



**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY**

**SINGLE AUDIT**

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



**Auditor of State  
Betty Montgomery**



**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets .....	15
Statement of Activities.....	16
Fund Financial Statements:	
Balance Sheet – Governmental Funds .....	18
Reconciliation of Total Governmental Fund Balance to Net Assets Of Governmental Activities .....	19
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	20
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	21
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (non-GAAP Budgetary Basis) – General Fund .....	22
Statement of Net Assets – Proprietary Funds.....	23
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds .....	24
Statement of Cash Flows – Proprietary Funds .....	25
Statement of Fiduciary Assets – Fiduciary Fund .....	26
Notes to the Basic Financial Statements .....	27
Schedule of Federal Awards Receipts and Expenditures.....	55
Notes to the Schedule of Federal Awards Receipts and Expenditures .....	56
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	57
Independent Accountants' Report on Compliance with Requirements Applicable to Its Major Federal Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.....	59
Schedule of Findings.....	61

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

Board of Education  
Firelands Local School District  
Lorain County  
11970 Vermilion Road  
Oberlin, Ohio 44074

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Firelands Local School District, Lorain County, Ohio, (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents.

We were engaged to audit the business-type activities and the proprietary funds of the Firelands Local School District as of and for the year ended June 30, 2005. 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.

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

The District did not retain the child care fees forms to support the revenues of the District's latchkey program for the period July 1, 2004 through June 30, 2005. By failing to retain this documentation, we could not determine the validity of the revenues of the business-type activities and enterprise funds received by the District.

Since the District did not provide the evidence described in the preceding paragraph, the scope of our work was not sufficient for us to express an opinion, and we do not express an opinion on the business-type activities and the proprietary funds for the year ended June 30, 2005.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The federal awards receipts and expenditures 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 not a required part of the basic financial statements. We subjected the federal awards receipts and 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

November 7, 2006

**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED

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, 2005. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

**Financial Highlights**

Key financial highlights for 2005 are as follows:

- In total, net assets increased \$1,627,550. Net assets of governmental activities increased \$1,631,581, which represents a 24.19% increase from 2004. Net assets of business-type activities decreased \$4,031 or 10.35% from 2004.
- General revenues accounted for \$15,593,513 in revenue or 87.57% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,213,477, or 12.43% of total revenues of \$17,806,990.
- The District had \$16,175,409 in expenses related to governmental activities; only \$2,213,477 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$15,593,513 were adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$15,995,189 in revenues and other financing sources and \$14,677,232 in expenditures and other financing uses. The general fund's fund balance increased from \$1,972,418 to \$3,290,375.
- Net assets for District's two non-major enterprise funds decreased from \$38,944 to \$34,913.

**Using this Financial Report**

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

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

**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED

**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 2005?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take 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, pupil transportation, extracurricular activities and food service operations.

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-type activities.

The District's statement of net assets and statement of activities can be found on pages 15-17 of this report.

**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 statements 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 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. The basic governmental fund financial statements can be found on pages 18-22 of this report.

**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED

***Proprietary Funds***

The District maintains two types of proprietary funds. Enterprise 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. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District's internal service fund accounts for medical self-insurance. The basic proprietary fund financial statements can be found on pages 23-25 of this report.

**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. 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.

***Notes to the Basic Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 27-53 of this report.

**The District as a Whole**

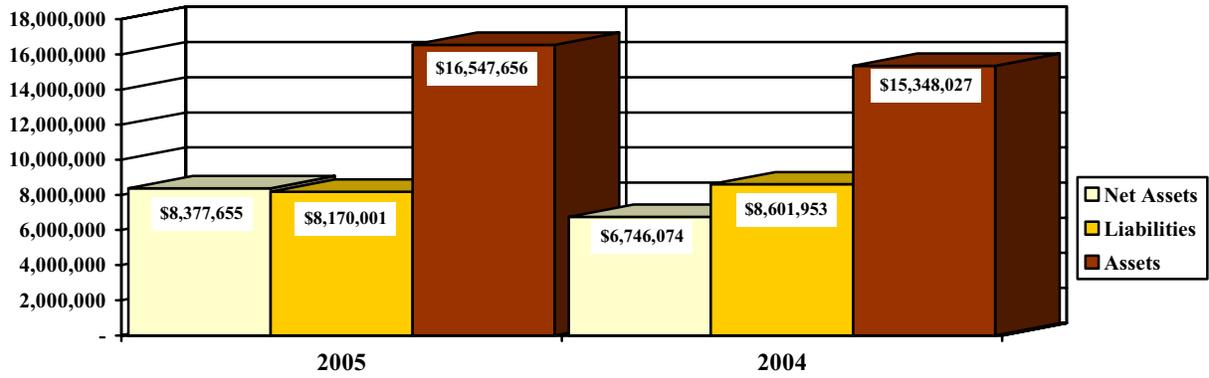
The Statement of Net Assets provides the perspective of the District as a whole. The table below provides a summary of the District's net assets for 2005 and 2004.

	Governmental		Net Assets		Total	
	Activities		Business-Type			
	2005	2004	2005	2004	2005	2004
<b><u>Assets</u></b>						
Current assets	\$ 12,719,487	\$ 11,197,039	\$ 36,360	\$ 40,637	\$ 12,755,847	\$ 11,237,676
Capital assets, net	<u>3,828,169</u>	<u>4,150,988</u>	<u>-</u>	<u>-</u>	<u>3,828,169</u>	<u>4,150,988</u>
Total assets	<u>16,547,656</u>	<u>15,348,027</u>	<u>36,360</u>	<u>40,637</u>	<u>16,584,016</u>	<u>15,388,664</u>
<b><u>Liabilities</u></b>						
Current liabilities	7,071,029	7,454,613	1,447	1,693	7,072,476	7,456,306
Long-term liabilities	<u>1,098,972</u>	<u>1,147,340</u>	<u>-</u>	<u>-</u>	<u>1,098,972</u>	<u>1,147,340</u>
Total liabilities	<u>8,170,001</u>	<u>8,601,953</u>	<u>1,447</u>	<u>1,693</u>	<u>8,171,448</u>	<u>8,603,646</u>
<b><u>Net Assets</u></b>						
Invested in capital assets, net of debt	3,637,251	3,883,753	-	-	3,637,251	3,883,753
Restricted	1,122,054	944,390	-	-	1,122,054	944,390
Unrestricted	<u>3,618,350</u>	<u>1,917,931</u>	<u>34,913</u>	<u>38,944</u>	<u>3,653,263</u>	<u>1,956,875</u>
Total net assets	<u>\$ 8,377,655</u>	<u>\$ 6,746,074</u>	<u>\$ 34,913</u>	<u>\$ 38,944</u>	<u>\$ 8,412,568</u>	<u>\$ 6,785,018</u>

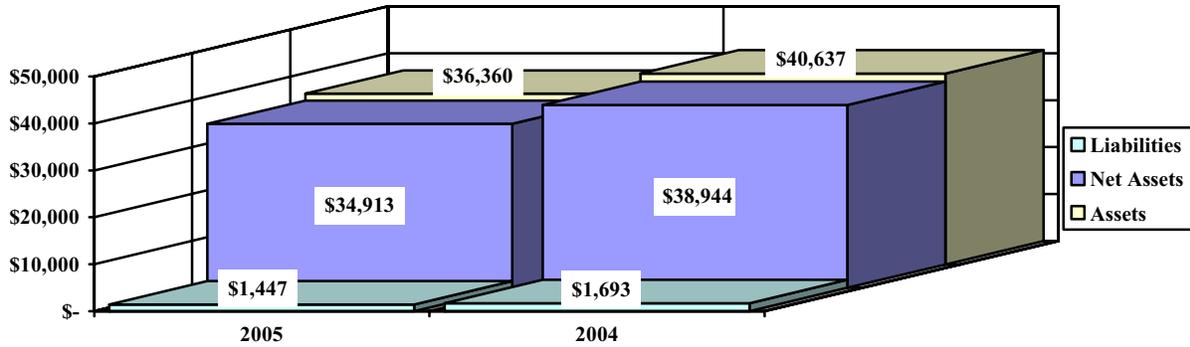
**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED

