated Depreciation	<u>13,475,230</u>	<u>492,046</u>	<u>(394,351)</u>	<u>13,572,925</u>
Total Capital Assets, being depreciated, net	<u>4,705,764</u>	<u>1,751,623</u>	<u>(159,937)</u>	<u>6,297,450</u>
Governmental Activity Capital Assets, Net	\$ <u>5,399,731</u>	\$ <u>2,063,142</u>	\$ <u>(652,979)</u>	\$ <u>6,809,894</u>

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

**Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005  
(Continued)**

**Note 8: Capital Assets - continued**

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 1,275
Vocational	310,473
Adult/Continuing	445
Support services:	
Pupil	811
Instructional staff	9,936
Administration	2,313
Fiscal services	2,280
Operation and maintenance	144,038
Transportation	17,638
Community services	<u>2,837</u>
Total depreciation expense	<u>\$ 492,046</u>

**Note 9: Long-Term Obligations and Deferred Revenue**

Changes in long-term obligations, Governmental Activities, are as follows:

	<u>Balance at July 1, 2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2005</u>	<u>Due in One Year</u>
Compensated Absences	\$ <u>1,984,778</u>	\$ <u>727,858</u>	\$ <u>390,302</u>	\$ <u>2,322,334</u>	\$ <u>115,042</u>

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

Deferred revenue consisted of the following at June 30, 2005:

	<u>Governmental Activities Statement of Net Assets</u>	<u>Governmental Funds Balance Sheet</u>
Property Taxes Receivable	\$ 8,491,663	\$ 8,682,196
Grants Receivable	0	258,413
Accrued Interest	<u>0</u>	<u>13,464</u>
	<u>\$ 8,491,663</u>	<u>\$ 8,954,073</u>

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

**Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005  
(Continued)**

**Note 10: Property Taxes**

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

Real property taxes collected were based on assessed value equal to thirty-five percent (35%) of appraised value. The Lorain County Auditor reappraises real property every six years with a triennial update, the last update was completed for 2005. Real property taxes are levied on assessed valuations as of December 31, which is the lien date. Real property taxes, billed one year in arrears, are payable annually or semi-annually. The first payment is due January 20, and the remainder is payable by June 20.

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

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Public utility real property is assessed at thirty-five percent (35%) of true value; public utility tangible personal property is currently assessed at varying percentages of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

The District receives property taxes from Lorain County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the county by June 30, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes which became measurable as of June 30, 2005. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30, 2005, was \$2,248,332 in the General Fund and is recognized as revenue.

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

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

**Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005  
(Continued)**

**Note 10: Property Taxes - continued**

The assessed values of real and tangible personal property, upon which property tax receipts for the Fiscal Year Ended June 30, 2005 were based, are as follows:

	<b>Assessed Values</b>	
	<b>First Half 2005</b>	<b>Second Half 2004</b>
Real Property:		
Residential/Agricultural	\$ 3,773,571,180	\$ 3,603,759,770
Commercial/Industrial	824,842,750	778,058,850
Public Utilities	2,298,700	2,296,550
Minerals	73,170	87,370
Tangible Personal Property:		
General	402,812,419	397,031,650
Public Utilities	<u>217,260,770</u>	<u>229,701,940</u>
<b>TOTAL ASSESSED VALUATION</b>	<b><u>\$ 5,220,858,989</u></b>	<b><u>\$ 5,010,936,130</u></b>

The full tax rate from all District operations applied to real property for the fiscal year ended June 30, 2005 was \$2.45 per \$1,000 of assessed valuation.

**Note 11: Defined Benefit Pension Plans**

A. State Teachers Retirement System of Ohio

The District participates in the State Teachers Retirement System of Ohio (STRS), a cost sharing multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.



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

**Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005  
(Continued)**

**Note 11: Defined Benefit Pension Plans - continued**

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

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

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered payroll. The School District was required to contribute 14 percent. 13 percent was the portion used to fund pension obligations for fiscal year 2005. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions to STRS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$1,134,205, \$1,107,992, and \$1,064,671, respectively; 92 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003.

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

**Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005  
(Continued)**

**Note 11: Defined Benefit Pension Plans - continued**

**B. School Employees Retirement System**

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

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. The portion of annual covered salary used to fund pension obligations for fiscal year 2005 was 10.57 percent. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The District's contributions to SERS for the fiscal years ended June 30, 2005, 2004 and 2003 were \$174,064, \$156,471, and \$126,535, respectively; 92 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2005, all members of the Board of Education have elected social security. The Board's liability is 6.2 percent of wages paid.

**Note 12: Postemployment Benefits**

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

**Lorain County Joint Vocational School District  
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**Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005  
(Continued)**

**Note 12: Postemployment Benefits - continued**

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. STRS has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, health care benefits are not guaranteed and the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. Through June 30, 2005, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$87,247 during fiscal 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Fund was \$3.3 billion at June 30, 2005. For the year ended June 30, 2005, net health care costs paid by STRS were \$254,780,000 and STRS had 115,395 eligible benefit recipients.

