



**Auditor of State  
Betty Montgomery**



**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY**

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each 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, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Firelands Local School District, Lorain County, Ohio, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 9, 2005, 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 expenditure schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



**Betty Montgomery**  
Auditor of State

June 9, 2005

**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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, 2004. 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 2004 are as follows:

- In total, net assets increased \$470,235. Net assets of governmental activities increased \$470,806, which represents a 7.5 percent increase from 2003. Net assets of business-type activities decreased \$571 or 1.4 percent from 2003.
- General revenues for governmental activities accounted for \$14,836,564 in revenue or 88.44 percent of all governmental activities revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,938,523 or 11.56 percent of total governmental activities revenues of \$16,775,087.
- The District had \$16,304,281 in expenses related to governmental activities; only \$1,938,523 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 \$14,836,564 were adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$15,166,716 in revenues and other financing sources and \$14,610,777 in expenditures and other financing uses. The general fund's fund balance increased from \$1,545,673 to \$2,101,612.
- Net assets for District's two non-major enterprise funds decreased slightly from \$39,515 to \$38,944.

**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 2004?" 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 takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

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 activities.

**Reporting the District's Most Significant Funds**

Fund Financial Statements

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

Governmental Funds

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

Proprietary Funds

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



**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

**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. 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.

**The District as a Whole**

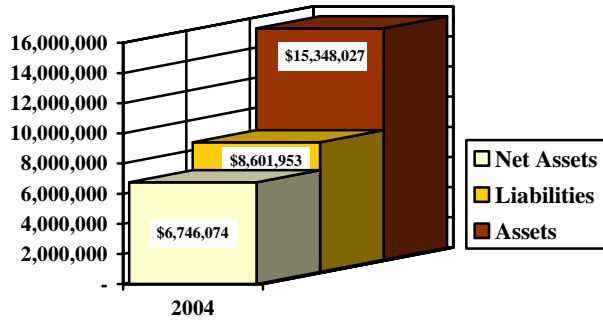
The Statement of Net Assets provides the perspective of the District as a whole. The table below provides a summary of the District's net assets for 2004 and 2003.

	Net Assets			
	Governmental Activities 2004	Business-Type Activities 2004	Governmental Activities 2003	Business-Type Activities 2003
<b>Assets</b>				
Current assets	\$ 11,197,039	\$ 40,637	\$ 9,965,895	\$ 41,034
Capital assets	4,150,988	-	4,567,893	-
<i>Total assets</i>	<u>15,348,027</u>	<u>40,637</u>	<u>14,533,788</u>	<u>41,034</u>
<b>Liabilities</b>				
Current liabilities	7,454,613	1,693	7,124,068	1,519
Long-term liabilities	1,147,340	-	1,134,452	-
<i>Total liabilities</i>	<u>8,601,953</u>	<u>1,693</u>	<u>8,258,520</u>	<u>1,519</u>
<b>Net Assets</b>				
Invested in capital assets, net of debt	3,883,753	-	4,295,893	-
Restricted	944,390	-	631,183	-
Unrestricted	1,917,931	38,944	1,348,192	39,515
<i>Total net assets</i>	<u>\$ 6,746,074</u>	<u>\$ 38,944</u>	<u>\$ 6,275,268</u>	<u>\$ 39,515</u>

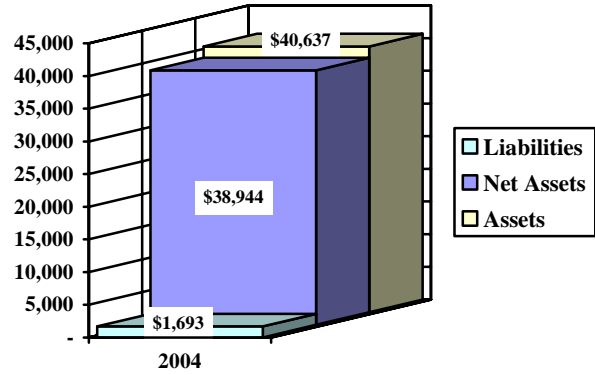
**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