**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 years 2005 and 2004.

**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED

**Change in Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
<b>Revenues</b>						
Program revenues:						
Charges for services and sales	\$ 1,373,178	\$ 1,309,597	\$ 18,924	\$ 20,500	\$ 1,392,102	\$ 1,330,097
Operating grants and contributions	756,988	628,926	-	-	756,988	628,926
Capital grants and contributions	83,311	-	-	-	83,311	-
General revenues:						
Property taxes	6,759,337	6,195,263	-	-	6,759,337	6,195,263
Grants and entitlements	8,655,758	8,531,239	-	-	8,655,758	8,531,239
Investment earnings	131,406	70,786	-	-	131,406	70,786
Gain on sale of capital assets	17,456	984	-	-	17,456	984
Other	29,556	38,292	-	-	29,556	38,292
<b>Total revenues</b>	<b>17,806,990</b>	<b>16,775,087</b>	<b>18,924</b>	<b>20,500</b>	<b>17,825,914</b>	<b>16,795,587</b>
<b>Expenses</b>						
Program expenses:						
Instruction:						
Regular	6,903,930	7,225,186	-	-	6,903,930	7,225,186
Special	1,495,622	1,562,355	-	-	1,495,622	1,562,355
Vocational	325,990	335,783	-	-	325,990	335,783
Other	885,787	661,702	-	-	885,787	661,702
Support services:						
Pupil	1,077,794	1,125,522	-	-	1,077,794	1,125,522
Instructional staff	365,046	415,548	-	-	365,046	415,548
Board of Education	14,306	15,930	-	-	14,306	15,930
Administration	1,298,509	1,332,010	-	-	1,298,509	1,332,010
Fiscal	326,111	333,010	-	-	326,111	333,010
Business	20,704	26,348	-	-	20,704	26,348
Operations and maintenance	1,163,961	1,051,774	-	-	1,163,961	1,051,774
Pupil transportation	1,035,129	1,011,727	-	-	1,035,129	1,011,727
Central	199,554	174,726	-	-	199,554	174,726
Operation of non-instructional services	-	9,373	-	-	-	9,373
Extracurricular activities	492,563	461,743	-	-	492,563	461,743
Food service operations	556,751	546,157	-	-	556,751	546,157
Interest and fiscal charges	13,652	15,387	-	-	13,652	15,387
Community recreation	-	-	1,767	1,940	1,767	1,940
Latchkey program	-	-	21,188	19,131	21,188	19,131
<b>Total expenses</b>	<b>16,175,409</b>	<b>16,304,281</b>	<b>22,955</b>	<b>21,071</b>	<b>16,198,364</b>	<b>16,325,352</b>
Changes in net assets	1,631,581	470,806	(4,031)	(571)	1,627,550	470,235
Net assets at beginning of year	6,746,074	6,275,268	38,944	39,515	6,785,018	6,314,783
<b>Net assets at end of year</b>	<b>\$ 8,377,655</b>	<b>\$ 6,746,074</b>	<b>\$ 34,913</b>	<b>\$ 38,944</b>	<b>\$ 8,412,568</b>	<b>\$ 6,785,018</b>

**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
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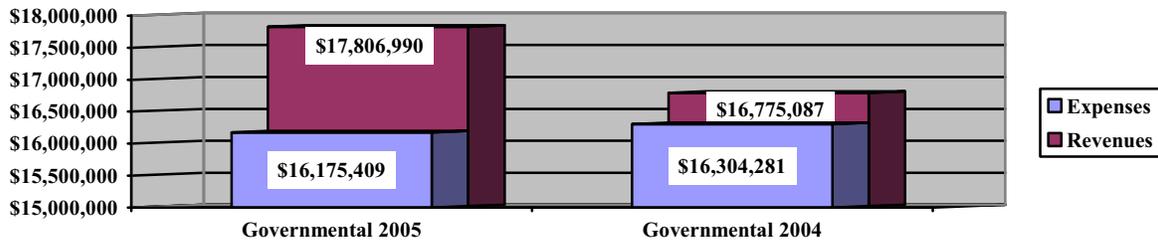
**Governmental Activities**

Net assets of the District's governmental activities increased \$1,631,581. Total governmental expenses of \$16,175,409 were offset by program revenues of \$2,213,477 and general revenues of \$15,593,513. Program revenues supported 13.68% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These revenue sources represent 86.56% 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 years 2005 and 2004.

**Governmental Activities - Revenues and Expenses**



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 2005 and 2004. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

	<b>Governmental Activities</b>			
	Total Cost of Services 2005	Net Cost of Services 2005	Total Cost of Services 2004	Net Cost of Services 2004
Program expenses:				
Instruction:				
Regular	\$ 6,903,930	\$ (5,998,682)	\$ 7,225,186	\$ (6,407,445)
Special	1,495,622	(1,107,812)	1,562,355	(1,234,071)
Vocational	325,990	(325,990)	335,783	(335,783)
Other	885,787	(885,787)	661,702	(645,514)

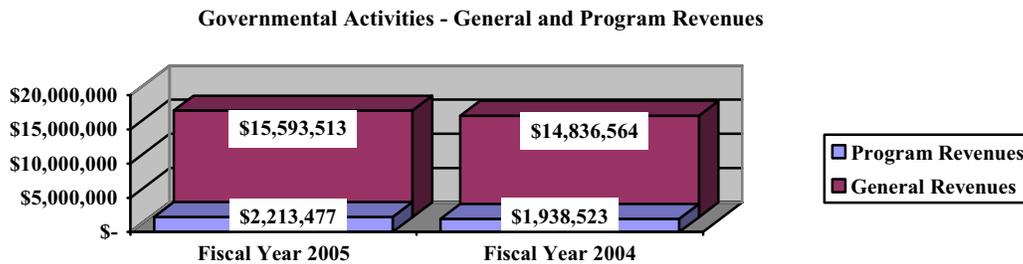
**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED**

	Total Cost of Services <u>2005</u>	Net Cost of Services <u>2005</u>	Total Cost of Services <u>2004</u>	Net Cost of Services <u>2004</u>
Support services:				
Pupil	1,077,794	(923,469)	1,125,522	(1,006,214)
Instructional staff	365,046	(325,482)	415,548	(364,889)
Board of Education	14,306	(14,306)	15,930	(15,930)
Administration	1,298,509	(1,298,509)	1,332,010	(1,331,370)
Fiscal	326,111	(315,366)	333,010	(333,010)
Business	20,704	(18,412)	26,348	(26,348)
Operations and maintenance	1,163,961	(1,138,155)	1,051,774	(1,051,262)
Pupil transportation	1,035,129	(1,035,129)	1,011,727	(1,011,727)
Central	199,554	(152,207)	174,726	(166,726)
Operation of non-instructional services	-	-	9,373	5,986
Extracurricular activities	492,563	(417,414)	461,743	(387,059)
Food service operations	556,751	8,440	546,157	(39,009)
Interest and fiscal charges	13,652	(13,652)	15,387	(15,387)
<b>Total expenses</b>	<b>\$ 16,175,409</b>	<b>\$ (13,961,932)</b>	<b>\$ 16,304,281</b>	<b>\$ (14,365,758)</b>

The dependence upon tax revenues during fiscal year 2005 for governmental activities is apparent, as 61.64% of 2005 instruction activities are supported through taxes and other general revenues. All governmental activities, general revenue support are 96.40% in 2005. 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 2005 and 2004.



**Business-Type Activities**

Business-type activities include community recreation and latchkey program. These programs had revenues of \$18,924 and expenses of \$22,955 for fiscal year 2005. The District's business activities receive no support from tax revenues.

**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED

**The District's Funds**

The District's governmental funds (as presented on the balance sheet on page 18) reported a combined fund balance of \$4,486,697, which is above last year's total of \$3,044,038. The June 30, 2004 fund balances have been restated as described in Note 3.A. to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2005 and 2004.

	Fund Balance <u>June 30, 2005</u>	(Restated) Fund Balance <u>June 30, 2004</u>	<u>Increase</u>
General	\$ 3,290,375	\$ 1,972,418	\$ 1,317,957
Other Governmental	<u>1,196,322</u>	<u>1,071,620</u>	<u>124,702</u>
Total	<u>\$ 4,486,697</u>	<u>\$ 3,044,038</u>	<u>\$ 1,442,659</u>

**General Fund**

The District's general fund balance increased \$1,317,957, due to an increase in taxes. 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.

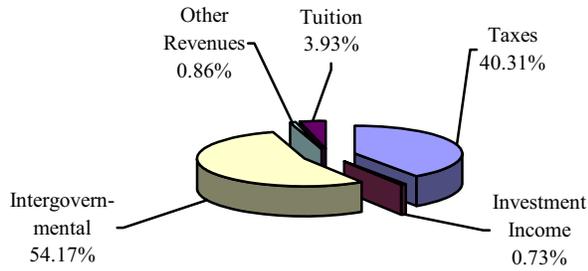
	<u>2005 Amount</u>	<u>2004 Amount</u>	<u>Percentage Change</u>
<b><u>Revenues</u></b>			
Taxes	\$ 6,441,338	\$ 5,897,025	9.23 %
Tuition	627,242	598,197	4.86 %
Interest earnings	116,722	55,921	108.73 %
Intergovernmental	8,655,758	8,488,710	1.97 %
Other revenues	<u>136,673</u>	<u>125,879</u>	8.57 %
Total	<u>\$15,977,733</u>	<u>\$15,165,732</u>	5.35 %

Interest earnings revenue increased \$60,801 or 108.73% from 2004. This increase is due to an increase in interest rates by the Federal Reserve Bank throughout the year. All other revenue remained comparable to 2004.

