



**Auditor of State
Betty Montgomery**

**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANT'S REPORT

Firelands Local School District
Lorain County
11970 Vermilion Road
Oberlin, Ohio 44074-9495

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the major fund, and the aggregate remaining fund information of the Firelands Local School District, Lorain County, (the District), as of and for the year ended June 30, 2003, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit 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 business-type activities, each major fund, and the aggregate remaining fund information of the Firelands Local School District, Lorain County, Ohio, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2003, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* and *Governmental Accounting Standards Board Interpretation No. 6 - Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

As described in Notes 2.G. and 8, during the year ended June 30, 2003, the District modified the capitalization threshold for capital assets.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 17, 2004, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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



Betty Montgomery
Auditor of State

March 17, 2004

**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

The discussion and analysis of Firelands Local School District's (the District) financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2003. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2003 are as follows:

- In total, net assets increased \$90,129. Net assets of governmental activities increased \$90,276, which represents a 1.46 percent increase from 2002. Net assets of business-type activities decreased \$147 or 0.37 percent from 2002.
- General revenues accounted for \$14,123,906 in revenue or 87.08 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,095,527 or 12.92 percent of total revenues of \$16,219,433.
- The District had \$16,107,702 in expenses related to governmental activities; only \$2,074,072 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$14,123,906 were adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$14,106,313 in revenues and other financing sources and \$13,903,011 in expenditures and other financing uses. The general fund's fund balance increased from \$1,342,371 to \$1,545,673.

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2003?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets and liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector

**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

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. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the Statement of Net Assets and the Statement of Activities, the District is divided into two distinct kinds of activities:

- **Governmental Activities** - Most of the District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.
- **Business-Type Activities** - These services are provided on a charge for goods or services basis to recover all or a significant portion of the expenses of the goods or services provided. The District's community recreation and Latchkey program are reported as business activities.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental fund begins on page 10. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's only major governmental fund is the general 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

**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the financial statements.

Proprietary Funds

Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match information provided in the statements for the District as a whole.

Reporting the District's Fiduciary Responsibilities

The District acts in a trustee capacity as an agent for individuals. These activities are reported in an agency fund. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets on page 26. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

The District as a Whole

The Statement of Net Assets provides the perspective of the District as a whole. The table below provides a summary of the District's net assets for 2003.

	Net Assets	
	Governmental Activities	Business-Type Activities
	2003	2003
Assets		
Current assets	\$ 9,965,895	\$ 41,034
Capital assets	4,567,893	-
<i>Total assets</i>	<u>14,533,788</u>	<u>41,034</u>
Liabilities		
Current liabilities	7,124,068	1,519
Long-term liabilities	1,134,452	-
<i>Total liabilities</i>	<u>8,258,520</u>	<u>1,519</u>

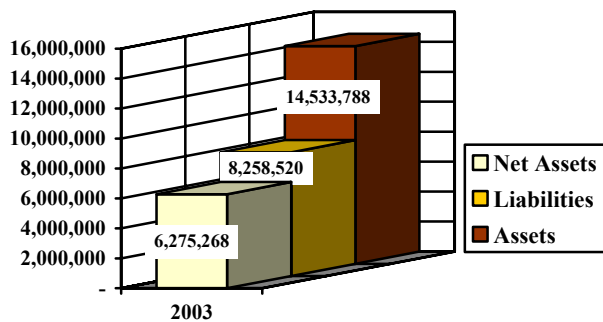
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**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

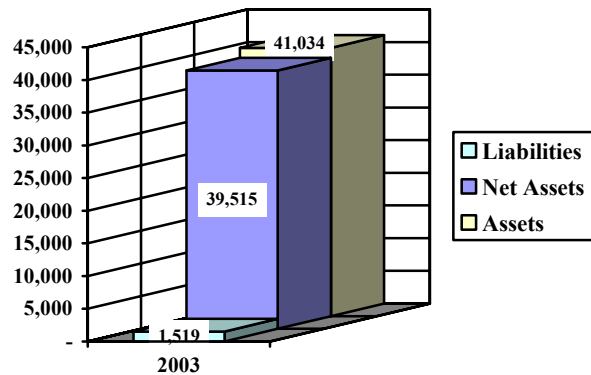
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

	Governmental Activities	Business-Type Activities
	2003	2003
Net Assets		
Invested in capital assets, net of debt	4,295,893	-
Restricted	631,183	-
Unrestricted	1,348,192	39,515
<i>Total net assets</i>	<u>\$ 6,275,268</u>	<u>\$ 39,515</u>

Governmental - Net Assets



Business-Type - Net Assets



The table below shows the changes in net assets for governmental activities and business-type activities for fiscal year 2003.

Change in Net Assets

	Governmental Activities	Business-Type Activities
	2003	2003
Revenues		
Program revenues:		
Charges for services and sales	\$ 939,653	\$ 21,455
Operating grants and contributions	1,127,916	-
Capital grants and contributions	6,503	-
General revenues:		
Property taxes	6,280,200	-
Grants and entitlements	7,665,372	-
Other	178,334	-
<i>Total revenues</i>	<u>\$ 16,197,978</u>	<u>\$ 21,455</u>

**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

	Change in Net Assets	
	Governmental	Business-Type
	Activities	Activities
	<u>2003</u>	<u>2003</u>
Expenses		
Program expenses:		
Instruction:		
Regular	\$ 7,138,461	\$ -
Special	1,468,467	-
Vocational	326,516	-
Other	532,713	-
Support services:		
Pupil	1,070,882	-
Instructional staff	401,900	-
Board of Education	11,443	-
Administration	1,310,622	-
Fiscal	348,555	-
Business	106,030	-
Operations and maintenance	1,093,149	-
Pupil transportation	973,461	-
Central	177,086	-
Operation of non-instructional services	100,949	-
Extracurricular activities	423,074	-
Food service operations	608,092	-
Interest and fiscal charges	16,302	-
Community recreation	-	1,260
Latchkey program	-	20,342
<i>Total expenses</i>	<u>16,107,702</u>	<u>21,602</u>
<i>Changes in net assets</i>	<u>\$ 90,276</u>	<u>\$ (147)</u>

Governmental Activities

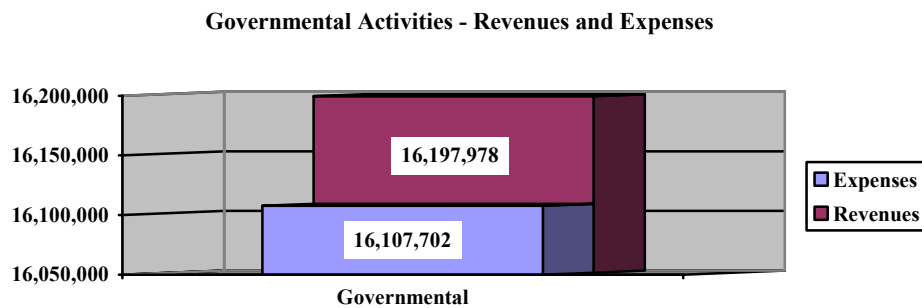
Net assets of the District's governmental activities increased by \$90,276. Total governmental expenses of \$16,107,702 were offset by program revenues of \$2,074,072 and general revenues of \$14,123,906. Program revenues supported 12.88 percent of the total governmental expenses.

**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

**MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These two revenue sources represent 86.09 percent of total governmental revenue. Real estate property is reappraised every six years.

The graph below presents the District’s governmental activities revenue and expenses for fiscal year 2003.