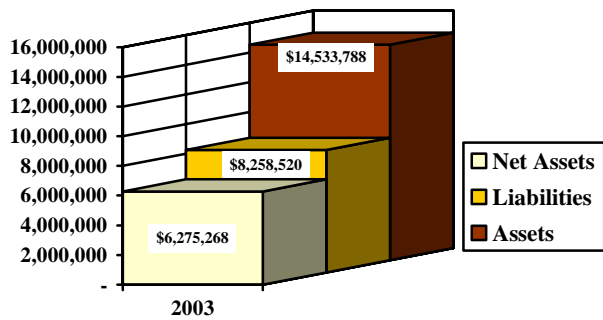
**Governmental - Net Assets**



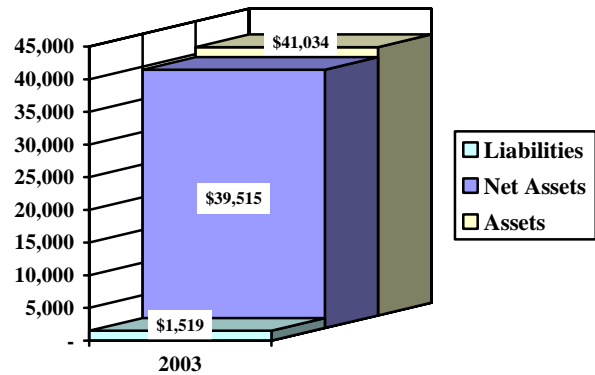
**Business-Type - Net Assets**



**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 2004 and 2003.

**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

	Change in Net Assets			
	Governmental	Business-Type	Governmental	Business-Type
	Activities 2004	Activities 2004	Activities 2003	Activities 2003
<b>Revenues</b>				
Program revenues:				
Charges for services and sales	\$ 1,309,597	\$ 20,500	\$ 939,653	\$ 21,455
Operating grants and contributions	628,926	-	1,127,916	-
Capital grants and contributions	-	-	6,503	-
General revenues:				
Property taxes	6,195,263	-	6,280,200	-
Grants and entitlements	8,531,239	-	7,665,372	-
Investment earnings	70,786	-	-	-
Gain on sale of capital assets	984	-	-	-
Other	38,292	-	178,334	-
<i>Total revenues</i>	<u>\$ 16,775,087</u>	<u>\$ 20,500</u>	<u>\$ 16,197,978</u>	<u>\$ 21,455</u>
<b>Expenses</b>				
Program expenses:				
Instruction:				
Regular	\$ 7,225,186	\$ -	\$ 7,138,461	\$ -
Special	1,562,355	-	1,468,467	-
Vocational	335,783	-	326,516	-
Other	661,702	-	532,713	-
Support services:				
Pupil	1,125,522	-	1,070,882	-
Instructional staff	415,548	-	401,900	-
Board of Education	15,930	-	11,443	-
Administration	1,332,010	-	1,310,622	-
Fiscal	333,010	-	348,555	-
Business	26,348	-	106,030	-
Operations and maintenance	1,051,774	-	1,093,149	-
Pupil transportation	1,011,727	-	973,461	-
Central	174,726	-	177,086	-
Operation of non-instructional services	9,373	-	100,949	-
Extracurricular activities	461,743	-	423,074	-
Food service operations	546,157	-	608,092	-
Interest and fiscal charges	15,387	-	16,302	-
Community recreation	-	1,940	-	1,260
Latchkey program	-	19,131	-	20,342
<i>Total expenses</i>	<u>16,304,281</u>	<u>21,071</u>	<u>16,107,702</u>	<u>21,602</u>
<i>Changes in net assets</i>	<u>\$ 470,806</u>	<u>\$ (571)</u>	<u>\$ 90,276</u>	<u>\$ (147)</u>