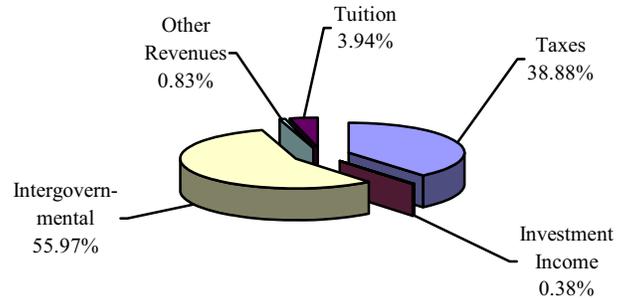
**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED

**Revenues - Fiscal Year 2005**



**Revenues - Fiscal Year 2004**

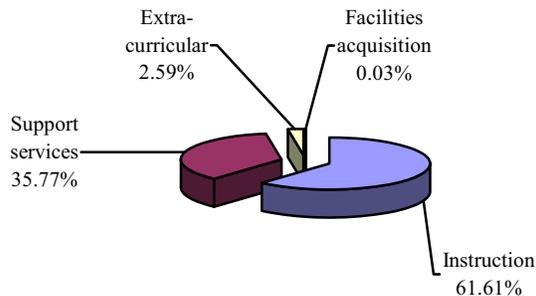


The table that follows assists in illustrating the expenditures of the general fund. Certain 2004 balances have been restated as detailed in Note 3A of the notes to the financial statements.

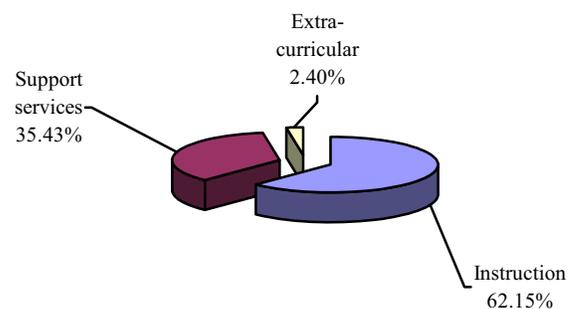
<b>Expenditures</b>	<u>2005 Amount</u>	<u>2004 Amount</u>	<u>Percentage Change</u>
Instruction	\$ 8,986,543	\$ 8,869,477	1.32 %
Support services	5,217,630	5,056,728	3.18 %
Extracurricular activities	378,349	345,309	9.57 %
Facilities acquisition and construction	<u>3,975</u>	<u>-</u>	100.00 %
<b>Total</b>	<b><u>\$ 14,586,497</u></b>	<b><u>\$ 14,271,514</u></b>	<b>2.21 %</b>

The most significant increase was in the area of extracurricular activities. This increase is primarily due to pay increases.

**Expenditures - Fiscal Year 2005**



**Expenditures - Fiscal Year 2004**



**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED

***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 2005, the District did not amend its general fund budget. For the general fund revenue budget, original budgeted revenues and other financing sources were \$14,302,698. The final budgeted revenues and other financing sources were \$14,302,698. Actual revenues and other financing sources were \$15,554,349 which was more than final budgeted revenues by \$1,251,651.

General fund original appropriations (appropriated expenditures plus other financing uses) of \$15,161,538 were increased to \$15,548,538 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2005 totaled \$14,895,645, which was \$652,893 less than the final budget appropriations.

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal 2005, the District had \$3,828,169 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. The following table shows fiscal 2005 balances compared to the balance of 2004.

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

	Governmental Activities	
	2005	2004
Land	\$ 851,565	\$ 851,565
Land improvements	323,448	280,633
Building and improvements	1,731,488	2,082,850
Furniture and equipment	269,112	288,735
Vehicles	652,556	647,205
Total	\$ 3,828,169	\$ 4,150,988

The overall decrease in capital assets of \$322,819 is due to depreciation expense of \$578,925 exceeding capital outlays of \$256,106 in the fiscal year.

See Note 8 to the basic financial statements for additional information on the District's capital assets.

**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED

***Debt Administration***

At June 30, 2005 the District had \$144,000 in energy conservation notes and \$46,918 in a capital lease outstanding. Of this total, \$81,173 is due within one year and \$109,745 is due within greater than one year. The following table summarizes the notes and lease outstanding.

	Governmental Activities	
	2005	2004
Energy conservation notes	\$ 144,000	\$ 210,000
Capital lease	46,918	57,235
Total	\$ 190,918	\$ 267,235

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.

At June 30, 2005, the District's overall legal debt margin was \$23,469,358 with an unvoted debt margin of \$260,689.

See Note 10 to the basic financial statements for additional information on the District's debt administration.

**Current Financial Related Activities**

The District continues to face a challenging future as do many districts in the State of Ohio. 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. Since the expiration of an emergency levy in 2003, the District has been on the ballot twice. Their last attempt for new money was in May 2005 seeking a 1% school district income tax. It was soundly defeated with over 60% of the vote. Since 2004 the District has reduced staff by a total of five (5) teaching and ten (10) non-teaching positions. Budget cuts for field trips, professional development, supplies and equipment were made in fiscal year 2005 and have been continued for fiscal year 2006.

District enrollment decreased in fiscal year 2005 but it occurred in the year where we would be eligible for a reappraisal guarantee. Staffing cuts along with the reappraisal guarantee of over \$600,000, which maintained our foundation revenue at the fiscal year 2004 level, allowed us to close fiscal year 2005 with an increased carryover. Also attributing to this carryover was the underestimate by the county auditor of our local tax revenue. We received almost \$200,000 more in local tax revenue than our estimated certificate had indicated. It looks like our "luck" has continued into fiscal year 2006 as our enrollment has decreased yet again, but our SF3 funding will remain at the fiscal year 2005 level due to a "hold harmless" clause in the new biennial budget bill. At this time it is expected that this "hold harmless clause" will also keep our fiscal year 2007 foundation funding at the same level. These are looked upon as "one time only" good fortune and are not expected to continue.

Another challenge facing the District is the continually growing costs of open enrollment and community school students leaving our district. We are currently able to accept enough incoming open enrollment students annually to offset the cost of those students leaving. With our reductions in teaching staff it limits the number of open enrollment students that we can accept.

**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED

Since the District relies on the State for approximately 49% 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.

During the 2004-05 school year two external evaluations of district facilities were completed. In addition a local committee reviewed these reports and ultimately made a report to the board of education in July 2005. In general, they recommended working with the Ohio Schools Facility Commission to ultimately build a new high school on the Vermilion Road campus, convert and renovate the current high school to be used as a middle school and to upgrade the current elementary building. Continued discussion will be taking place. Conceptually a bond issue for building purposes could be placed on the ballot in May 2007.

All of the District's financial abilities will be needed to meet the financial challenges of the future.