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services for 2003. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

Governmental Activities

	Total Cost of Services	Net Cost of Services
	2003	2003
Program expenses		
Instruction:		
Regular	\$ 7,138,461	\$ (6,677,045)
Special	1,468,467	(1,115,440)
Vocational	326,516	(326,516)
Other	532,713	(331,233)

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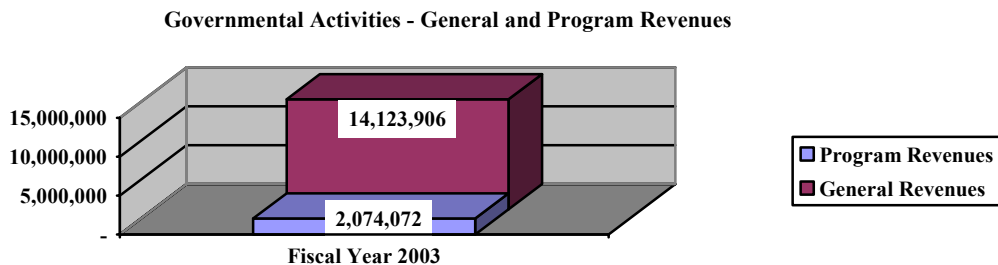
**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

**MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

	Total Cost of Services	Net Cost of Services
	2003	2003
Support services:		
Pupil	1,070,882	(963,839)
Instructional staff	401,900	(321,050)
Board of Education	11,443	(11,443)
Administration	1,310,622	(1,253,249)
Fiscal	348,555	(332,909)
Business	106,030	(106,030)
Operations and maintenance	1,093,149	(1,076,148)
Pupil transportation	973,461	(895,951)
Central	177,086	(168,932)
Operation of non-instructional services	100,949	(16,643)
Extracurricular activities	423,074	(423,074)
Food service operations	608,092	2,174
Interest and fiscal charges	16,302	(16,302)
<i>Total expenses</i>	<u>\$ 16,107,702</u>	<u>\$ (14,033,630)</u>

The dependence upon tax revenues during fiscal year 2003 for governmental activities is apparent, as 89.27 percent of 2003 instruction activities are supported through taxes and other general revenues. All governmental activities, general revenue support are 87.68 percent in 2003. The District’s taxpayers, as a whole, are by far the primary support for District’s students.

The graph below presents the District’s governmental activities revenue for fiscal years 2003.



**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

Business-Type Activities

Business-type activities include community recreation and the latchkey program. These programs had revenues of \$21,455 and expenses of \$21,602 for fiscal year 2003. During fiscal year 2003, the District increased fees for the latchkey program to cover costs. The District's business activities receive no support from tax revenues.

The District's Funds

The District's governmental funds (as presented on the balance sheet on page 18) reported a combined fund balance of \$2,330,982, which is above last year's total of \$471,670. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2003 and 2002.

	Fund Balance June 30, 2003	Restated Fund Balance June 30, 2002	Increase
General	\$ 1,545,673	\$ 1,342,371	\$ 203,302
Other Governmental	785,309	512,380	272,929
Total	\$ 2,330,982	\$ 1,854,751	\$ 476,231

General Fund

The District's general fund balance increased by \$203,302 due to an increase in tax revenue, intergovernmental revenues, and tuition. Overall the increase in revenue exceeds the increase in expenditures. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

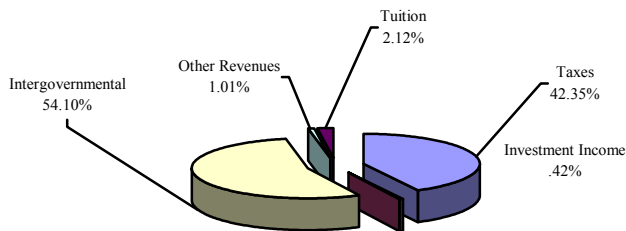
	2003 Amount	2002 Amount	Percentage Change
Revenues			
Taxes	\$ 5,972,821	\$ 5,626,472	6.16%
Tuition	299,459	243,734	22.86%
Interest earnings	58,285	88,794	-34.36%
Intergovernmental	7,630,967	7,364,696	3.62%
Other revenues	142,959	124,956	14.41%
Total	\$ 14,104,491	\$ 13,448,652	4.88%

**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

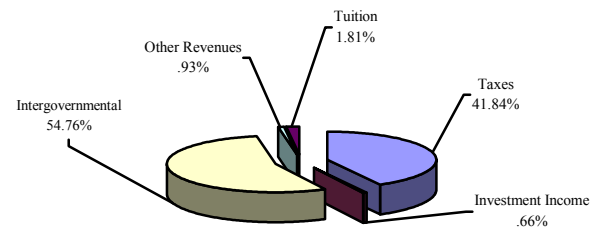
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

Other revenue increased \$18,003 or 14.41 percent from the prior year. This increase is attributed to an increase in refunds the district received in 2003. The decrease in investment income is due to drastic cuts in interest rates by the Federal Reserve Bank throughout the year. All other revenue remained comparable to 2002.

Revenues - Fiscal Year 2003



Revenues - Fiscal Year 2002



The table that follows assists in illustrating the expenditures of the general fund.

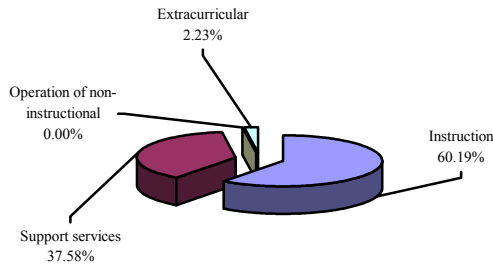
	2003 Amount	2002 Amount	Percentage Change
Expenditures			
Instruction	\$ 8,323,107	\$ 7,457,428	11.61%
Support services	5,196,285	4,603,430	12.88%
Operation of non-instructional services	30	-	100.00%
Extracurricular activities	309,034	280,707	10.09%
Debt service	-	1,612	-100.00%
<i>Total</i>	<u>\$ 13,828,456</u>	<u>\$ 12,343,177</u>	12.03%

The most significant increases were in the areas of instruction and support services. These increases are primarily due to pay increases and increases in services.

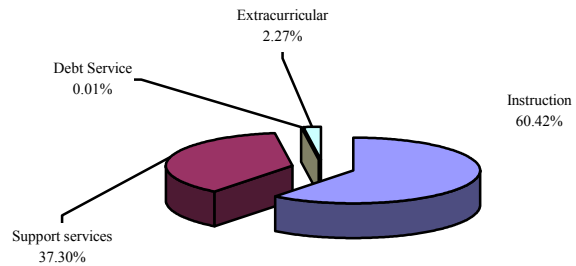
**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

Expenditures - Fiscal Year 2003



Expenditures - Fiscal Year 2002



General Fund Budgeting 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 2003, the District did not amend its general fund budget. For the general fund, original and final budgeted revenues and other financing sources were \$15,277,721. Actual revenues were \$14,430,089 which was less than budgeted revenues by \$847,631. General fund original and final appropriations were \$14,437,202. The actual budget basis expenditures and other financing uses for fiscal year 2003 totaled \$13,919,352, which was \$517,850 less than the final budget appropriations, primarily because salary costs proved to be lower than anticipated in the original and final budget.

Capital Assets and Debt Administration

Capital Assets

During fiscal year 2003, the District changed its capitalization threshold from five hundred dollars to five thousand dollars. This resulted in a restatement of capital assets in the governmental and business-type activities (see Note 8.A. for detail). At the end of fiscal 2003, the District had \$4,567,893 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. The following table shows fiscal 2003 balances compared to the restated balance of 2002.

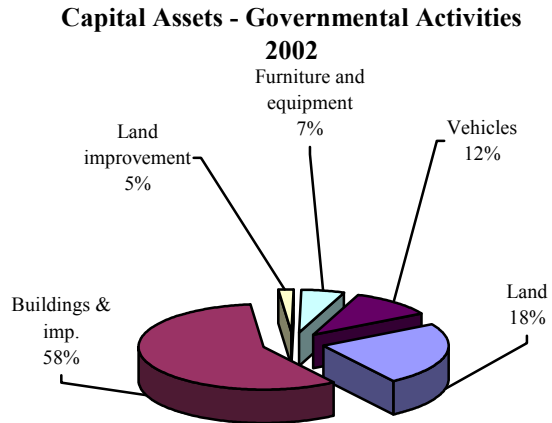
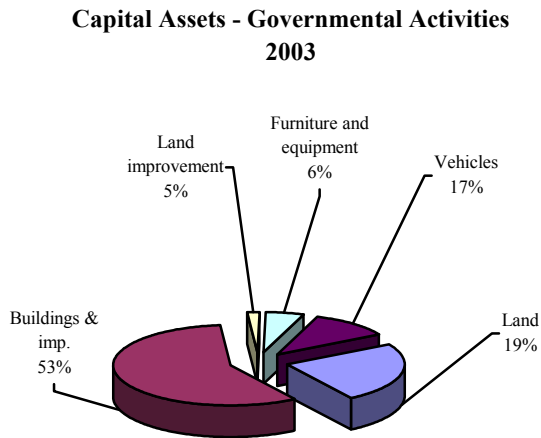
**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

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

	Governmental Activities	
	2003	2002
Land	\$ 851,565	\$ 851,565
Land improvements	246,084	240,581
Building and improvements	2,435,145	2,793,712
Furniture and equipment	277,963	353,933
Vehicles	757,136	578,247
Total	\$ 4,567,893	\$ 4,818,038

The following graphs show the breakdown of governmental capital assets by category for 2003 and 2002.