**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

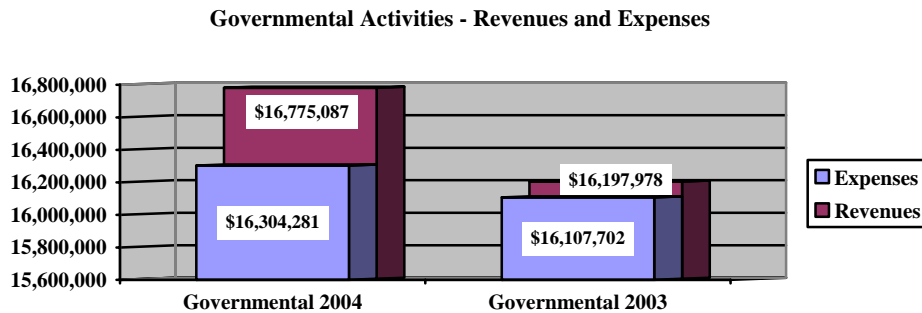
**Governmental Activities**

Net assets of the District's governmental activities increased by \$470,235. Total governmental expenses of \$16,304,281 were offset by program revenues of \$1,938,523 and general revenues of \$14,836,564. Program revenues supported 11.9 percent of the total governmental expenses.

The District's net assets of government activities increased due to a significant increase in State aid to the general fund which resulted in an increase in cash and cash equivalents in the general fund of \$712,375. This was offset somewhat by a decrease in capital assets from depreciation and increased liabilities for deferred revenue.

The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These revenue sources represent 87.80 percent of total governmental revenue. Real estate property is reappraised every six years.

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2004 and 2003.



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services for 2004 and 2003. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

	Governmental Activities			
	Total Cost of Services 2004	Net Cost of Services 2004	Total Cost of Services 2003	Net Cost of Services 2003
Program expenses:				
Instruction:				
Regular	\$ 7,225,186	\$ 6,407,445	\$ 7,138,461	\$ 6,677,045
Special	1,562,355	1,234,071	1,468,467	1,115,440
Vocational	335,783	335,783	326,516	326,516
Other	661,702	645,514	532,713	331,233

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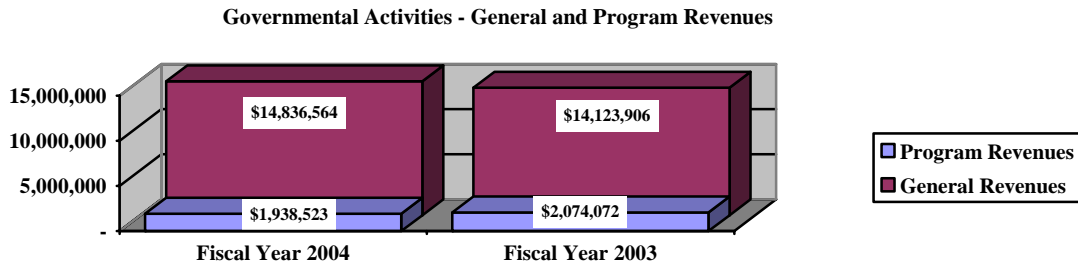
**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

Governmental Activities (Continued)				
	Total Cost of Services 2004	Net Cost of Services 2004	Total Cost of Services 2003	Net Cost of Services 2003
Support services:				
Pupil	1,125,522	1,006,214	1,070,882	963,839
Instructional staff	415,548	364,889	401,900	321,050
Board of Education	15,930	15,930	11,443	11,443
Administration	1,332,010	1,331,370	1,310,622	1,253,249
Fiscal	333,010	333,010	348,555	332,909
Business	26,348	26,348	106,030	106,030
Operations and maintenance	1,051,774	1,051,262	1,093,149	1,076,148
Pupil transportation	1,011,727	1,011,727	973,461	895,951
Central	174,726	166,726	177,086	168,932
Operation of non-instructional services	9,373	(5,986)	100,949	16,643
Extracurricular activities	461,743	387,059	423,074	423,074
Food service operations	546,157	39,009	608,092	(2,174)
Interest and fiscal charges	15,387	15,387	16,302	16,302
<i>Total expenses</i>	<u>\$ 16,304,281</u>	<u>\$ 14,365,758</u>	<u>\$ 16,107,702</u>	<u>\$ 14,033,630</u>

The dependence upon tax revenues during fiscal year 2004 for governmental activities is apparent, as 88 percent of 2004 instruction activities are supported through taxes and other general revenues. All governmental activities, general revenue support is 90 percent in 2004. 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 2004 and 2003.



**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

**Business-Type Activities**

Business-type activities include community recreation and latchkey program. These programs had revenues of \$20,500 and expenses of \$21,071 for fiscal year 2004. During fiscal year 2004, the District increased fees for the latchkey program to cover costs. The District's business activities receive no support from tax revenues.