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums may be reduced for retirees whose household income falls below the poverty level.

For fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at \$27,400. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the District, the amount contributed to fund health care benefits, including the surcharge, equaled \$123,142 during the 2005 fiscal year.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150 percent of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2005 were \$178,221,113 and the target level was \$335.2 million. At June 30, 2005, the Retirement System's net assets available for payment of health care benefits was \$267.5 million. SERS has approximately 58,123 participants currently receiving health care benefits.

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

**Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005  
(Continued)**

**Note 13: Risk Management**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. There has not been a reduction in coverage from the prior year.

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

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

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

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

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

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

**Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005  
(Continued)**

**Note 13: Risk Management - continued**

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

The claim liability of \$384,912 reported at June 30, 2005, was estimated by LERC and is based on their requirements of Governmental Standards Board Statement No. 10, which requires that a liability for unpaid claims costs, including estimates of costs related to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in balances of claims liability during the year ended June 30, 2005, are summarized below. Incurred claims payments are not segregated between current and prior years claims due to the impracticability of obtaining such information.

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Unpaid claims, beginning of year	\$ 308,700	\$ 351,000
Incurred claims	1,879,863	1,228,214
Claims payment	<u>(1,803,651)</u>	<u>(1,270,514)</u>
Unpaid claims, end of year	<u>\$ 384,912</u>	<u>\$ 308,700</u>

**Note 14: Contingencies**

A. Grants

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

B. Litigation

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

**Note 15: State School Funding Decision**

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

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

**Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005  
(Continued)**

**Note 15: State School Funding Decision - continued**

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

**Note 16: Set-Aside**

The District is required by state law to set aside certain general fund revenue amounts, as defined, into various reserves. During the fiscal year ended June 30, 2005, the reserve activity was as follows:

	<u>Textbook Reserve</u>	<u>Capital Maintenance Reserve</u>	<u>Total</u>
Balance, July 1, 2004	\$ (594,281)	\$ 0	\$ (594,281)
Required Set-Aside	190,549	190,549	381,098
Qualifying Expenditures	<u>(698,924)</u>	<u>(509,773)</u>	<u>(1,208,697)</u>
Balance, June 30, 2005	\$ <u>(1,102,656)</u>	\$ <u>(319,224)</u>	\$ <u>(1,421,880)</u>
<b>Carry Forward, 6/30/2005</b>	<b>\$ <u>(1,102,656)</u></b>	<b>\$ <u>0</u></b>	

Textbook expenditures exceeded the statutory requirements by \$1,102,656 which may be used to reduce the set aside requirements of future years. Capital maintenance expenditures have exceeded statutory requirements by \$319,224, which may not be used to reduce the set aside requirements of future years. This negative balance is therefore not presented as being carried forward to future fiscal years.

**Note 17: Contractual Commitments**

As of June 30, 2005, the District has contractual commitments for the following projects:

<u>Projects</u>	<u>Contract Amount</u>	<u>Amount Paid</u>	<u>Balance 6/30/05</u>
HVAC	\$ 358,041	\$ 314,921	\$ 43,120
Roofing	155,125	43,523	111,602
Electrical	<u>20,405</u>	<u>16,000</u>	<u>4,405</u>
Total Contractual Commitments	\$ <u>533,571</u>	\$ <u>374,444</u>	\$ <u>159,127</u>