Debt Administration

At June 30, 2003 the District had \$272,000 in energy conservation notes outstanding. Of this total, \$62,000 is due within one year and \$210,000 is due within greater than one year.

The District issued the notes during fiscal year 1997 without voter approval with subsequent repayment was made from operating revenues. The notes are scheduled to mature in 2007.

**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

At June 30, 2003 the District's overall legal debt margin was \$20,417,238 with an unvoted debt margin of \$226,776. The District maintains an A-1 bond rating.

Current Financial Related Activities

The District faces some challenges in the future. As the preceding information shows, the District relies heavily upon grants and entitlements and property taxes. Since future grant and entitlement revenue stability is in question, the reliance upon local property taxes is increasingly important. The District has an emergency levy of \$655,000 used for general operating expenses expiring in December 2003. Two attempts were made in calendar 2003 to replace this levy with a new levy in 2004 that would bring in \$1.3 million annually. Both attempts failed.

Since the District relies on the state for approximately 52 percent of the general operating revenues, one of the largest challenges facing the District is that of state funding. The State of Ohio was found by the Supreme Court in March 1997 to be operating an unconstitutional educational system, one that was neither adequate nor equitable. Since 1997, the State has directed its tax revenue growth toward school districts with little property tax wealth. 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. At this time, The District is unable to determine what effect, if any, this decision will have on its future state funding and on its financial operations.

Contacting the District's Financial Management

This financial report is designed to provide our citizen's, taxpayers, and 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 questions about this report or need additional financial information contact Ms. Barbara S. Bechtel, Treasurer, Firelands Local School District, 11970 Vermilion Road, Oberlin, Ohio 44074-9495.

**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2003**

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in pooled cash and cash equivalents	\$ 3,653,029	\$ 41,034	\$ 3,694,063
Receivables:			
Taxes	6,240,668	-	6,240,668
Accounts	582	-	582
Intergovernmental	9,296	-	9,296
Accrued interest	1,745	-	1,745
Prepayments	49,040	-	49,040
Materials and supplies inventory	11,535	-	11,535
Capital assets:			
Land	851,565	-	851,565
Depreciable capital assets, net	3,716,328	-	3,716,328
Total capital assets	<u>4,567,893</u>	<u>-</u>	<u>4,567,893</u>
<i>Total assets</i>	<u>14,533,788</u>	<u>41,034</u>	<u>14,574,822</u>
Liabilities			
Accounts payable	21,525	-	21,525
Accrued wages and benefits	1,159,838	913	1,160,751
Compensated absences	-	-	-
Pension obligation payable	348,263	589	348,852
Intergovernmental payable	31,315	17	31,332
Deferred revenue	5,208,598	-	5,208,598
Accrued interest payable	1,189	-	1,189
Claims payable	353,340	-	353,340
Long-term liabilities:			
Due within one year	164,014	-	164,014
Due within more than one year	970,438	-	970,438
<i>Total liabilities</i>	<u>8,258,520</u>	<u>1,519</u>	<u>8,260,039</u>
Net Assets			
Invested in capital assets, net of related debt	4,295,893	-	4,295,893
Restricted for:			
Capital projects	605,620	-	605,620
Debt service	6,197	-	6,197
Other purposes	19,574	-	19,574
Unrestricted	<u>1,347,984</u>	<u>39,515</u>	<u>1,387,499</u>
<i>Total net assets</i>	<u>\$ 6,275,268</u>	<u>\$ 39,515</u>	<u>\$ 6,314,783</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

**STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	Expenses
Governmental activities	
Instruction:	
Regular	\$ 7,138,461
Special	1,468,467
Vocational	326,516
Other	532,713
Support services:	
Pupil	1,070,882
Instructional staff	401,900
Board of education	11,443
Administration	1,310,622
Fiscal	348,555
Business	106,030
Operations and maintenance	1,093,149
Pupil transportation	973,461
Central	177,086
Operation of non-instructional services	100,949
Extracurricular activities	423,074
Food service operations	608,092
Interest and fiscal charges	16,302
<i>Total governmental activities</i>	16,107,702
Business-type activities	
Community recreation	1,260
Latchkey program	20,342
<i>Total business-type activities</i>	21,602
<i>Totals</i>	\$ 16,129,304

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Charges for Services and Sales	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
\$ 383,228	\$ 78,188	\$ -	\$ (6,677,045)	\$ -	\$ (6,677,045)
-	353,027	-	(1,115,440)	-	(1,115,440)
-	-	-	(326,516)	-	(326,516)
-	201,480	-	(331,233)	-	(331,233)
107,043	-	-	(963,839)	-	(963,839)
-	80,850	-	(321,050)	-	(321,050)
-	-	-	(11,443)	-	(11,443)
-	57,373	-	(1,253,249)	-	(1,253,249)
-	15,646	-	(332,909)	-	(332,909)
-	-	-	(106,030)	-	(106,030)
10,298	200	6,503	(1,076,148)	-	(1,076,148)
77,510	-	-	(895,951)	-	(895,951)
-	8,154	-	(168,932)	-	(168,932)
-	84,306	-	(16,643)	-	(16,643)
-	-	-	(423,074)	-	(423,074)
361,574	248,692	-	2,174	-	2,174
-	-	-	(16,302)	-	(16,302)
<u>939,653</u>	<u>1,127,916</u>	<u>6,503</u>	<u>(14,033,630)</u>	<u>-</u>	<u>(14,033,630)</u>
1,980	-	-	-	720	720
19,475	-	-	-	(867)	(867)
<u>21,455</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(147)</u>	<u>(147)</u>
<u>\$ 961,108</u>	<u>\$ 1,127,916</u>	<u>\$ 6,503</u>	<u>(14,033,630)</u>	<u>(147)</u>	<u>(14,033,777)</u>
General Revenues					
Property taxes levied for:					
General fund			5,997,163	-	5,997,163
Capital outlay			283,037	-	283,037
Grants and entitlements not restricted					
to specific programs			7,665,372	-	7,665,372
Investment earnings			78,618	-	78,618
Miscellaneous			99,716	-	99,716
<i>Total general revenues</i>			<u>14,123,906</u>	<u>-</u>	<u>14,123,906</u>
Change in net assets			90,276	(147)	90,129
<i>Net assets at beginning of year</i>			6,184,992	39,662	6,224,654
<i>Net assets at end of year</i>			<u>\$ 6,275,268</u>	<u>\$ 39,515</u>	<u>\$ 6,314,783</u>

**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2003**

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Equity in pooled cash and cash equivalents	\$ 2,096,036	\$ 931,683	\$ 3,027,719
Receivables:			
Taxes	5,943,762	296,906	6,240,668
Accounts	582	-	582
Intergovernmental	-	9,296	9,296
Accrued interest	1,745	-	1,745
Interfund loans	134,814	-	134,814
Prepayments	48,035	1,005	49,040
Materials and supplies inventory	-	11,535	11,535
<i>Total assets</i>	<u>\$ 8,224,974</u>	<u>\$ 1,250,425</u>	<u>\$ 9,475,399</u>
Liabilities			
Accounts payable	\$ 18,529	\$ 2,996	\$ 21,525
Accrued wages and benefits	1,113,043	46,795	1,159,838
Compensated absences payable	28,399	2,740	31,139
Pension obligation payable	204,620	5,320	209,940
Intergovernmental payable	30,346	969	31,315
Interfund loan payable	-	134,814	134,814
Deferred revenue	5,284,364	271,482	5,555,846
<i>Total liabilities</i>	<u>6,679,301</u>	<u>465,116</u>	<u>7,144,417</u>
Fund Balances			
Reserved for encumbrances	22,699	34,890	57,589
Reserved for materials and supplies inventory	-	11,535	11,535
Reserved for property tax unavailable for appropriation	660,836	34,720	695,556
Reserved for prepayments	48,035	1,005	49,040
Unreserved, undesignated, reported in:			
General fund	814,103	-	814,103
Special revenue funds	-	163,942	163,942
Debt service funds	-	7,386	7,386
Capital projects funds	-	531,831	531,831
<i>Total fund balances</i>	<u>1,545,673</u>	<u>785,309</u>	<u>2,330,982</u>
<i>Total liabilities and fund balances</i>	<u>\$ 8,224,974</u>	<u>\$ 1,250,425</u>	<u>\$ 9,475,399</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2003

Total governmental fund balances \$ 2,330,982

*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 in the funds. 4,567,893

Other long-term assets are not available to pay for current-
period expenditures and therefore are deferred in the funds.