**The District's Funds**

The District's governmental funds (as presented on the balance sheet) reported a combined fund balance of \$3,185,651, which is above last year's total of \$2,330,982. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2004 and 2003.

	Fund Balance June 30, 2004	Fund Balance June 30, 2003	Increase
General	\$ 2,101,612	\$ 1,545,673	\$ 555,939
Other Governmental	1,084,039	785,309	298,730
<i>Total</i>	<u>\$ 3,185,651</u>	<u>\$ 2,330,982</u>	<u>\$ 854,669</u>

General Fund

The District's general fund balance increased by \$555,939. 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.

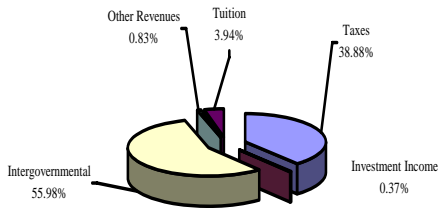
	2004 Amount	2003 Amount	Percentage Change
<b>Revenues</b>			
Taxes	\$ 5,897,025	\$ 5,972,821	(1.27) %
Tuition	598,197	299,459	99.76 %
Interest earnings	55,921	58,285	(4.06) %
Intergovernmental	8,488,710	7,630,967	11.24 %
Other revenues	125,879	142,959	(11.95) %
<i>Total</i>	<u>\$ 15,165,732</u>	<u>\$ 14,104,491</u>	7.52 %

Other revenue decreased \$17,080 or 11.95 percent from the prior year. This decrease is attributed to an increase in refunds the district received in 2003. Tuition revenue increased \$298,738 or 99.76 percent from 2003. This increase is due to more students coming to the District from other districts. The decrease in investment income is due to drastic cuts in interest rates by the Federal Reserve Bank throughout the year. Intergovernmental was up significantly due to increased aid from the State. All other revenue remained comparable to 2003.

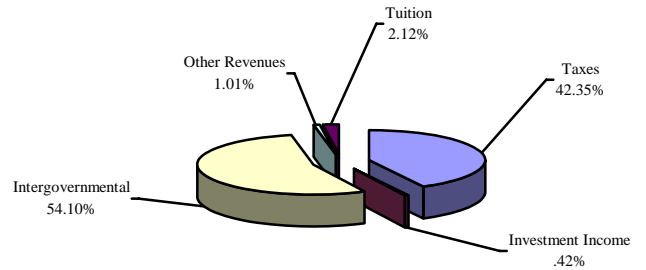
**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**Revenues - Fiscal Year 2004**



**Revenues - Fiscal Year 2003**



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

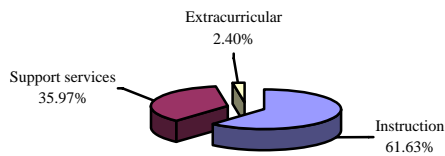
<b>Expenditures</b>	<u>2004 Amount</u>	<u>2003 Amount</u>	<u>Percentage Change</u>
Instruction	\$ 8,874,789	\$ 8,323,107	6.63 %
Support services	5,179,850	5,196,285	(0.32) %
Operation of non-instruction:	-	30	(100.00) %
Extracurricular activities	346,069	309,034	11.98 %
Debt service	-	-	%
<i>Total</i>	<u>\$ 14,400,708</u>	<u>\$ 13,828,456</u>	4.14 %

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

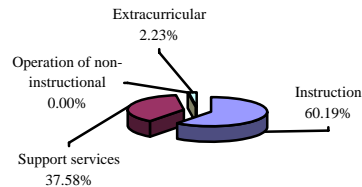
**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**Expenditures - Fiscal Year 2004**



**Expenditures - Fiscal Year 2003**



**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 2004, the District did amend its general fund budget. For the general fund, original budgeted revenues were \$13,080,417. The final budgeted revenues were \$14,293,670. Actual revenues and other financing sources were \$15,213,994 which was more than final budgeted revenues by \$920,324. This was mainly due to significantly more intergovernmental revenues received from the State of Ohio than planned and an increase in tuition due to open enrollment.