**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 44074-9629.

**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

STATEMENT OF NET ASSETS  
JUNE 30, 2005

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Assets:</b>			
Equity in pooled cash and cash equivalents. . .	\$ 4,931,180	\$ 36,360	\$ 4,967,540
Cash with fiscal agent. . . . .	1,239,896	-	1,239,896
Receivables:			
Taxes . . . . .	6,491,204	-	6,491,204
Accounts . . . . .	10,713	-	10,713
Intergovernmental . . . . .	19,603	-	19,603
Accrued interest . . . . .	1,797	-	1,797
Prepayments . . . . .	21,150	-	21,150
Materials and supplies inventory. . . . .	3,944	-	3,944
Capital assets:			
Land. . . . .	851,565	-	851,565
Depreciable capital assets, net. . . . .	2,976,604	-	2,976,604
Total capital assets, net . . . . .	<u>3,828,169</u>	<u>-</u>	<u>3,828,169</u>
 Total assets. . . . .	 <u>16,547,656</u>	 <u>36,360</u>	 <u>16,584,016</u>
<b>Liabilities:</b>			
Accounts payable. . . . .	15,661	-	15,661
Accrued wages and benefits . . . . .	1,247,158	964	1,248,122
Intergovernmental payable . . . . .	51,414	75	51,489
Deferred revenue . . . . .	5,033,425	-	5,033,425
Pension obligation payable . . . . .	342,150	408	342,558
Accrued interest payable . . . . .	629	-	629
Claims payable . . . . .	380,592	-	380,592
Long-term liabilities:			
Due within one year. . . . .	131,993	-	131,993
Due in more than one year . . . . .	966,979	-	966,979
 Total liabilities . . . . .	 <u>8,170,001</u>	 <u>1,447</u>	 <u>8,171,448</u>
<b>Net Assets:</b>			
Invested in capital assets, net of related debt. . . . .	3,637,251	-	3,637,251
Restricted for:			
Capital projects . . . . .	957,069	-	957,069
Debt service. . . . .	6,757	-	6,757
State funded programs. . . . .	72,646	-	72,646
Federally funded programs. . . . .	63,679	-	63,679
Student activities. . . . .	21,903	-	21,903
Unrestricted . . . . .	<u>3,618,350</u>	<u>34,913</u>	<u>3,653,263</u>
 Total net assets . . . . .	 <u>\$ 8,377,655</u>	 <u>\$ 34,913</u>	 <u>\$ 8,412,568</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental activities:</b>				
Instruction:				
Regular . . . . .	\$ 6,903,930	\$ 760,353	\$ 123,685	\$ 21,210
Special . . . . .	1,495,622	-	387,810	-
Vocational . . . . .	325,990	-	-	-
Other . . . . .	885,787	-	-	-
Support services:				
Pupil . . . . .	1,077,794	109,039	45,286	-
Instructional staff . . . . .	365,046	834	38,730	-
Board of education . . . . .	14,306	-	-	-
Administration . . . . .	1,298,509	-	-	-
Fiscal . . . . .	326,111	-	-	10,745
Business . . . . .	20,704	-	2,292	-
Operations and maintenance . . . . .	1,163,961	-	-	25,806
Pupil transportation . . . . .	1,035,129	-	-	-
Central . . . . .	199,554	12,578	9,219	25,550
Extracurricular activities . . . . .	492,563	75,149	-	-
Food service operations . . . . .	556,751	415,225	149,966	-
Interest and fiscal charges . . . . .	13,652	-	-	-
Total governmental activities . . . . .	16,175,409	1,373,178	756,988	83,311
<b>Business-Type activities:</b>				
Community recreation . . . . .	1,767	1,980	-	-
Latchkey program . . . . .	21,188	16,944	-	-
Total business-type activities . . . . .	22,955	18,924	-	-
Totals . . . . .	\$ 16,198,364	\$ 1,392,102	\$ 756,988	\$ 83,311

**General Revenues:**

Property taxes levied for:

    General fund . . . . .

    Capital outlay . . . . .

Grants and entitlements not restricted to specific programs . . . . .

Investment earnings . . . . .

Gain on sale of capital assets . . . . .

Miscellaneous . . . . .

Total general revenues . . . . .

Change in net assets . . . . .

**Net assets at beginning of year . . . . .**

**Net assets at end of year . . . . .**

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**Net (Expense) Revenue  
and Changes in Net Assets**

<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
\$ (5,998,682)	\$ -	\$ (5,998,682)
(1,107,812)	-	(1,107,812)
(325,990)	-	(325,990)
(885,787)	-	(885,787)
(923,469)	-	(923,469)
(325,482)	-	(325,482)
(14,306)	-	(14,306)
(1,298,509)	-	(1,298,509)
(315,366)	-	(315,366)
(18,412)	-	(18,412)
(1,138,155)	-	(1,138,155)
(1,035,129)	-	(1,035,129)
(152,207)	-	(152,207)
(417,414)	-	(417,414)
8,440	-	8,440
(13,652)	-	(13,652)
(13,961,932)	-	(13,961,932)
-	213	213
-	(4,244)	(4,244)
-	(4,031)	(4,031)
(13,961,932)	(4,031)	(13,965,963)
6,402,768	-	6,402,768
356,569	-	356,569
8,655,758	-	8,655,758
131,406	-	131,406
17,456	-	17,456
29,556	-	29,556
15,593,513	-	15,593,513
1,631,581	(4,031)	1,627,550
6,746,074	38,944	6,785,018
\$ 8,377,655	\$ 34,913	\$ 8,412,568

**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2005

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>			
Equity in pooled cash and cash equivalents . . . . .	\$ 3,724,757	\$ 1,206,423	\$ 4,931,180
Receivables:			
Taxes . . . . .	6,152,766	338,438	6,491,204
Accounts . . . . .	10,252	461	10,713
Intergovernmental . . . . .	-	19,603	19,603
Accrued interest . . . . .	1,797	-	1,797
Prepayments . . . . .	19,988	1,162	21,150
Materials and supplies inventory . . . . .	-	3,944	3,944
Total assets . . . . .	<u>\$ 9,909,560</u>	<u>\$ 1,570,031</u>	<u>\$ 11,479,591</u>
<b>Liabilities:</b>			
Accounts payable . . . . .	\$ 2,543	\$ 13,118	\$ 15,661
Accrued wages and benefits . . . . .	1,186,244	60,914	1,247,158
Pension obligation payable . . . . .	319,981	22,169	342,150
Intergovernmental payable . . . . .	48,570	2,844	51,414
Deferred revenue . . . . .	5,061,847	274,664	5,336,511
Total liabilities . . . . .	<u>6,619,185</u>	<u>373,709</u>	<u>6,992,894</u>
<b>Fund Balances:</b>			
Reserved for encumbrances . . . . .	125,330	165,990	291,320
Reserved for materials and supplies inventory . . . . .	-	3,944	3,944
Reserved for property tax unavailable for appropriation . . . . .	1,092,716	67,519	1,160,235
Reserved for prepayments . . . . .	19,988	1,162	21,150
Reserved for debt service . . . . .	-	7,386	7,386
Unreserved, undesignated, reported in:			
General fund . . . . .	2,052,341	-	2,052,341
Special revenue funds . . . . .	-	221,229	221,229
Capital projects funds . . . . .	-	729,092	729,092
Total fund balances . . . . .	<u>3,290,375</u>	<u>1,196,322</u>	<u>4,486,697</u>
Total liabilities and fund balances . . . . .	<u>\$ 9,909,560</u>	<u>\$ 1,570,031</u>	<u>\$ 11,479,591</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2005

<b>Total governmental fund balances</b>		\$	4,486,697
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			3,828,169
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	297,544	
Interest revenue		1,797	
Intergovernmental revenue		3,745	
Total			303,086
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 on the statement of net assets.			859,304
In the statement of activities interest is accrued on outstanding notes, whereas in governmental funds, interest expenditures are reported when due.			(629)
Long-term liabilities, including notes payable, are not due and payable in the current period and therefore are not reported in the funds.			
Energy conservation notes	\$	144,000	
Capital lease obligation		46,918	
Compensated absences		908,054	
Total			(1,098,972)
<b>Net assets of governmental activities</b>		<b>\$</b>	<b>8,377,655</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>			
From local sources:			
Taxes . . . . .	\$ 6,441,338	\$ 357,917	\$ 6,799,255
Tuition . . . . .	627,242	-	627,242
Transportation fees . . . . .	15,759	-	15,759
Charges for services . . . . .	-	415,225	415,225
Earnings on investments . . . . .	116,722	1,235	117,957
Extracurricular . . . . .	18	197,600	197,618
Classroom materials and fees . . . . .	56,509	25,994	82,503
Other local revenues . . . . .	64,387	26,545	90,932
Intergovernmental - Intermediate . . . . .	-	5,725	5,725
Intergovernmental - State . . . . .	8,655,758	168,572	8,824,330
Intergovernmental - Federal . . . . .	-	639,000	639,000
Total revenues . . . . .	<u>15,977,733</u>	<u>1,837,813</u>	<u>17,815,546</u>
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular . . . . .	6,667,884	171,371	6,839,255
Special . . . . .	1,121,761	388,757	1,510,518
Vocational . . . . .	314,210	-	314,210
Other . . . . .	882,688	3,099	885,787
Support Services:			
Pupil . . . . .	956,588	167,295	1,123,883
Instructional staff . . . . .	328,259	38,451	366,710
Board of education . . . . .	14,306	-	14,306
Administration . . . . .	1,316,561	-	1,316,561
Fiscal . . . . .	324,050	5,481	329,531
Business . . . . .	20,704	-	20,704
Operations and maintenance . . . . .	1,032,792	15,455	1,048,247
Pupil transportation . . . . .	1,083,356	-	1,083,356
Central . . . . .	141,014	75,197	216,211
Extracurricular activities . . . . .	378,349	74,069	452,418
Facilities acquisition and construction . . . . .	3,975	216,727	220,702
Food service operations . . . . .	-	556,549	556,549
Debt service:			
Principal retirement . . . . .	-	76,317	76,317
Interest and fiscal charges . . . . .	-	13,941	13,941
Total expenditures . . . . .	<u>14,586,497</u>	<u>1,802,709</u>	<u>16,389,206</u>
Excess of revenues under expenditures . . . . .	<u>1,391,236</u>	<u>35,104</u>	<u>1,426,340</u>
<b>Other financing sources (uses):</b>			
Transfers in . . . . .	-	90,735	90,735
Transfers (out) . . . . .	(90,735)	-	(90,735)
Sale of capital assets . . . . .	17,456	-	17,456
Total other financing sources (uses) . . . . .	<u>(73,279)</u>	<u>90,735</u>	<u>17,456</u>
Net change in fund balances . . . . .	1,317,957	125,839	1,443,796
<b>Fund balances at beginning of year (restated) . . . . .</b>	1,972,418	1,071,620	3,044,038
<b>Decrease in reserve for inventory . . . . .</b>	-	(1,137)	(1,137)
<b>Fund balances at end of year . . . . .</b>	<u>\$ 3,290,375</u>	<u>\$ 1,196,322</u>	<u>\$ 4,486,697</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