Taxes	\$ 336,514
Interest revenue	1,438
Intergovernmental revenue	9,296
	347,248

Total 347,248

An internal service fund is used by management to charge
the costs of insurance to individual funds. The assets
and liabilities of the internal service fund are included in
governmental activities in the statement of net assets. 271,970

Long-term liabilities, including bonds payable, are not
due and payable in the current period and therefore
are not reported in the funds.

Energy conservation notes	272,000
Compensated absences	831,313
Pension obligation payable	138,323
Accrued interest payable	1,189
	(1,242,825)

Total (1,242,825)

Net assets of governmental activities \$ 6,275,268

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	General	Other Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$ 5,972,821	\$ 280,853	\$ 6,253,674
Tuition	299,459	-	299,459
Charges for services	-	361,574	361,574
Earnings on investments	58,285	1,028	59,313
Extracurricular activities	-	185,201	185,201
Other local revenues	142,959	50,176	193,135
Intergovernmental - State	7,630,967	90,009	7,720,976
Intergovernmental - Federal	-	1,280,841	1,280,841
<i>Total revenues</i>	<u>14,104,491</u>	<u>2,249,682</u>	<u>16,354,173</u>
Expenditures			
Current:			
Instruction:			
Regular	6,601,882	133,797	6,735,679
Special	1,133,890	316,288	1,450,178
Vocational	296,019	-	296,019
Other	291,316	241,183	532,499
Support Services:			
Pupil	916,122	142,622	1,058,744
Instructional staff	316,692	89,280	405,972
Board of education	11,443	-	11,443
Administration	1,222,473	68,679	1,291,152
Fiscal	328,069	23,420	351,489
Business	100,162	-	100,162
Operations and maintenance	975,203	2,437	977,640
Pupil transportation	1,150,306	-	1,150,306
Central	175,815	600	176,415
Operation of non-instructional services	30	100,919	100,949
Extracurricular activities	309,034	68,589	377,623
Facilities acquisition and construction	-	216,702	216,702
Food service operations	-	576,798	576,798
Debt service:			
Principal retirement	-	58,000	58,000
Interest and fiscal charges	-	16,555	16,555
<i>Total expenditures</i>	<u>13,828,456</u>	<u>2,055,869</u>	<u>15,884,325</u>
<i>Excess of revenues under expenditures</i>	<u>276,035</u>	<u>193,813</u>	<u>469,848</u>
Other financing sources (uses)			
Transfers in	-	74,555	74,555
Transfers (out)	(74,555)	-	(74,555)
Proceeds from sale of fixed assets	1,822	-	1,822
<i>Total other financing sources (uses)</i>	<u>(72,733)</u>	<u>74,555</u>	<u>1,822</u>
<i>Net change in fund balances</i>	203,302	268,368	471,670
<i>Fund balances at beginning of year (restated)</i>	1,342,371	512,380	1,854,751
Decrease in reserve for inventory	-	4,561	4,561
<i>Fund balances at end of year</i>	<u>\$ 1,545,673</u>	<u>\$ 785,309</u>	<u>\$ 2,330,982</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Net change in fund balances - total governmental funds	\$	471,670
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeds depreciation expense in the current period.		(211,195)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, and trade-ins) is to decrease net assets.		(38,950)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(198,071)
Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as an expense when consumed.		4,561
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		58,000
In the statement of activities, interest is accrued on outstanding notes, whereas in governmental funds, an interest expenditure is reported when due.		253
Some expenses reported in the statement of activities, such as compensated absences and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		(64,272)
The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.		68,280
<i>Change in net assets of governmental activities</i>	\$	90,276

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Over (Under)
	<u>Original</u>	<u>Final</u>		<u>(Under)</u>
Revenues				
From local sources:				
Taxes	\$ 6,418,005	\$ 6,418,005	\$ 6,023,600	\$ (394,405)
Tuition	318,446	318,446	298,877	(19,569)
Earnings on investments	61,774	61,774	57,978	(3,796)
Other local revenues	131,950	131,950	123,841	(8,109)
Intergovernmental - State	8,137,546	8,137,546	7,637,470	(500,076)
<i>Total revenues</i>	<u>15,067,721</u>	<u>15,067,721</u>	<u>14,141,766</u>	<u>(925,955)</u>
Expenditures				
Current:				
Instruction:				
Regular	6,822,067	6,822,067	6,644,398	177,669
Special	1,150,527	1,150,527	1,118,291	32,236
Vocational	304,330	304,330	295,512	8,818
Other	299,070	299,070	291,391	7,679
Support Services:				
Pupil	933,420	933,420	909,287	24,133
Instructional staff	314,405	314,405	298,435	15,970
Board of education	20,950	20,950	12,789	8,161
Administration	1,254,665	1,254,665	1,186,284	68,381
Fiscal	335,500	335,500	325,695	9,805
Business	102,831	102,831	100,326	2,505
Operations and maintenance	1,095,956	1,095,956	993,515	102,441
Pupil transportation	1,219,105	1,219,105	1,178,877	40,228
Central	197,966	197,966	182,553	15,413
Extracurricular activities	311,410	311,410	307,444	3,966
<i>Total expenditures</i>	<u>14,362,202</u>	<u>14,362,202</u>	<u>13,844,797</u>	<u>517,405</u>
<i>Excess of revenues over expenditures</i>	<u>705,519</u>	<u>705,519</u>	<u>296,969</u>	<u>(408,550)</u>
Other financing sources and (uses)				
Refund of prior year expenditure	10,000	10,000	19,202	9,202
Transfers in	200,000	200,000	266,911	66,911
Transfers (out)	(75,000)	(75,000)	(74,555)	445
Proceeds from sale of fixed assets	-	-	2,210	2,210
<i>Total other financing sources (uses)</i>	<u>135,000</u>	<u>135,000</u>	<u>213,768</u>	<u>78,768</u>
<i>Net change in fund balance</i>	840,519	840,519	510,737	(329,782)
<i>Fund balance at beginning of year (restated)</i>	1,519,284	1,519,284	1,519,284	-
Prior year encumbrances appropriated	24,787	24,787	24,787	-
<i>Fund balance at end of year</i>	<u>\$ 2,384,590</u>	<u>\$ 2,384,590</u>	<u>\$ 2,054,808</u>	<u>\$ (329,782)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2003

	Business-Type Activities	Governmental Activities
	Nonmajor Enterprise Funds	Internal Service Fund
Assets		
<i>Current assets:</i>		
Equity in pooled cash and cash equivalents	\$ 41,034	\$ -
Cash with fiscal agent	-	625,310
<i>Total current assets</i>	41,034	625,310
Liabilities		
Accrued wages and benefits	913	-
Pension obligation payable	589	-
Intergovernmental payable	17	-
Claims payable	-	353,340
<i>Total liabilities</i>	1,519	353,340
Net assets		
Unrestricted	39,515	271,970
<i>Total net assets</i>	\$ 39,515	\$ 271,970