General fund original appropriations (appropriated expenditures plus other financing uses) of \$14,541,228 were increased to \$14,741,228 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2004 totaled \$14,495,410, which was \$245,818 less than the final budget appropriations.

**Capital Assets and Debt Administration**

**Capital Assets**

At the end of fiscal 2004, the District had \$4,150,988 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. The following table shows fiscal 2004 balances compared to the balance of 2003.



**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY**

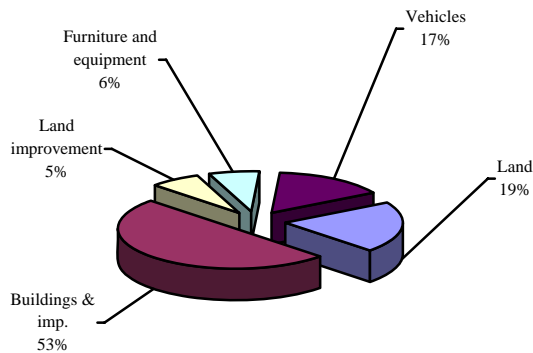
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

Capital Assets at June 30  
(Net of Depreciation)

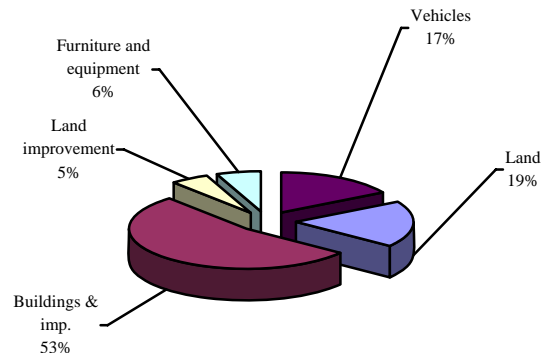
	Governmental Activities	
	2004	2003
Land	\$ 851,565	\$ 851,565
Land improvements	280,633	246,084
Building and improvements	2,082,850	2,435,145
Furniture and equipment	288,735	277,963
Vehicles	647,205	757,136
<i>Total</i>	<u>\$ 4,150,988</u>	<u>\$ 4,567,893</u>

The following graphs show the breakdown of governmental capital assets by category for 2004 and 2003.

**Capital Assets - Governmental Activities  
2004**



**Capital Assets - Governmental Activities  
2003**



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

Debt Administration

At June 30, 2004 the District had \$210,000 in energy conservation notes and \$57,235 in a capital lease outstanding. Of this total, \$76,317 is due within one year and \$190,918 is due within greater than one year.

**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

	Governmental Activities	
	2004	2003
Energy conservation notes	\$ 210,000	\$ 272,000
Capital lease	57,235	-
<i>Total</i>	\$ 267,235	\$ 272,000

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, 2004, the District's overall legal debt margin was \$22,751,862 with an unvoted debt margin of \$252,716.

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

**Current Financial Related Activities**

The District faces some challenges in the future. As the preceding information shows, the District relies heavily upon grants and entitlements and property taxes. Since future grant and entitlement revenue stability is in question, the reliance upon local property taxes is increasingly important. The District had an Emergency levy of \$655,000 used for general operating expenses expire in December 2003. Three attempts were made to replace this levy with a new levy in 2004 that would bring in \$1.3 million annually, which subsequently failed. Without passage of a levy in 2004, reductions of three teaching and seven non-teaching staff were made. Additional budget cuts for field trips, professional development, supplies, and equipment were made.

These cuts along with increased foundation revenue due to an enrollment increase and the removal of the enrollment three-year average on the SF3 calculation allowed us to close fiscal year 2004 with an increase in fund balance. Also attributing to this carryover was the underestimate by the county auditor of our local tax revenue. We received almost \$300,000 more in local tax revenue than our estimated certificate had indicated. These are looked upon as "one time only" good fortune and are not expected to continue. Our opening enrollment for fiscal year 2005 is actually down over 70 students from last year mostly due to graduating our largest class in June and bringing in the smallest kindergarten class this fall in over 15 years.

Another challenge facing the District are 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. We have had a steady growth of resident students until this fall and our classrooms are typically full so we have to greatly limit the number of open enrollment students that we can accept.