<b>Net change in fund balances - total governmental funds</b>	\$	1,443,796
 <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 depreciation expense exceeds capital outlays in the current period.		
Capital asset additions	\$ 256,106	
Current year depreciation	<u>(578,925)</u>	(322,819)
 Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Delinquent property taxes	(39,918)	
Intergovernmental revenues	457	
Accrued interest	<u>(1,554)</u>	(41,015)
 Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as an expense when consumed.		
		(1,137)
 Repayment of note and lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
		76,317
 In the statement of activities, interest is accrued on outstanding notes, whereas in governmental funds, an interest expenditure is reported when due.		
		289
 Some expenses reported in the statement of activities, such as compensated absences do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		(53,132)
 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.		
		<u>529,282</u>
<b>Change in net assets of governmental activities</b>	<b>\$</b>	<b><u>1,631,581</u></b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 5,481,262	\$ 5,481,262	\$ 5,962,927	\$ 481,665
Tuition. . . . .	576,434	576,434	627,088	50,654
Transportation fees . . . . .	13,275	13,275	14,441	1,166
Earnings on investments. . . . .	109,412	109,412	119,027	9,615
Extracurricular. . . . .	17	17	18	1
Classroom materials and fees. . . . .	50,452	50,452	54,885	4,433
Other local revenues. . . . .	56,143	56,143	61,077	4,934
Intergovernmental - State . . . . .	7,956,574	7,956,574	8,655,757	699,183
Total revenues. . . . .	<u>14,243,569</u>	<u>14,243,569</u>	<u>15,495,220</u>	<u>1,251,651</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	6,743,122	6,916,277	6,693,066	223,211
Special. . . . .	1,180,345	1,210,655	1,132,123	78,532
Vocational. . . . .	311,657	319,660	316,467	3,193
Other . . . . .	883,854	906,550	885,500	21,050
Support Services:				
Pupil. . . . .	975,793	1,000,850	976,672	24,178
Instructional staff . . . . .	325,692	334,055	332,061	1,994
Board of education . . . . .	17,403	17,850	14,319	3,531
Administration. . . . .	1,333,238	1,367,475	1,319,915	47,560
Fiscal . . . . .	340,807	349,559	327,045	22,514
Business . . . . .	21,449	22,000	20,736	1,264
Operations and maintenance. . . . .	1,099,443	1,127,675	1,032,484	95,191
Pupil transportation . . . . .	1,225,464	1,256,932	1,199,841	57,091
Central. . . . .	179,120	183,720	179,115	4,605
Extracurricular activities. . . . .	409,875	420,400	371,591	48,809
Facilities acquisition and construction . . . . .	23,541	24,145	3,975	20,170
Total expenditures . . . . .	<u>15,070,803</u>	<u>15,457,803</u>	<u>14,804,910</u>	<u>652,893</u>
Excess of revenues over (under) expenditures. . . . .	<u>(827,234)</u>	<u>(1,214,234)</u>	<u>690,310</u>	<u>1,904,544</u>
<b>Other financing sources (uses):</b>				
Refund of prior year expenditure . . . . .	41,674	41,674	41,674	-
Transfers (out) . . . . .	(90,735)	(90,735)	(90,735)	-
Sale of capital assets. . . . .	17,455	17,455	17,455	-
Total other financing sources (uses) . . . . .	<u>(31,606)</u>	<u>(31,606)</u>	<u>(31,606)</u>	<u>-</u>
Net change in fund balance . . . . .	(858,840)	(1,245,840)	658,704	1,904,544
Fund balance at beginning of year . . . . .	2,814,620	2,814,620	2,814,620	-
Prior year encumbrances appropriated . . . . .	131,538	131,538	131,538	-
Fund balance at end of year . . . . .	<u>\$ 2,087,318</u>	<u>\$ 1,700,318</u>	<u>\$ 3,604,862</u>	<u>\$ 1,904,544</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2005

	<b>Business-Type Activities - Nonmajor Enterprise Funds</b>	<b>Governmental Activities - Internal Service Fund</b>
	<u>                    </u>	<u>                    </u>
<b>Assets:</b>		
Current assets:		
Equity in pooled cash and cash equivalents. . . . .	\$ 36,360	\$ -
Cash with fiscal agent . . . . .	-	1,239,896
Total current assets . . . . .	<u>36,360</u>	<u>1,239,896</u>
<b>Liabilities:</b>		
Accrued wages and benefits . . . . .	964	-
Pension obligation payable. . . . .	408	-
Intergovernmental payable . . . . .	75	-
Claims payable . . . . .	-	380,592
Total liabilities . . . . .	<u>1,447</u>	<u>380,592</u>
<b>Net assets:</b>		
Unrestricted. . . . .	34,913	859,304
Total net assets . . . . .	<u>\$ 34,913</u>	<u>\$ 859,304</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS  
PROPRIETARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<b>Business-Type Activities - Nonmajor Enterprise Funds</b>	<b>Governmental Activities - Internal Service Fund</b>
	<u>          </u>	<u>          </u>
<b>Operating revenues:</b>		
Sales/charges for services . . . . .	\$ 18,924	\$ 1,834,726
Total operating revenues . . . . .	<u>18,924</u>	<u>1,834,726</u>
 <b>Operating expenses:</b>		
Salaries and wages. . . . .	14,475	-
Fringe benefits. . . . .	6,804	-
Purchased services. . . . .	600	116,242
Materials and supplies. . . . .	1,076	-
Claims expense. . . . .	-	1,204,205
Total operating expenses . . . . .	<u>22,955</u>	<u>1,320,447</u>
 Operating income (loss) . . . . .	<u>(4,031)</u>	<u>514,279</u>
 <b>Nonoperating revenues:</b>		
Interest revenue . . . . .	-	15,003
Total nonoperating revenues . . . . .	<u>-</u>	<u>15,003</u>
 Change in net assets. . . . .	(4,031)	529,282
 <b>Net assets at beginning of year. . . . .</b>	<u>38,944</u>	<u>330,022</u>
<b>Net assets at end of year . . . . .</b>	<u>\$ 34,913</u>	<u>\$ 859,304</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<b>Business-Type Activities - Nonmajor Enterprise Funds</b>	<b>Governmental Activities - Internal Service Fund</b>
<b>Cash flows from operating activities:</b>		
Cash received from sales/charges for services. . . . .	\$ 18,924	\$ 1,834,726
Cash payments for salaries and wages. . . . .	(14,450)	-
Cash payments for fringe benefits . . . . .	(6,933)	-
Cash payments for contractual services . . . . .	(600)	(145,000)
Cash payments for materials and supplies . . . . .	(1,218)	-
Cash payments for claims expense . . . . .	-	(1,139,682)
	(4,277)	550,044
<b>Net cash provided by (used in) operating activities . . . . .</b>		
	<b>(4,277)</b>	<b>550,044</b>
<b>Cash flows from investing activities:</b>		
Interest received . . . . .	-	15,003
	-	15,003
<b>Net cash provided by investing activities . . . . .</b>		
	-	15,003
<b>Net increase (decrease) in cash and cash equivalents . . . . .</b>		
	(4,277)	565,047
<b>Cash and cash equivalents at beginning of year . . . . .</b>		
	40,637	674,849
<b>Cash and cash equivalents at end of year. . . . .</b>		
	\$ 36,360	\$ 1,239,896
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:</b>		
Operating income (loss) . . . . .	\$ (4,031)	\$ 514,279
<b>Changes in assets and liabilities:</b>		
Decrease in accounts payable. . . . .	(142)	-
Increase in accrued wages and benefits . . . . .	25	-
Increase in intergovernmental payable. . . . .	8	-
Decrease in pension obligation payable. . . . .	(137)	-
Increase in claims payable . . . . .	-	35,765
	-	35,765
<b>Net cash provided by (used in) operating activities . . . . .</b>		
	\$ (4,277)	\$ 550,044

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
JUNE 30, 2005

	<u>Agency</u>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents . . . . .	\$ 27,587
Total assets . . . . .	<u>\$ 27,587</u>
<b>Liabilities:</b>	
Accounts payable . . . . .	\$ 1,500
Due to students . . . . .	26,087
Total liabilities . . . . .	<u>\$ 27,587</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT**

The Firelands Local School District, Lorain County, Ohio (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 260<sup>th</sup> largest in the State of Ohio (among the 614 public school districts in the state) in terms of enrollment. It is staffed by 98 non-certified and 142 certified personnel to provide services to approximately 2,155 students and other community members.