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Business-Type Activities	Governmental Activities
	Nonmajor Enterprise Funds	Internal Service Fund
Operating revenues		
Sales/charges for services	\$21,455	\$1,527,241
<i>Total operating revenues</i>	<u>21,455</u>	<u>1,527,241</u>
Operating expenses		
Personal services	16,894	-
Purchased services	609	97,306
Materials and supplies	4,099	
Claims expense	-	1,379,522
<i>Total operating expenses</i>	<u>21,602</u>	<u>1,476,828</u>
<i>Operating loss</i>	<u>(147)</u>	<u>50,413</u>
Nonoperating revenues		
Interest revenue	-	17,867
<i>Total nonoperating revenues</i>	<u>-</u>	<u>17,867</u>
<i>Change in net assets</i>	(147)	68,280
<i>Net assets at beginning of year (restated)</i>	<u>39,662</u>	<u>203,690</u>
<i>Net assets at end of year</i>	<u>\$ 39,515</u>	<u>\$ 271,970</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	Business-Type Activities	Governmental Activities
	Nonmajor Enterprise Funds	Internal Service Fund
Cash flows from operating activities		
Cash received from sales/charges for services	\$ 21,455	\$ 1,527,241
Cash payments for personal services	(16,888)	-
Cash payments for contractual services	(609)	(97,306)
Cash payments for materials and supplies	(4,099)	-
Cash payments for claims expense	-	(1,214,566)
	(141)	215,369
<i>Net cash provided by (used in) operating activities</i>		
Cash flows from investing activities		
Interest received	-	17,867
	-	17,867
<i>Net cash provided by investing activities</i>		
	(141)	233,236
<i>Net increase (decrease) in cash and cash equivalents</i>		
<i>Cash and cash equivalents at beginning of year</i>	41,175	392,074
	\$ 41,034	\$ 625,310
<i>Cash and cash equivalents at end of year</i>		
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities		
Operating income (loss)	\$ (147)	\$ 50,413
Changes in assets and liabilities:		
Increase in accrued wages and benefits	29	-
Decrease in intergovernmental payable	(60)	-
Increase in pension obligation payable	37	-
Increase in claims payable	-	164,956
	(141)	215,369
<i>Net cash provided by (used in) operating activities</i>	\$ (141)	\$ 215,369

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2003**

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 31,048
<i>Total assets</i>	<u>31,048</u>
Liabilities:	
Due to students	<u>31,048</u>
<i>Total liabilities</i>	<u><u>\$ 31,048</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

1. DESCRIPTION OF THE SCHOOL DISTRICT

Firelands Local School District, Lorain County, (the District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District operates under an elected Board of Education, consisting of five members, and is responsible for the provision of public education to residents of the District.

The District is the 253rd largest in the State of Ohio (among the 740 public and community school districts in the state) in terms of enrollment. It is staffed by 106 non-certified and 144 certified personnel to provide services to approximately 2,226 students and other community members.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity". When applying GASB Statement No. 14, management has considered all potential component units. 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; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or (4) 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 debt, the issuance of debt, or the levying of

**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

taxes. Based upon the application of these criteria, the District has no component units. The financial statements of the reporting entity include only those of the District (the primary government).

JOINTLY GOVERNED ORGANIZATIONS

Lorain County Joint Vocation School District

The Lorain County Joint Vocational School District (JVS) is a distinct subdivision of the State of Ohio operated under the direction of a Board, consisting of one representative from each participating school district's elected board, which possesses its own budgeting and taxing authority. Accordingly, the JVS is not part of the District and its operations are not included as part of the reporting entity. Financial information can be obtained by contacting the Treasurer at the Lorain County Vocational School District, 15181 State Route 15181 State Route 58, Oberlin, Ohio.

Lake Erie Education Computer Association

The Lake Erie Education Computer Association (LEECA) is a jointly governed organization among 30 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 among 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 which consists of a representative from the fiscal agent, the chairman of each of the operating committees, and at least one Assembly member from each county in which participating school districts are located. 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 Lorain County Board of Education, who serves as the fiscal agent, at 1885 Lake Avenue, Elyria, Ohio 44035.

Lake Erie Regional Council

The Lake Erie Regional Council (LERC) is a jointly governed organization comprised of 14 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 media center, gas consumption, driver education, food service and insurance. Each member provides operating resources to LERC on a

**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

per pupil or actual usage charge. 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, who serves as fiscal agent, at 1885 Lake Avenue, Elyria, Ohio.

Ohio School Boards Association Workers' Compensation Group Rating Plan

The District participates in a group rating plan for workers' compensation as established under § 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan") was established through the Ohio School Boards Association (OSBA) as a group purchasing pool.

The Plan's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the Plan. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the program.

B. Fund Accounting

The District uses funds to report its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain school district activities or functions. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category is divided into separate fund types.

GOVERNMENTAL FUNDS

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

**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

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

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary and trust funds; and (b) for grants and other resources whose use is restricted to a particular purpose, and c) financial resources to be used to repay the principal and interest on District debt obligations.

PROPRIETARY FUNDS

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector where the determination of net income is necessary or useful to sound financial administration.

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into two classifications: 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 trust fund is an agency fund which accounts for activity programs for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

C. Basis of Presentation

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 fiduciary funds. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

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The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund 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.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements

Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Internal service funds are combined and the totals are presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities

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associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

Agency funds do not report a measurement focus as they do not report operations.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting on the fund financial statements. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues - Exchange and Non-exchange Transactions

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

Nonexchange 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 6). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the 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 nonexchange transactions must also be available before it can be recognized.

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

Deferred 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, 2003, but which were levied to finance fiscal year 2003 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities received during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as donated commodities revenue.

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

Budgets

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

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Tax Budget

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

Estimated Resources

By April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commissions' Certificate of Estimated Resources, which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered cash balances from the preceding year. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the final amended Certificate issued during the fiscal year.

Appropriations

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution is enacted by the Board of Education. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the District. The appropriation resolution must be within the estimated resources as certified by the County Budget Commission and the total of expenditures may not exceed the appropriation totals at any level of control. Any revisions that alter the fund level must be approved by the Board of Education.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent Certificate of Estimated Resources. During the year, all supplemental appropriations were legally enacted.

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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 budget amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior year. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the year.

Lapsing of Appropriations

At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding year and is not re-appropriated.

Encumbrance accounting is utilized with District funds in the normal course of operations, for purchase orders and contract related expenditures. An encumbrance is a reserve on the available spending authority due to commitment for a future expenditure and does not represent a liability. For governmental fund types, encumbrances outstanding at year-end appear as a reserve to the fund balance on a GAAP basis and as the equivalent of expenditures on a non-GAAP budgetary basis in order to demonstrate legal compliance. Note 14 provides a reconciliation of the budgetary and GAAP basis of accounting and disclosure of the encumbrances outstanding for the General Fund at fiscal year-end.

E. Cash and Investments

To improve cash management, cash received by the District is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Investments" on the financial statements.

During fiscal year 2003, investments were limited to federal agency securities, non-negotiable certificates of deposit, and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio).

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as non-negotiable certificates of deposit are reported at cost.

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The District has invested funds in STAR Ohio during fiscal 2003. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2003.

Under existing Ohio statute, interest earnings are allotted to the general fund unless the Board of Education has, by resolution, specified funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal 2003 amounted to \$58,285 which includes \$23,805 assigned from other District funds.

For purposes of the statement of cash flows and for presentation on the Statement of Net Assets, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the Treasurer's investment account at year-end is provided in Note 4.

F. Inventory

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

On fund financial statements, inventories of governmental funds are stated at cost. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption, donated food, purchased food, and school supplies held for resale. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased. On the fund financial statements, reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

G. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column

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of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District increased its capitalization threshold from five hundred dollars to five thousand dollars for its general fixed assets during fiscal 2003. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets except land 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>	<u>Business-Type Activities Estimated Lives</u>
Land improvements	10 years	N/A
Buildings and improvements	10 - 50 years	N/A
Furniture/equipment	5 - 10 years	5 - 20 years
Vehicles	10 years	N/A

H. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

I. Compensated Absences

Compensated absences of the District consist of vacation leave and severance liability to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

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In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age fifty or greater with at least ten years of service and all employees with at least 20 years of service regardless of their age and with at least three years of service with the District were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2003, and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

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

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

J. Accrued Liabilities and Long-Term Obligations

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

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

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a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds and long-term loans are recognized as a liability in the fund financial statements when due.

K. Fund Balance Reserves

The District reserves those portions of fund equity 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 equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, materials and supplies, prepayments, and property taxes unavailable for appropriation. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute.

L. Net Assets

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

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

M. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed. At fiscal year-end, because prepayments are not available to finance future governmental fund expenditures, the fund balance is reserved by an amount equal to the carrying value of the asset on the fund financial statements.

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N. Estimates

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

O. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are charges for recreation, latchkey and self-insurance programs. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund.

P. Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

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

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2003.

3. ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles and Restatement of Fund Balance

For fiscal year 2003, the District has implemented GASB Statement No. 34, "*Basic Financial Statements - and Management's Discussion and Analysis - for State and*

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Local Governments”, GASB Statement No. 37, “*Basic Financial Statements for State and Local Governments: Omnibus*”, GASB Statement No. 38, “*Certain Financial Statement Note Disclosures*”, and GASB Interpretation No. 6, “*Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*”. At June 30, 2002, there was no effect on fund balance as a result of implementing GASB Statements 37 and 38.

GASB Statement No. 37 clarifies provisions of Statement No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38, modifies, establishes and rescinds certain financial statement note disclosures.

GASB No. 34 creates new basic financial statements for reporting on the District’s financial activities. The basic financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in area where differences have arisen, or potentially could arise, in interpretation and practice.

The government-wide financial statements show the District’s programs for governmental activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2002, caused by the elimination of the internal service fund and the conversion to the accrual basis of accounting.

Governmental Activities - Fund Reclassification and Restatement of Fund Balance

Certain funds have been reclassified to properly reflect their intended purpose in accordance with the Standards of GASB Statement No. 34. Certain funds previously reported as enterprise funds have been reclassified and are now part of the other nonmajor governmental funds. It was also determined that GASB Interpretation No. 6 had an effect on fund balance as previously reported at June 30, 2002. In addition, the District created an internal service fund for activity previously reported in the general fund and interfund loans not reported in the previous year have been added to the beginning balances.

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The fund reclassifications and the implementation of GASB Interpretation No. 6 had the following effect on the District's governmental fund balances as previously reported:

	<u>General</u>	<u>Nonmajor</u>	<u>Total</u>
Fund balance June 30, 2002	\$ 1,539,673	\$ 498,846	\$ 2,038,519
Enterprise fund reclassifications	-	72,640	72,640
Implementation of GASB			
Interpretation No. 6	(52,718)	-	(52,718)
Internal service fund reclassification	(203,690)	-	(203,690)
Restatement of interfund loans	<u>59,106</u>	<u>(59,106)</u>	<u>-</u>
Adjusted fund balance, June 30, 2002	<u>\$ 1,342,371</u>	<u>\$ 512,380</u>	<u>\$ 1,854,751</u>

The transition from governmental fund balances to net assets of the governmental activities is presented as follows:

	<u>Total</u>
Adjusted fund balance, June 30, 2002	\$ 1,854,751
GASB 34 adjustments:	
Long-term (deferred) assets	545,319
Capital assets	4,818,038
Accrued interest payable	(1,442)
Internal service fund	203,690
Long-term liabilities	<u>(1,235,364)</u>
Governmental activities net assets, June 30, 2002	<u>\$ 6,184,992</u>

Business-Type Activities - Fund Reclassification and Restatement of Fund Balance

Certain funds previously reported as enterprise funds are now reported in the general fund to properly reflect the intended purpose of the funds and capital assets previously reported in the food service fund are now reported in capital assets of the governmental activities. In addition, the District created an internal service fund to track self-insurance activities which was previously reported in the general fund.

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	Enterprise	Internal Service
Fund equity as previously reported	\$ 153,032	\$ -
Fund reclassification	(113,370)	203,690
Restated net assets as of July 1, 2002	\$ 39,662	\$ 203,690

B. Deficit Fund Balances

Fund balances at June 30, 2003 included the following individual fund deficits:

Nonmajor Funds	Deficit
Title I	\$ 6,711
Title VI	6,833
Title VI-R	3,776
Miscellaneous Federal Grants	90,498

These funds complied with Ohio state law, which does not permit cash basis deficits. 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 balances resulted from adjustments for accrued liabilities. These deficits should be eliminated by future intergovernmental revenues not recognized under GAAP at June 30.

4. EQUITY IN POOLED CASH AND INVESTMENTS

Monies held by the District into three categories.

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

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

Interim 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

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must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings accounts, including passbook accounts.

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

Interim monies may 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 2 percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not the exceed 25 percent of the interim monies available for investment at any one time; and

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

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

The following information classifies deposits and investments by categories of custodial credit risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments and Reserve Repurchase Agreements".

Deposits: At year-end, the carrying amount of the District's deposits was \$1,804,282 and the bank balance was \$1,914,970. These balances included \$1,588,847 in nonnegotiable certificates of deposit. Of the bank balance:

1. \$1,388,847 was covered by federal depository insurance; and
2. \$526,123 was uninsured and uncollateralized as defined by GASB although it was secured by collateral held by third party trustees, pursuant to § 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although all State statutory requirements for the deposits of money had been followed, noncompliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

Collateral is required for demand deposits and certificates of deposit in excess of all deposits not covered by federal depository insurance. Obligations that may be placed as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of the other states. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

Investments: Investments are categorized to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or

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securities held by the District. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department, but not in the District's name. STAR Ohio and U.S. Government money market mutual funds are unclassified investments since they are not evidenced by securities that exist in physical or book entry form. The following is a breakdown of the District's investment:

	Category 2	Carrying Amount	Fair Value
Federal agency securities	\$ 700,000	\$ 700,000	\$ 700,000
Total	\$ 700,000		
Investment in state treasurer's investment pool			
U.S. Government money market mutual funds		595,519	595,519
Total investments		\$ 1,295,519	\$ 1,295,519

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

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$ 3,725,111	\$ -
Investments of the cash management pool:		
Cash with fiscal agent	(625,310)	-
Investments in STAR Ohio	(595,519)	595,519
Federal securities	(700,000)	700,000
GASB Statement No. 3	\$ 1,804,282	\$ 1,295,519

5. INTERFUND TRANSACTIONS

A. Interfund loans receivable/payable consisted of the following at June 30, 2003, as reported on the fund statement:

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Nonmajor Governmental Funds	\$ 134,814

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2003 are reported on the statement of net assets.

- B.** Interfund transfers for the year ended June 30, 2003, consisted of the following, as reported on the fund statements:

	<u>Amount</u>
Transfers from general fund to:	
Nonmajor Governmental Funds	\$ 74,555

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

6. PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Real property taxes received in calendar year 2003 were levied after April 1, 2002, on the assessed value listed as of January 1, 2002, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by

**FIRELANDS LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Public utility real and tangible personal property taxes received in calendar year 2003 became a lien December 31, 2001, were levied after April 1, 2002 and are collected in 2003 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2003 (other than public utility property) represents the collection of 2003 taxes. Tangible personal property taxes received in calendar year 2003 were levied after April 1, 2002, on the value as of December 31, 2002. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Lorain and Eire Counties. The County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the Counties by June 30, 2003, are available to finance fiscal year 2003 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2003 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deterred revenue.

The amount available as an advance at June 30, 2003 was \$660,836 in the general fund, and \$34,720 in the Permanent Improvement capital projects fund. The amount available as an advance at June 30, 2002, was \$711,615 in the general fund, and \$36,635 in the Permanent Improvement capital projects fund.

**FIRELANDS LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
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On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been deferred.

The assessed values upon which the fiscal year 2003 taxes were collected are:

	2002 Second Half Collections		2003 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/residential and other real estate	\$ 199,968,770	90.11%	\$ 204,998,170	90.40%
Public utility personal	11,674,730	5.26%	12,454,300	5.49%
Tangible personal property	10,275,177	4.63%	9,323,668	4.11%
Total	\$ 221,918,677	100.00%	\$ 226,776,138	100.00%
 Tax rate per \$1,000 of assessed valuation	 \$ 44.20		 \$ 44.20	

7. RECEIVABLES

Receivables at June 30, 2003 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest, and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the Statement of Net Assets follows:

Governmental Activities	
Taxes - current and delinquent	\$ 6,240,668
Accounts	582
Intergovernmental	9,296
Accrued interest	1,745
Total receivables	\$ 6,252,291

Receivables have been disaggregated on the face of the basic finance statements. All receivables are expected to be collected within subsequent years.

8. CAPITAL ASSETS

A. The capital asset balances of the governmental activities have been restated due to a change in the District's capital asset policy (see Note 2.H.) and recording accumulated depreciation in accordance with GASB 34.