**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

Since the District relies on the State for approximately 52 percent of the general operating revenues, one of the largest challenges facing the District is that of state funding. The State of Ohio was found by the Supreme Court in March 1997 to be operating an unconstitutional educational system, one that was neither adequate nor equitable. Since 1997, the State has directed its tax revenue growth toward school districts with little property tax wealth. On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional. At this time, The District is unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizen's, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Barbara S. Bechtel, Treasurer, Firelands Local School District, 11970 Vermilion Road, Oberlin, Ohio 44074-9495.

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**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY**

**STATEMENT OF NET ASSETS  
JUNE 30, 2004**

	Governmental Activities	Business-Type Activities	Total
<b>Assets:</b>			
Equity in pooled cash and cash equivalents	\$ 4,041,365	\$ 40,637	\$ 4,082,002
Cash and cash equivalents with fiscal agent	674,849	-	674,849
Receivables:			
Taxes	6,432,156	-	6,432,156
Accounts	4,722	-	4,722
Intergovernmental	3,288	-	3,288
Accrued interest	3,763	-	3,763
Prepayments	31,815	-	31,815
Materials and supplies inventory	5,081	-	5,081
Capital assets:			
Land	851,565	-	851,565
Depreciable capital assets, net	3,299,423	-	3,299,423
<i>Total capital assets, net</i>	4,150,988	-	4,150,988
<i>Total assets</i>	15,348,027	40,637	15,388,664
<b>Liabilities:</b>			
Accounts payable	9,585	142	9,727
Accrued wages and benefits	1,231,857	939	1,232,796
Pension obligation payable	371,349	545	371,894
Intergovernmental payable	51,488	67	51,555
Deferred revenue	5,444,589	-	5,444,589
Accrued interest payable	918	-	918
Claims payable	344,827	-	344,827
Long-term liabilities:			
Due within one year	144,881	-	144,881
Due within more than one year	1,002,459	-	1,002,459
<i>Total liabilities</i>	8,601,953	1,693	8,603,646
<b>Net Assets:</b>			
Invested in capital assets, net of related debt	3,883,753	-	3,883,753
Restricted for:			
Capital projects	801,291	-	801,291
Debt service	6,468	-	6,468
Other purposes	136,631	-	136,631
Unrestricted	1,917,931	38,944	1,956,875
<i>Total net assets</i>	\$ 6,746,074	\$ 38,944	\$ 6,785,018

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY**

STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Expenses
<b>Governmental activities:</b>	
Instruction:	
Regular	\$ 7,225,186
Special	1,562,355
Vocational	335,783
Other	661,702
Support services:	
Pupil	1,125,522
Instructional staff	415,548
Board of education	15,930
Administration	1,332,010
Fiscal	333,010
Business	26,348
Operations and maintenance	1,051,774
Pupil transportation	1,011,727
Central	174,726
Operation of non-instructional services	9,373
Extracurricular activities	461,743
Food service operations	546,157
Interest and fiscal charges	15,387
<i>Total governmental activities</i>	16,304,281
<b>Business-Type activities:</b>	
Community recreation	1,940
Latchkey program	19,131
<i>Total business-type activities</i>	21,071
<i>Totals</i>	\$ 16,325,352

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
\$ 719,966	\$ 97,775	\$ (6,407,445)	\$ -	\$ (6,407,445)
-	328,284	(1,234,071)	-	(1,234,071)
-	-	(335,783)	-	(335,783)
-	16,188	(645,514)	-	(645,514)
119,308	-	(1,006,214)	-	(1,006,214)
-	50,659	(364,889)	-	(364,889)
-	-	(15,930)	-	(15,930)
-	640	(1,331,370)	-	(1,331,370)
-	-	(333,010)	-	(333,010)
-	-	(26,348)	-	(26,348)
-	512	(1,051,262)	-	(1,051,262)
-	-	(1,011,727)	-	(1,011,727)
-	8,000	(166,726)	-	(166,726)
-	15,359	5,986	-	5,986
74,684	-	(387,059)	-	(387,059)
395,639	111,509	(39,009)	-	(39,009)
-	-	(15,387)	-	(15,387)
<u>1,309,597</u>	<u>628,926</u>	<u>(14,365,758)</u>	<u>-</u>	<u>(14,365,758)</u>
1,980	-	-	40	40
18,520	-	-	(611)	(611)
<u>20,500</u>	<u>-</u>	<u>-</u>	<u>(571)</u>	<u>(571)</u>
<u>\$ 1,330,097</u>	<u>\$ 628,926</u>	<u>(14,365,758)</u>	<u>(571)</u>	<u>(14,366,329)</u>