**NOTE 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 has the option to also apply FASB Statements and Interpretations issued after November 30, 1989 to its business-type activities and enterprise funds, subject to this same limitation. The District has elected not to apply these FASB Statements and Interpretations. 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" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". 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 budget, the issuance of debt, or the levying of taxes. Based upon the application of this 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 Vocational School District (JVS)

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 58, Oberlin, Ohio, 44074.

**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

Lake Erie Education Computer Association (LEECA)

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 Educational Service Center of Lorain County, who serves as the fiscal agent, at 1885 Lake Avenue, Elyria, Ohio 44035.

Lake Erie Regional Council (LERC)

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 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 44035.

Ohio School Boards Association Workers' Compensation Group Rating Plan

The District participates in a group rating plan for workers' compensation as established under Section 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.

**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

*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:

*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; (b) for food service operations; (c) for the accumulation of resources for, and the repayment of long-term debt principal, interest and related costs; and (d) for grants and other resources whose use is restricted to a particular purpose.

*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. The following are the District's proprietary funds:

*Enterprise Fund* - The enterprise fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises—where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The District has two enterprise funds to account for community recreation and latchkey programs. These funds are considered nonmajor enterprise funds.

*Internal Service Fund* - The internal service fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the district, or to other governments, on a cost-reimbursement basis. The only internal service fund of the District accounts for a self-insurance program which provides medical benefits to employees.

*FIDUCIARY FUNDS*

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: private-purpose trust funds, agency funds, pension trust funds, and investment trust 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 has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities.

**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**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.

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 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.

**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**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.

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, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

*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 intergovernmental revenue.

**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

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

**E. 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.

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 original and final amended certificates 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 expenditures 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.

**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated resources. 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 original and final budgeted amounts represent the original and final appropriation amounts passed by the Board during the year.

**F. 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 Cash Equivalents" on the financial statements.

During fiscal year 2005, 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.

The District has invested funds in STAR Ohio during fiscal 2005. 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, 2005.

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 2005 amounted to \$116,722 which includes \$45,995 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.

**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**G. Inventory**

On government-wide and fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the purchase method on the fund financial statements and using the consumption method on the government-wide statements.

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.

Inventory consists of expendable supplies held for consumption, donated food and purchased food.

**H. Capital Assets**

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$5,000. 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.

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>	Governmental Activities <u>Estimated Lives</u>
Land improvements	10 years
Buildings and improvements	10 - 50 years
Furniture/equipment	5 - 10 years
Vehicles	10 years

**I. 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.

**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**J. 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.

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, 2005, 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 expect 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.

**K. Accrued Liabilities and Long-Term Obligations**

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences and future retirement obligations that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Long-term notes and lease obligations are recognized as a liability in the fund financial statements when due.

**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**L. 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, debt service, 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.

**M. 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.

**N. 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.

**O. 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.

**P. 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.

**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**Q. 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.

**R. 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 2005.

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Change in Accounting Principles**

For fiscal year 2005, the District has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures" and GASB Technical Bulletin 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers".

GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modified disclosure requirements for custodial credit risk on deposits.

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

The implementation of GASB Statement No. 40 did not have an effect on the financial statements of the District, however, additional note disclosure can be found in Note 4. The implementation of GASB Technical Bulletin No. 2004-2 had the following effect on the fund balances of the major and non-major funds of the District as they were previously reported as of June 30, 2004:

	General	Nonmajor	Total
Fund balance June 30, 2004	\$ 2,101,612	\$ 1,084,039	\$ 3,185,651
GASB Technical Bulletin 2004-02	(129,194)	(12,419)	(141,613)
Restated fund balance, June 30, 2004	\$ 1,972,418	\$ 1,071,620	\$ 3,044,038

**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)**

**B. Deficit Fund Balances**

Fund balances at June 30, 2005 included the following individual fund deficits:

<u>Nonmajor Funds</u>	<u>Deficit</u>
Entry Year Teacher Grant	\$ 17
Title I	13,148
Title VI	62
Miscellaneous Federal Grants	3,957

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.

**NOTE 4 - DEPOSITS AND INVESTMENTS**

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

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

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

Interim monies 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 and interest by the United States;

**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

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

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, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

**A. Deposits with Financial Institutions**

At June 30, 2005, the carrying amount of all District deposits was \$3,998,714. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005, \$1,949,782 of the District's bank balance of \$4,024,782 was exposed to custodial risk as discussed below, while \$2,075,000 was covered by Federal Deposit Insurance Corporation.

**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District.

**B. Investments**

As of June 30, 2005, the District had the following investments and maturities:

<u>Investment type</u>	<u>Investment Maturities</u>				
	<u>Balance at Fair Value</u>	<u>6 months or less</u>	<u>13 to 18 months</u>	<u>19 to 24 months</u>	<u>Greater than 24 months</u>
STAR Ohio	\$ 1,396,449	\$ 1,396,449	\$ -	\$ -	
FHLB	839,860	297,843	143,641	199,376	199,000
	<u>\$ 2,236,309</u>	<u>\$ 1,694,292</u>	<u>\$ 143,641</u>	<u>\$ 199,376</u>	<u>\$ 199,000</u>

The weighted average maturity of investments is .53 years.

*Interest Rate Risk:* As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the District's investment policy limits investment portfolio maturities to five years or less.

*Credit Risk:* The District's investments, except for STAR Ohio, were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio an AAAM money market rating.

*Concentration of Credit Risk:* The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2005:

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
STAR Ohio	\$ 1,396,449	62.44%
FHLB	839,860	37.56%
	<u>\$ 2,236,309</u>	<u>100.00%</u>

**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

**C. Reconciliation of Cash and Investment to the Statement of Net Assets**

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2005:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 2,758,818
Investments	2,236,309
Cash with fiscal agent	<u>1,239,896</u>
Total	<u>\$ 6,235,023</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 6,171,076
Business type activities	36,360
Agency funds	<u>27,587</u>
Total	<u>\$ 6,235,023</u>

**NOTE 5 - INTERFUND TRANSACTIONS**

Interfund transfers for the year ended June 30, 2005, consisted of the following, as reported on the fund statements:

	<u>Amount</u>
Transfers from general fund to:	
Nonmajor Governmental Funds	\$ 90,735

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.

Interfund transfers between governmental funds are eliminated on the government-wide financial statements; therefore, no transfers are reported on the statement of activities.

**NOTE 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.

**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**NOTE 6 - PROPERTY TAXES - (Continued)**

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 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, 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 June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2003, were levied after April 1, 2004 and are collected in 2005 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 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2005, on the value as of December 31, 2004. 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 County. The County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2005 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2005 was \$1,092,716 in the general fund, and \$67,519 in the Permanent Improvement capital projects fund. The amount available as an advance at June 30, 2004, was \$614,305 in the general fund, and \$35,800 in the Permanent Improvement capital projects fund.

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.

**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 6 - PROPERTY TAXES - (Continued)**

The assessed values upon which the fiscal year 2005 taxes were collected are:

	2004 Second Half Collections		2005 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 233,068,290	92.23	\$ 240,194,670	92.14
Public utility personal	11,406,660	4.51	11,849,730	4.54
Tangible personal property	<u>8,241,445</u>	<u>3.26</u>	<u>8,644,182</u>	<u>3.32</u>
 Total	 <u>\$ 252,716,395</u>	 <u>100.00</u>	 <u>\$ 260,688,582</u>	 <u>100.00</u>
 Tax rate per \$1,000 of assessed valuation	 \$44.20		 \$44.20	

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2005 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	\$ 6,491,204
Accounts	10,713
Intergovernmental	19,603
Accrued interest	<u>1,797</u>
 Total receivables	 <u>\$ 6,523,317</u>

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

**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 8 - CAPITAL ASSETS**

Capital asset activity for the fiscal year-ended June 30, 2005, was as follows:

	Balance <u>June 30, 2004</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2005</u>
<b>Governmental Activities</b>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 851,565	\$ -	\$ -	\$ 851,565
Total capital assets, not being depreciated	<u>851,565</u>	<u>-</u>	<u>-</u>	<u>851,565</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	683,536	84,245	-	767,781
Buildings and improvements	7,762,622	7,245	-	7,769,867
Furniture and equipment	1,361,687	49,334	-	1,411,021
Vehicles	<u>1,310,673</u>	<u>115,282</u>	<u>(50,004)</u>	<u>1,375,951</u>
Total capital assets, being depreciated	<u>11,118,518</u>	<u>256,106</u>	<u>(50,004)</u>	<u>11,324,620</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(402,903)	(41,430)	-	(444,333)
Buildings and improvements	(5,679,772)	(358,607)	-	(6,038,379)
Furniture and equipment	(1,072,952)	(68,957)	-	(1,141,909)
Vehicles	<u>(663,468)</u>	<u>(109,931)</u>	<u>50,004</u>	<u>(723,395)</u>
Total accumulated depreciation	<u>(7,819,095)</u>	<u>(578,925)</u>	<u>50,004</u>	<u>(8,348,016)</u>
Governmental activities capital assets, net	<u>\$ 4,150,988</u>	<u>\$ (322,819)</u>	<u>\$ -</u>	<u>\$ 3,828,169</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 316,942
Special	16,849
Vocational	17,876
Support Services:	
Pupil	4,067
Instructional staff	12,177
Administration	9,014
Operations and maintenance	30,027
Pupil transportation	118,564
Extracurricular activities	40,145
Food service operations	<u>13,264</u>
Total depreciation expense	<u>\$ 578,925</u>

**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 9 - CAPITALIZED LEASES - LESSEE DISCLOSURE**

During a prior fiscal year, the District entered into capitalized leases for copier equipment. These lease agreements met the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the fund financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

Capital fixed assets consisting of office equipment have been capitalized in the amount of \$62,093. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability is recorded in the government-wide financial statements. On the fund financial statements, principal payments in fiscal year 2005 totaled \$10,317 paid by the permanent improvement capital projects fund.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2005:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2006	\$ 14,524
2007	14,523
2008	14,523
2009	<u>10,892</u>
Total minimum lease payments	54,462
Less amount representing interest	<u>(7,544)</u>
Total	<u>\$ 46,918</u>

**NOTE 10 - LONG-TERM OBLIGATIONS**

A. During the fiscal year 2005, the following changes occurred in governmental activities long-term obligations:

	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>	<u>Amounts</u>
	<u>June 30, 2004</u>			<u>June 30, 2005</u>	<u>Due in</u>
					<u>One Year</u>
<b>Governmental Activities</b>					
Compensated absences payable	\$ 880,105	\$ 96,513	\$ (68,564)	\$ 908,054	\$ 50,820
Capital lease payable	57,235	-	(10,317)	46,918	11,173
Energy conservation notes payable	<u>210,000</u>	<u>-</u>	<u>(66,000)</u>	<u>144,000</u>	<u>70,000</u>
Total governmental activities long-term liabilities	<u>\$ 1,147,340</u>	<u>\$ 96,513</u>	<u>\$ (144,881)</u>	<u>\$ 1,098,972</u>	<u>\$ 131,993</u>

**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)**

Energy Conservation Notes:

The energy conservation notes were issued in fiscal year 1997 in the amount of \$575,000 under the authority of H.B. 264. Accordingly, these notes are accounted for in the statement of net assets. These notes outstanding are general obligations of the District, for which the District's full faith and credit are pledged for repayment. 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 as well as the subsequent repayment of the notes from operating revenues.

Compensated Absences: Compensated absences will be paid from the fund from which the employee's salaries are paid.

Capital Lease Obligation: The capital lease obligation will be paid from the general fund. See Note 9 for details.

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

Fiscal year <u>Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 70,000	\$ 5,995	\$ 75,995
2007	<u>74,000</u>	<u>2,035</u>	<u>76,035</u>
Totals	<u>\$ 144,000</u>	<u>\$ 8,030</u>	<u>\$ 152,030</u>

**C. Legal Debt Margin**

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District.

The effects of these debt limitations at June 30, 2005 are a voted debt margin of \$23,469,358 (including available funds of \$7,386) and an unvoted debt margin of \$260,689.

**NOTE 11 - 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 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 72 days for certified employees and 52 days for classified employees.

**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 12 - 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 2005, the District contracted with Indiana Insurance Company through Fitzgibbons, Arnold & Co. for professional liability insurance, fleet insurance, excess coverage, and 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)	\$25,954,999	value
Inland marine coverage (\$2,500 deductible)	1,113,775	value
Boiler and machinery (\$2,500 deductible)	25,000,000	limit
Automobile liability (\$1,000 deductible for comprehensive)	1,000,000	limit
Excessive coverage	1,000,000	limit
Uninsured Motorists (no deductible)	1,000,000	limit
Employee theft	25,000	limit

Settled claims have not exceeded this commercial coverage in any of the past three years. There have been no significant reductions in coverage from fiscal year 2004.

**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 11 Lorain County 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 \$100 single and \$200 family for in network and \$150 single and \$250 family out-of-network 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 its 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.

**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 12 - RISK MANAGEMENT - (Continued)**

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Current Year Claims</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2005	\$ 344,827	\$ 1,204,205	\$ (1,168,440)	\$ 380,592
2004	353,340	1,499,522	(1,508,035)	344,827

**C. Workers' Compensation Plan**

The District participates in the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (the "Plan"), an insurance purchasing pool. The Executive Director of the OASBO, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the plan.

The intent of the Plan is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan. 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 Plan. 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 Plan. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria. The firm of Sheakley Uniserve, Inc. provides administrative, cost control and actuarial services to the Plan.

**NOTE 13 - 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 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate of 14% for 2005, 10.57% 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, 2005, 2004, and 2003 were \$201,943, \$171,374, and \$151,245, respectively; 47.67% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$105,685 represents the unpaid contribution for fiscal year 2005.

**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 13 - DEFINED BENEFIT PENSION PLANS - (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% 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.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute 14%; 13% 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% for members and 14% 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, 2005, 2004, and 2003 were \$946,942, \$954,301, and \$917,942, respectively; 83.99% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$151,625 represents the unpaid contribution for fiscal year 2005. Contributions to the DC and Combined Plans for fiscal 2005 were \$4,688 made by the District and \$18,860 made by plan members.

**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)**

**C. Social Security System**

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

**NOTE 14 - 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% of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$72,842 during fiscal 2005.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was at \$3.1 billion at June 30, 2004 (the latest information available). For the fiscal year ended June 30, 2004 (the latest information available), net health care costs paid by STRS were \$268.739 million and STRS had 111,853 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. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

For this fiscal year, employer contributions to fund health care benefits were 3.43% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at \$27,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2004 (the latest information available) were \$223.44 million and the target level was \$335.2 million. At June 30, 2004, (the latest information available) SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$39,290 during the 2005 fiscal year.

**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 15 - 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 and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses 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 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	\$ 658,704
Net adjustment for revenue accruals	482,513
Net adjustment for expenditure accruals	91,633
Net adjustment for other financing sources/(uses)	(41,673)
Adjustment for encumbrances	<u>126,780</u>
GAAP basis	<u>\$ 1,317,957</u>

**NOTE 16 - 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.

**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 16 - CONTINGENCIES - (Continued)**

**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.

**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.

**D. Newly Enacted Legislation**

In June 2005, the State of Ohio enacted legislation, portions of which take effect at various times, that phases out the taxation of tangible personal property used in business (other than certain public utility tangible personal property) over four years from tax year 2006 to tax year 2009. New manufacturing machinery and equipment first reportable after 2005 is not subject to tangible personal property taxation. To compensate local government units for the foregone revenue, the recently enacted legislation provides for State distributions from revenue generated by a newly enacted commercial activities tax. The reimbursement is to be based on the aggregate value of tangible personal property reported from the local government for tax year 2004 (based on voted levies approved by the electors by September 1, 2005). Generally these distributions will fully reimburse the local government units at that base level through 2010 and then in declining amounts from 2011 through 2017.

**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 17 - 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, 2005, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Acquisition</u>
Set-aside cash balance as of June 30, 2004	\$ (300,077)	\$ -
Current year offsets	311,788	311,788
Qualifying disbursements	<u>(242,881)</u>	<u>(478,468)</u>
Total	<u>\$ (231,170)</u>	<u>\$ (166,680)</u>
Balance carried forward to FY 2006	<u>\$ (231,170)</u>	<u>\$ -</u>

The District had qualifying expenditures during the year that reduced the textbooks set-aside amounts below zero. The extra amount for textbooks is being carried forward to reduce the set-aside requirements for future years.