**FIRELANDS LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

	Balance June 30, 2002	Adjustments	Restated Balance June 30, 2002
Governmental Activities			
<i>Capital assets, not being depreciated:</i>			
Land	\$ 851,565	\$ -	\$ 851,565
Total capital assets, not being depreciated	851,565	-	851,565
<i>Capital assets, being depreciated:</i>			
Land improvements	588,954	(27,726)	561,228
Buildings and improvements	7,817,067	(81,210)	7,735,857
Furniture and equipment	2,513,878	(1,192,925)	1,320,953
Vehicles	1,116,285	119,756	1,236,041
Total capital assets, being depreciated	12,036,184	(1,182,105)	10,854,079
<i>Less: accumulated depreciation</i>	-	(6,887,606)	(6,887,606)
Governmental activities capital assets, net	<u>\$ 12,887,749</u>	<u>\$ (8,069,711)</u>	<u>\$ 4,818,038</u>

B. Capital asset activity for the fiscal year-ended June 30, 2003, was as follows:

	Restated Balance June 30, 2002	Additions	Deductions	Balance June 30, 2003
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 851,565	\$ -	\$ -	\$ 851,565
Total capital assets, not being depreciated	851,565	-	-	851,565
<i>Capital assets, being depreciated:</i>				
Land improvements	561,228	46,559	-	607,787
Buildings and improvements	7,735,857	52,049	(45,674)	7,742,232
Furniture and equipment	1,320,953	33,793	(89,381)	1,265,365
Vehicles	1,236,041	270,768	(196,136)	1,310,673
Total capital assets, being depreciated	10,854,079	403,169	(331,191)	10,926,057
<i>Less: accumulated depreciation</i>				-
Land improvements	(320,647)	(41,056)	-	(361,703)
Buildings and improvements	(4,942,145)	(371,666)	6,724	(5,307,087)
Furniture and equipment	(967,020)	(109,763)	89,381	(987,402)
Vehicles	(657,794)	(91,879)	196,136	(553,537)
Total accumulated depreciation	(6,887,606)	(614,364)	292,241	(7,209,729)
Governmental activities capital assets, net	<u>\$ 4,818,038</u>	<u>\$ (211,195)</u>	<u>\$ (38,950)</u>	<u>\$ 4,567,893</u>

**FIRELANDS LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 368,238
Special	17,139
Vocational	19,358
Support Services:	
Pupil	4,175
Instructional staff	12,641
Administration	10,313
Operations and maintenance	23,630
Pupil transportation	101,260
Extracurricular activities	44,338
Food service operations	13,272
Total depreciation expense	\$ 614,364

9. LONG-TERM OBLIGATIONS

- A. The balance of the District's governmental activities long-term obligations at June 30, 2002 has been restated. The compensated absences liability decreased \$46,148 from \$826,483 to \$780,335 due to the implementation of GASB Interpretation No. 6 and the fund reclassifications described in Note 3.A. In addition, pension obligations of \$113,389 at June 30, 2002 are not reported as a component of governmental activities long-term obligations as they are paid within one year of fiscal year-end. Pension obligations are reported separately on the statement of net assets. The effect on the total governmental activities long-term obligations at July 1, 2002 was a decrease of \$159,537 from \$1,156,483 to \$1,110,335. During the fiscal year 2003, the following changes occurred in governmental activities long-term obligations:

	Restated Balance 6/30/2002	Additions	Reductions	Balance 6/30/2003	Amounts Due in One Year
Governmental Activities					
Compensated absences payable	\$ 780,335	\$ 82,117	\$ -	\$ 862,452	\$ 102,014
Energy conservation notes payable	330,000	-	(58,000)	272,000	62,000
Total governmental activities long-term liabilities	\$ 1,110,335	\$ 82,117	\$ (58,000)	\$ 1,134,452	\$ 164,014

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(Continued)

Energy conservation notes outstanding are general obligations of the District, for which the District's full faith and credit are pledged for repayment. The notes were issued in fiscal year 1997 in the amount of \$575,000 under the authority of H.B. 264. Payments of principal and interest relating to these notes are recorded as expenditures in the debt service fund; however, unlike general obligation bonds, Ohio statute allows for the issuance of energy conservation notes without voter approval, and the subsequent repayment of the notes from operating revenues.

Compensated absences will be paid from the fund from which the employee is paid.

- B.** The following is a summary of the District's future annual debt service requirements to maturity for the energy conservation notes:

Fiscal year Ending	Principal	Interest	Total
2004	\$ 62,000	\$ 13,255	\$ 75,255
2005	66,000	9,735	75,735
2006	70,000	5,995	75,995
2007	74,000	2,035	76,035
Totals	<u>\$ 272,000</u>	<u>\$ 31,020</u>	<u>\$ 303,020</u>

C. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9 percent of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1 percent of the property valuation of the District. In addition, the code further provides that unvoted indebtedness for energy conservation measures shall not exceed 9/10 of 1 percent of the property valuation of the District.

The effects of these debt limitations at June 30, 2003 are a voted debt margin of \$20,417,238 (including available funds of \$7,386), an unvoted debt margin of \$226,776, and an energy conservation debt margin of \$1,768,985.

10. COMPENSATED ABSENCES

Employees earn vacation at rates specified under State of Ohio law and based on credited service. Teachers and some Administrators do not earn vacation time. Administrators, Clerical, Technical, and Maintenance and Operations employees with one or more years of service are entitled to vacation ranging from 5 to 25 days. Employees with less than one

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(Continued)

year of service earn one vacation day per month worked, not to exceed five days. Unused vacation is not cumulative to the next year.

All employees are entitled to a sick leave credit equal to one and one-quarter days for each month of service (earned on a pro rata basis for less than full-time employees). This sick leave will either be absorbed by time off due to illness or injury or, within certain limitations, be paid to the employee upon retirement. The amount paid to an employee upon retirement is limited to one-quarter of the accumulated sick leave to a maximum payout of 55 days for certified employees and 50 days for classified employees.

11. RISK MANAGEMENT

A. Comprehensive

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. During fiscal year 2002, the District contracted with Ohio School Plan for professional liability insurance. The District contracted with Auto-Owner's Insurance Company for fleet insurance. The District contracted with General Star Indemnity Company for excess coverage. The District has contracted with LERC to provide insurance coverage for property, boiler and machine, inland marine and employee theft. Coverages provided and deductibles are as follows:

Building and Contents - replacement cost (\$2,500 deductible)	\$ 21,461,457	value
Inland marine coverage (\$2,500 deductible)	224,716	value
Boiler and machinery (\$2,500 deductible)	10,000,000	limit
Automobile liability (\$1,000 deductible for comprehensive)	1,000,000	limit
Excessive coverage	1,000,000	limit
Uninsured Motorists (no deductible)	2,000,000	limit
Employee theft	25,000	limit

Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant reduction in coverage from fiscal year 2002.

B. Employee Health and Dental

The District has contracted with the Lake Erie Regional Council of Governments (LERC) to provide partially self-insured employee health and medical benefits since December 1988. The LERC is a claims-servicing pool comprised of 14 Lorain County

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school districts. Rates are set through an annual calculation process. The District pays a monthly contribution which is placed in a common fund from which claim payments are made for all participating school districts. Claims are paid for all participants regardless of claims flow or individual account balance. Upon termination, the terminating school district would be liable for all outstanding claims beyond their individual account balance. The LERC Board of Directors has the right to return monies to an existing district subsequent to the settlement of all expenses and claims. This plan provides a medical/surgical plan with deductibles of \$50 for single and \$100 for family coverage. Stop loss is provided by a private insurance carrier for all individual claims in excess of \$165,000.

The LERC's pool premiums are billed to each participating school district based on actuarially determined rates. Should contributions prove to be insufficient to pay programs costs of the insurance program in any given year, each participating member is notified of their deficiency and their premium is adjusted to cover its share of the additional cost of anticipated future claims.

The District currently reports all of its health care risk management activities in the internal service fund. Claims payable is based upon Governmental Accounting Standards Board Statement No. 30, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", which requires a liability for unpaid claims costs, including estimates of incurred but not reported claims, be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount can reasonably be estimated. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claims adjustment expenses.

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Current Year Claims</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2003	\$ 188,384	\$ 1,379,522	\$ (1,214,566)	\$ 353,340
2002	181,683	862,989	(856,288)	188,384

C. Workers' Compensation Program

The District participates in the Ohio School Boards Association Officials Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member board of directors consisting of the President, the President-Elect and the Immediate Past President of the Ohio School Boards Association. The Executive Director of the OSBA, or his

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

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 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 Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

12. DEFINED BENEFIT PENSION PLANS

A. 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 Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling (614) 222-5853.