**General Revenues:**

Property taxes levied for:

General fund	5,895,989	-	5,895,989
Capital outlay	299,274	-	299,274
Grants and entitlements not restricted to specific programs	8,531,239	-	8,531,239
Investment earnings	70,786	-	70,786
Gain on sale of capital assets	984	-	984
Miscellaneous	38,292	-	38,292
<i>Total general revenues</i>	<u>14,836,564</u>	<u>-</u>	<u>14,836,564</u>
Change in net assets	470,806	(571)	470,235
<i>Net assets at beginning of year</i>	6,275,268	39,515	6,314,783
<i>Net assets at end of year</i>	<u>\$ 6,746,074</u>	<u>\$ 38,944</u>	<u>\$ 6,785,018</u>

**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2004**

	General	Other Governmental Funds	Total Governmental Funds
<b>Assets:</b>			
Equity in pooled cash and cash equivalents	\$ 2,808,411	\$ 1,100,199	\$ 3,908,610
Receivables:			
Taxes	6,106,365	325,791	6,432,156
Accounts	4,722	-	4,722
Intergovernmental	-	3,288	3,288
Accrued interest	3,763	-	3,763
Prepayments	31,815	-	31,815
Materials and supplies inventory	-	5,081	5,081
Restricted assets:			
Equity in pooled cash and cash equivalents	132,755	-	132,755
<i>Total assets</i>	<b>\$ 9,087,831</b>	<b>\$ 1,434,359</b>	<b>\$ 10,522,190</b>
<b>Liabilities:</b>			
Accounts payable	\$ 9,029	\$ 556	\$ 9,585
Accrued wages and benefits	1,182,112	49,745	1,231,857
Compensated absences payable	25,183	-	25,183
Pension obligation payable	225,146	4,590	229,736
Intergovernmental payable	49,338	2,150	51,488
Deferred revenue	5,495,411	293,279	5,788,690
<i>Total liabilities</i>	6,986,219	350,320	7,336,539
<b>Fund Balances:</b>			
Reserved for encumbrances	122,701	84,698	207,399
Reserved for materials and supplies inventory	-	5,081	5,081
Reserved for property tax unavailable for appropriation	614,305	35,800	650,105
Reserved for prepayments	31,815	-	31,815
Unreserved, undesignated, reported in:			
General fund	1,332,791	-	1,332,791
Special revenue funds	-	280,059	280,059
Debt service fund	-	7,386	7,386
Capital projects funds	-	671,015	671,015
<i>Total fund balances</i>	2,101,612	1,084,039	3,185,651
<i>Total liabilities and fund balances</i>	<b>\$ 9,087,831</b>	<b>\$ 1,434,359</b>	<b>\$ 10,522,190</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2004

<b>Total governmental fund balances</b>		<b>\$ 3,185,651</b>
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		4,150,988
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 337,462	
Interest revenue	3,351	
Intergovernmental revenue	3,288	
Total	344,101	344,101
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.		330,022
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	210,000	
Capital lease obligation	57,235	
Compensated absences	854,922	
Pension obligation payable	141,613	
Accrued interest payable	918	
Total	(1,264,688)	(1,264,688)
<i>Net assets of governmental activities</i>		<u><u>\$ 6,746,074</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY**