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**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY**

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

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
<b>UNITED STATES DEPARTMENT OF AGRICULTURE</b>						
<i>Passed through the Ohio Department of Education</i>						
<u>Nutrition Cluster:</u>						
Food Distribution	n/a	10.550	\$29,852	\$29,852	\$29,852	\$29,852
National School Lunch Program	048157-LLP4-2004	10.555	\$25,302	-	\$25,302	-
	048157-LLP4-2005		74,774		74,774	
Total - National School Lunch Program			100,076		100,076	
<b>Total Department of Agriculture- Nutrition Cluster</b>			<b>100,076</b>	<b>29,852</b>	<b>100,076</b>	<b>29,852</b>
<b>UNITED STATES DEPARTMENT OF EDUCATION</b>						
<i>Passed through the Ohio Department of Education</i>						
<u>Special Education Cluster:</u>						
Special Education - Grants to States	048157-6BSF-2005	84.027	339,432		326,029	
Total - Special Education Cluster			339,432		326,029	
Title I Grants to Local Educational Agencies	048157-C1S1 2004	84.010	2,566		7,062	
	048157-C1S1 2005		76,671		76,671	
Total - Title I Grants to Local Educational Agencies			79,237		83,733	
Safe and Drug Free Schools and Communities - State Grants	048157-DRS1-2005	84.186	6,615		6,615	
Innovative Education Program Strategies	048157-C2S1-2005	84.298	8,987		8,987	
Technology Literacy Challenge Fund Grants	048157-TJS1-2003	84.318	(23)		-	
	048157-TJ-S1 2004		(507)		-	
	048157-TJ-S1 2005		4,377		3,396	
Total - Technology Literacy Challenge Fund Grants			3,847		3,396	
Improving Teacher Quality State Grants	048157-TRS1-2004	84.367	722		9,862	
	048157-TRS1-2005		54,352		50,343	
Total - Improving Teacher Quality State Grants			55,074		60,205	
<b>Total Department of Education</b>			<b>493,192</b>		<b>488,965</b>	
<b>TOTALS</b>			<b>\$593,268</b>	<b>\$29,852</b>	<b>\$589,041</b>	<b>\$29,852</b>

The accompanying notes are an integral part of this schedule.

**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY**

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

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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

**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.

N/A – Not Applicable

CFDA – Catalog of Federal Domestic Assistance



## Auditor of State Betty Montgomery

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

Board of Education  
Firelands Local School District  
Lorain County  
11970 Vermilion Road  
Oberlin, Ohio 44074

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Firelands Local School District, Lorain County, Ohio, (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 7, 2006, wherein we noted the District implemented GASB Statement Nos. 40, 45, and Technical Bulletin 2004-2 and restated the fund balances of the Governmental Funds as of June 30, 2004. We were engaged to audit the business-type activities and the enterprise funds of the Firelands Local School District as of and for the year ended June 30, 2005 in which we issued a disclaimer of opinion for the District's failure to retain the child care fees forms to support the revenues of the business-type activities and proprietary funds received by the District. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

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

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

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable condition described above is a material weakness. In a separate letter to the District's management dated November 7, 2006, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

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### **Compliance and Other Matters**

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2005-002. In a separate letter to the District's management dated November 7, 2006, we reported other matters related to noncompliance we deemed immaterial.

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



**Betty Montgomery**  
Auditor of State

November 7, 2006



## Auditor of State Betty Montgomery

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

Board of Education  
Firelands Local School District  
Lorain County  
11970 Vermilion Road  
Oberlin, Ohio 44074

#### Compliance

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

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

In our opinion, the Firelands Local School District complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2005. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that OMB Circular A-133 requires us to report, which is described in the accompanying schedule of findings as item 2005-003.

### **Internal Control Over Compliance**

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

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

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



**Betty Montgomery**  
Auditor of State

November 7, 2006

**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY**

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

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

<i>(d)(1)(i)</i>	<b>Type of Financial Statement Opinion</b>	Unqualified for Governmental Activities and Governmental Funds Disclaimer for Business-Type Activities and Proprietary Funds
<i>(d)(1)(ii)</i>	<b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(ii)</i>	<b>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</b>	Yes
<i>(d)(1)(iii)</i>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	Yes
<i>(d)(1)(iv)</i>	<b>Were there any material internal control weakness conditions reported for major federal programs?</b>	No
<i>(d)(1)(iv)</i>	<b>Were there any other reportable internal control weakness conditions reported for major federal programs?</b>	Yes
<i>(d)(1)(v)</i>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<i>(d)(1)(vi)</i>	<b>Are there any reportable findings under § .510?</b>	Yes
<i>(d)(1)(vii)</i>	<b>Major Programs (list):</b>	Special Education Cluster: Special Education Grants to States CFDA #84.027
<i>(d)(1)(viii)</i>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	<b>Low Risk Auditee?</b>	Yes

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

**FINDING NUMBER 2005-001**

**REQUIREMENTS OF SAS 70**

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

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

**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY**

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

**FINDING NUMBER 2005-001**

**REQUIREMENTS OF SAS 70 (Continued)**

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

If the third-party administrator refuses to furnish the District with a Type II SAS 70 report, we recommend the District contract with a third-party administrator that will provide such a report.

***CLIENT RESPONSE***

Effective January 1, 2006 health care claims processing will be provided by Medical Mutual instead of Lake Erie Regional Council (LERC). Medical Mutual does produce a SAS 70 report. Therefore, this finding will be eliminated for fiscal year ending 2006.

**FINDING NUMBER 2005-002**

**Record Retention**

Ohio Rev. Code Section 149.351(A) states that "all records are the property of the public office concerned and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commissions."

Further, it is important that District personnel retain adequate records of the procedures performed and the methods used as an adequate means of defending departmental accounting transactions. Ultimately, documentation can be the clearest form of evidence that is widely used and readily available to an auditor, at a relatively low cost.

The District operates a latchkey program that offers before and after school care to elementary students. Parents purchase a "Child care fee form" throughout the school year to record payment and usage of time spent in the program. The program director indicates through his signature the receipt of cash or check on the form and retains a copy for the office record. The information from the form is manually transferred to another record that summarizes the same information. The copy of the "Child care fee form" is the source document for recording latchkey revenue. We noted 31 of 60 (52%) Child care fee forms required for our testing were discarded by the program director.

We recommend the District administration instruct staff members who prepare financial-related documentation to retain that documentation. Documentation regarded as public records should be disposed of through statutory procedures.

***CLIENT RESPONSE***

The district Latchkey program has been in existence for many years and never before has the Program Director been asked by the Auditors for copies of the Child Care Fee Forms. These forms were not requested until April of 2006 and the forms from calendar year 2004 had been discarded. All of the sale and use information from 2004 was recorded on computer so no data was lost.

We are now keeping copies of all Child Care Fee Forms until audited.

**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY**

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

<b>3. FINDING FOR FEDERAL AWARDS</b>
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<b>Finding Number</b>	2005-003
<b>CFDA Title and Number</b>	Special Education Grants to States – 84.027
<b>Federal Award Number / Year</b>	6BSF-2004/2005
<b>Federal Agency</b>	U.S. Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**Individualized Education Program (IEP)**

34 CFR 300.325 and Ohio Department of Education Grants Management requires an LEA (Local Education Agency – the District) to develop and implement an individualized education program (IEP) for each of its handicapped children and ensure IEP’s are developed for each handicapped child who is placed in or referred to a private school or facility by the LEA.

34 CFR 300.320 requires the IEP for each child to include (1) a statement of the child’s present level of educational achievement, (2) a statement of the annual goals, (3) a statement of the special education and related services to be provided, (4) the projected dates for initiation of the services and the anticipated durations of the services, and (5) appropriate objective criteria and evaluation procedures.

The March 2006 OMB Circular A-133 Compliance Supplement, and Ohio Administrative Code Section 3301-51-03(C), states in part that LEA’s must report to the SEA (State Education Agency – ODE) in accordance with the SEA-established procedures. ODE requires that a summary of child data be submitted by each LEA (the report is to reflect information as of December 1). This summary is submitted to ODE electronically through EMIS (Disability Child Count Data report) and is a summary of the information on the Inclusion/Exclusion report.

We found 6 out of 50 instances (12%) in which an IEP could not be located for a student listed in the December 2004 Child Count inclusion/exclusion report. Further inquiries disclosed five students were withdrawn from the District before the December 2004 child count, but were included in the child count.

We recommend the District re-evaluate whether the procedures currently used to report students in the December Child Count inclusion/exclusion reports are sufficient to determine the accuracy and completeness of eligible students enrolled in the program. The Special Education Coordinator and secretary should closely monitor the reports generated by the District EMIS coordinator during the reporting period and immediately report any discrepancies to the EMIS coordinator so that all students are properly and accurately reported.

**CLIENT RESPONSE**

The district has now hired a person to be our EMIS Coordinator who does not split her time covering any other duties. Our EMIS Coordinator will be providing a printout of those students included in the December Child Count to our Special Education Supervisor prior to our submission of this information to the State. Once the Special Education Supervisor has verified that all students are correctly reported, she will sign and return the printout to the EMIS Coordinator.





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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  
DECEMBER 12, 2006**