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

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2005**

<b>FEDERAL GRANTOR</b> <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Expenditures
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>				
<i>Direct Assistance</i>				
Pell Grant	N/A	84.063	\$ 125,216	\$ 125,216
<b>Total United States Department of Education Direct Assistance</b>			<b>125,216</b>	<b>125,216</b>
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>				
<i>Passed through Ohio Department of Education</i>				
Adult Basic Education State Grant Program	051227-AB S1-2003	84.002	-	469
Adult Basic Education State Grant Program	051227-AB S1-2004	84.002	32,968	38,300
Adult Basic Education State Grant Program	051227-AB S1-2005	84.002	46,922	106,767
Total Adult Basic Education State Grant Program			<b>79,890</b>	<b>145,536</b>
Vocational Education Basic Grants to States	051227- 20 C1-2004	84.048	75,508	11,187
Vocational Education Basic Grants to States	051227- 20 C2-2004	84.048	10,518	849
Vocational Education Basic Grants to States	051227- 20 C1-2005	84.048	547,907	553,337
Vocational Education Basic Grants to States	051227- 20 C2-2005	84.048	63,373	73,659
Total Vocational Education Basic Grants to States			<b>697,306</b>	<b>639,032</b>
Safe and Drug Free Schools and Communities State Grants	051227-DR S1-2005	84.186	886	2,819
Total Safe and Drug Free Schools and Communities State Grants			<b>886</b>	<b>2,819</b>
Innovative Education Program Strategy, Title V	051227-C2 S1-2004	84.298	7,307	6,506
Innovative Education Program Strategy, Title V	051227-C2 S1-2005	84.298	5,948	7,305
Total Innovative Education Program Strategy, Title V			<b>13,255</b>	<b>13,811</b>
School Renovation Grants, ATIP	051227-AT S3-2005	84.352 A	500,000	201,739
Total School Renovation Grants, ATIP			<b>500,000</b>	<b>201,739</b>
Improving Teacher Quality, Title II-A	051227-TR S1-2004	84.367	6,391	6,694
Improving Teacher Quality, Title II-A	051227-TR S1-2005	84.367	6,813	7,903
Total Improving Teacher Quality, Title II-A			<b>13,204</b>	<b>14,597</b>
<i>Subtotal Pass Through Ohio Department of Education</i>			<b>1,304,541</b>	<b>1,017,534</b>
<b>Total U.S. Department of Education</b>			<b>1,429,757</b>	<b>1,142,750</b>
<b><u>NATIONAL AERONAUTICS AND SPACE ADMINISTRATION</u></b>				
<i>Direct Assistance</i>				
NASA Cooperative Grant	NCC5-554	N/A	309,799	309,799
<b>Total National Aeronautics and Space Administration</b>			<b>309,799</b>	<b>309,799</b>
<b>TOTAL FEDERAL AWARDS RECEIPTS AND EXPENDITURES</b>			<b>\$ 1,739,556</b>	<b>\$ 1,452,549</b>

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

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

**NOTES TO SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
JUNE 30, 2005**

**NOTE A – SIGNIFICANT ACCOUNTING POLICIES**

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

CFDA – Catalog of Federal Domestic Assistance.

N/A – Not applicable.





## **Auditor of State Betty Montgomery**

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund and the aggregate remaining fund information of the Lorain County Joint Vocational School District, Lorain County, Ohio, (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated June 2, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

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

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2005-001.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable condition described above is a material weakness. In a separate letter to the District's management dated June 2, 2006, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

### **Compliance and Other Matters**

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the District's management dated June 2, 2006, we reported other matters related to noncompliance we deemed immaterial.

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

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

**Betty Montgomery**  
Auditor of State

June 2, 2006



## Auditor of State Betty Montgomery

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

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

#### Compliance

We have audited the compliance of the Lorain County Joint Vocational School District, Lorain County, Ohio, (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that apply to its major federal programs for the year ended June 30, 2005. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its major federal programs. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that apply to its major federal programs for the year ended June 30, 2005. In a separate letter to the District's management dated June 2, 2006, we reported other matters related to federal noncompliance not requiring inclusion in this report.

#### Internal Control Over Compliance

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

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

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

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

**Betty Montgomery**  
Auditor of State

June 2, 2006

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

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2005**

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

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unqualified
<b>(d)(1)(ii)</b>	<b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(ii)</b>	<b>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(iii)</b>	<b>Was there any reported material non-compliance at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any other reportable internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under § .510?</b>	No
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	School Renovation Grants/ATIP—CFDA #84.352A NASA Cooperative Grant—No CFDA number
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A\B Programs</b>	Type A: > \$ 300,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	Yes

LORAIN COUNTY JOINT VOCATIONAL SCHOOL DISTRICT  
LORAIN COUNTY

SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2005  
(CONTINUED)

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

<b>Finding Number</b>	<b>2005- 001</b>
-----------------------	------------------

**Requirements of SAS 70**

The District has delegated employees' health care claims processing, which is a significant accounting function to a third-party administrator. The District has not established procedures to determine whether this service organization has sufficient controls in place and operating effectively to reduce the risk that the health insurance claims have not been completely and accurately processed in accordance with the health insurance contract.

Statement on Auditing Standards (SAS) No. 70, as amended, prescribes standards for reporting on service organizations. An unqualified Type II Report on Policies and Procedures Placed in Operation and Tests of Operating Effectiveness in accordance with SAS 70 should provide the District with reasonable assurance that health insurance claim transactions conform to the contract.

We recommend the District require a Type II SAS 70 report in its contract with the third-party administrator. The District should review the SAS 70 report timely. The report should follow American Institute of Certified Public Accountants standards and be performed by a firm registered and considered in good standings with the Accountancy Board of the respective state.

**Officials' Response:**

Effective January 1, 2006, health care claims processing was provided by Medical Mutual instead of the previous health care provider to Lake Erie Regional Council of Governments. Presently, Medical Mutual does meet SAS-70 requirements.

**3. FINDINGS FOR FEDERAL AWARDS**

None



**Auditor of State  
Betty Montgomery**

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**LORAIN COUNTY JOINT VOCATIONAL SCHOOL DISTRICT**

**LORAIN COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JULY 13, 2006**