Plan members are required to contribute 9 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate of 14 percent for 2003, 8.17 percent was the portion to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$151,245, \$91,967, and \$71,281, respectively; 33.3 percent has been contributed for fiscal year 2003 and 100 percent for the fiscal years 2002 and 2001. \$150,240 represents the unpaid contribution for fiscal year 2003.

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FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

B. State Teachers Retirement System

The District contributes to 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 retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

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

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

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(Continued)

Plan members are required to contribute 9.3 percent of their annual covered salary and the District is required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation 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 employee contributions. The District's required contributions to STRS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$917,942, \$630,957, and \$609,198, respectively; 82.6 percent has been contributed for fiscal year 2003 and 100 percent for the fiscal years 2002 and 2001. \$159,988 represents the unpaid contribution for fiscal year 2003. Contributions to the DC and Combined Plans for fiscal 2003 were \$5,018 made by the District and \$13,239 made by plan members.

13. POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$70,611 during fiscal 2003.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.011 billion at June 30, 2002 (the latest information available). For the fiscal year ended June 30, 2002 (the latest information available), net health care costs paid by STRS were \$354.697 million and STRS had 105,300 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of

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FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For this fiscal year, employer contributions to fund health care benefits were 5.83 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay has been established at \$12,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2002 (the latest information available) were \$182.947 million and the target level was \$274.4 million. At June 30, 2002, (the latest information available) SERS had net assets available for payment of health care benefits of \$335.2 million and SERS had approximately 50,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$142,087 during the 2003 fiscal year.

14. BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The Statement of Revenue, Expenditures, and Changes in Fund Balance – Budget (Non-GAAP) and Actual presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that

**FIRELANDS LOCAL SCHOOL DISTRICT
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FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

Net Change in Fund Balance	<u>General Fund</u>
Budget basis	\$ 510,737
Net adjustment for revenue accruals	(37,275)
Net adjustment for expenditure accruals	(24,887)
Net adjustment for other sources/uses	(286,501)
Adjustment for encumbrances	<u>41,228</u>
GAAP basis	<u><u>\$ 203,302</u></u>

15. CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

B. Litigation

The District is a party to legal proceedings seeking damages or injunctive relief generally incidental to its operations and spending projects. The District management is of the opinion that disposition of the claim and legal proceedings will not have a material effect, if any, on the financial condition of the District.

**FIRELANDS LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)

C. 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..."

The District is currently unable to determine what effect, if any, this decision will have on its future state funding and its financial operations.

16. STATUTORY RESERVES

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2003, the reserve activity was as follows:

	Textbooks	Capital Acquisition
Set-aside cash balance as of June 30, 2002	\$ (371,552)	\$ -
Required set asides 2003	289,025	289,025
Current year offsets		(282,768)
Qualifying disbursements	(321,572)	(51,564)
Total	\$ (404,099)	\$ (45,307)
Balance carried forward to FY 2004	\$ (436,646)	

The District had qualifying expenditures during the year that reduced the textbooks and capital acquisition set-aside amounts below zero. The extra amount for textbooks is being carried forward to reduce the set-aside requirements for future years. By laws, the extra amount disbursed for capital acquisition cannot be carried forward.

17. SIGNIFICANT SUBSEQUENT EVENTS

The District hired a new Superintendent, Thomas Diring, who assumed office on September 18, 2003.

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**FIRELANDS LOCAL SCHOOL DISTRICT
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**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number
U.S. DEPARTMENT OF AGRICULTURE		
<i>Passed Through Ohio Department of Education</i>		
<u>Nutrition Cluster:</u>		
Food Distribution Program	N/A	10.550
National School Lunch Program	48157-LLP4-2002 48157-LLP4-2002 48157-VGS1-2003	10.555
Total National School Lunch Program		
Total U.S. Department of Agriculture - Nutrition Cluster		
U.S. DEPARTMENT OF EDUCATION		
<i>Direct Program</i>		
21st Century Community Learning Centers	N/A	84.287
<i>Passed Through Ohio Department of Education</i>		
Special Education Grants to States (IDEA Part B)	485157-6BSF-2002-P 485157-6BSF-2003-P 485157-6BSX-2002-P	84.027
Total Special Education Grants to States		
Grants to Local Educational Agencies (ESEA Title I)	48157-C1S1-2001 48157-C1S1-2002 48157-C1S1-2003	84.010
Total Grants to Local Educational Agencies		
Drug-Free Schools Grant	48157-DRS1-2001 48157-DRS1-2002 48157-DRS1-2003	84.186
Total Drug-Free Schools Grant		
Innovative Educational Program Strategies	48157-C2S1-2001 48157-C2S1-2002 48157-C2S1-2003	84.298
Total Innovative Educational Program Strategies		
Education Technology State Grants	48157-TJS1-2001	84.318
Eisenhower Professional Development State Grant	48157-MSS1-2002	84.281
Comprehensive School Reform Demo	48157-RFS2-2001	84.332
Class Size Reduction	48157-CRS1-2001 48157-CRS1-2002	84.340
Total Class Size Reduction		
ATIP Grant	049684-ATS3-2002	84.352A
Improving Teacher Quality State Grants (Title II Part A)	049684-TRS1-2003	84.367
Total Department of Education		
Totals		

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS SCHEDULE.

Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
	\$ 24,009		\$ 24,009
\$ 10,603		\$ 10,603	
83,125		83,125	
118,412		110,015	
212,140		203,743	
212,140	24,009	203,743	24,009
419,794		419,794	
93,614			
175,664		175,664	
18,258		21,758	
287,536		197,422	
43,907		-	
82,611		-	
102,437		96,177	
228,955		96,177	
5,984		-	
6,257		6,431	
7,423		7,423	
19,664		13,854	
8,366			
7,506			
10,871		10,871	
26,743		10,871	
575			
(7,703)			
55,000		11,168	
20,065		-	
26,622		26,622	
46,687		26,622	
30,919		30,860	
46,358		43,281	
1,154,528		850,049	
\$ 1,366,668	\$ 24,009	\$ 1,053,792	\$ 24,009

**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2003**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the District's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This nonmonetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.

NOTE C - MATCHING REQUIREMENTS

Certain Federal programs require that the District contribute non-Federal funds (matching funds) to support the Federally-funded programs. The District has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.

NOTE D - PROGRAM TRANSFERS

The Eisenhower Professional Development State Grant (CFDA #84.281) was eliminated for the fiscal year 2003. The fiscal year 2002 unused award amount of \$7,703 was transferred to the Improving Teacher Quality State Grant (CFDA # 84.367). This amount is recorded as a negative receipt for CFDA #84.281 on the accompanying Schedule of Federal Awards expenditures. A corresponding amount is recorded as a 2003 receipt for CFDA # 84.367.



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL
CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

Firelands Local School District
Lorain County
11970 Vermilion Road
Oberlin, Ohio 44074-9495

To the Board of Education:

We have audited the financial statements of the Firelands Local School District, Lorain County, (the District) as of and for the year ended June 30, 2003, and have issued our report thereon dated March 17, 2004, in which we noted that the District implemented a new financial reporting model, Governmental Accounting Standards Board Interpretation No. 6, and modified the capitalization threshold for capital assets. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated March 17, 2004.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of District in a separate letter dated March 17, 2004.

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



Betty Montgomery
Auditor of State

March 17, 2004



**Auditor of State
Betty Montgomery**

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

Firelands Local School District
Lorain County
11970 Vermilion Road
Oberlin, Ohio 44074-9495

To the Board of Education:

Compliance

We have audited the compliance of the Firelands Local School District, Lorain County, (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 are applicable to its major federal program for the year ended June 30, 2003. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. 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 obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that 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 are applicable to its major federal program for the year ended June 30, 2003.

Internal Control over Compliance

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

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

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



Betty Montgomery
Auditor of State

March 17, 2004

**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
JUNE 30, 2003

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	No
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	21st Century Community Learning Centers CFDA #84.287
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.



**Auditor of State
Betty Montgomery**

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FIRELANDS LOCAL SCHOOL DISTRICT

LORAIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 27, 2004**