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	General	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>			
From local sources:			
Taxes	\$ 5,897,025	\$ 297,290	\$ 6,194,315
Tuition	598,197	-	598,197
Charges for services	60,188	423,149	483,337
Earnings on investments	55,921	956	56,877
Extracurricular	-	193,992	193,992
Other local revenues	65,691	6,293	71,984
Intergovernmental - State	8,488,710	118,443	8,607,153
Intergovernmental - Federal	-	559,020	559,020
<i>Total revenues</i>	<u>15,165,732</u>	<u>1,599,143</u>	<u>16,764,875</u>
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular	6,687,509	149,415	6,836,924
Special	1,231,465	328,229	1,559,694
Vocational	303,933	-	303,933
Other	651,882	10,243	662,125
Support Services:			
Pupil	1,019,356	119,356	1,138,712
Instructional staff	350,451	57,600	408,051
Board of education	15,930	-	15,930
Administration	1,329,208	405	1,329,613
Fiscal	326,410	5,099	331,509
Business	53,578	-	53,578
Operations and maintenance	1,036,313	2,070	1,038,383
Pupil transportation	893,863	-	893,863
Central	154,741	20,456	175,197
Extracurricular activities	346,069	74,697	420,766
Facilities acquisition and construction	-	125,524	125,524
Food service operations	-	528,418	528,418
Capital outlay	-	62,093	62,093
Debt service:			
Principal retirement	-	66,858	66,858
Interest and fiscal charges	-	15,658	15,658
<i>Total expenditures</i>	<u>14,400,708</u>	<u>1,566,121</u>	<u>15,966,829</u>
<i>Excess of revenues under expenditures</i>	<u>765,024</u>	<u>33,022</u>	<u>798,046</u>

(Continued)

**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY**

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

	General	Other Governmental Funds	Total Governmental Funds
<b>Other financing sources (uses):</b>			
Transfers in	-	210,069	210,069
Transfers (out)	(210,069)	-	(210,069)
Proceeds from capital lease transaction	-	62,093	62,093
Proceeds from sale of capital assets	984	-	984
<i>Total other financing sources (uses)</i>	<u>(209,085)</u>	<u>272,162</u>	<u>63,077</u>
<i>Net change in fund balances</i>	555,939	305,184	861,123
<i>Fund balances at beginning of year</i>	1,545,673	785,309	2,330,982
Decrease in reserve for inventory	-	(6,454)	(6,454)
<i>Fund balances at end of year</i>	<u>\$ 2,101,612</u>	<u>\$ 1,084,039</u>	<u>\$ 3,185,651</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

<b>Net change in fund balances - total governmental funds</b>	<b>\$</b>	<b>861,123</b>
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense (\$614,749) exceeds capital outlays (\$197,844) in the current period.		(416,905)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(3,147)
Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as an expense when consumed.		(6,454)
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.		66,858
Proceeds of capital lease transaction are recorded as revenue in the funds, however, on the statement of activities they are not reported as revenues as they increase liabilities on the statement of net		(62,093)
In the statement of activities, interest is accrued on outstanding notes, whereas in governmental funds, an interest expenditure is reported when due.		271
Some expenses reported in the statement of activities, such as compensated absences and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		(26,899)
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.		58,052
		58,052
<i>Change in net assets of governmental activities</i>	<b>\$</b>	<b>470,806</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY**

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Budgeted Amounts</u>		Actual	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
From local sources:				
Taxes	\$ 5,596,871	\$ 6,116,000	\$ 5,943,556	\$ (172,444)
Tuition	316,631	346,000	598,483	252,483
Earnings on investments	54,907	60,000	60,808	808
Other local revenues	104,022	113,670	121,453	7,783
Intergovernmental - State	7,007,986	7,658,000	8,488,710	830,710
<i>Total revenues</i>	<u>13,080,417</u>	<u>14,293,670</u>	<u>15,213,010</u>	<u>919,340</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular	6,572,872	6,663,745	6,620,201	43,544
Special	1,201,188	1,217,795	1,214,574	3,221
Vocational	304,115	308,320	301,514	6,806
Other	677,789	687,160	651,892	35,268
Support Services:				
Pupil	1,014,194	1,028,216	996,067	32,149
Instructional staff	362,050	367,056	361,425	5,631
Board of education	16,739	16,970	15,913	1,057
Administration	1,336,536	1,355,014	1,327,923	27,091
Fiscal	331,556	336,140	329,793	6,347
Business	54,704	55,460	55,452	8
Operations and maintenance	1,066,563	1,081,309	1,043,137	38,172
Pupil transportation	1,012,815	1,026,818	1,000,034	26,784
Central	168,441	170,770	154,555	16,215
Extracurricular activities	346,411	351,200	347,675	3,525
<i>Total expenditures</i>	<u>14,465,973</u>	<u>14,665,973</u>	<u>14,420,155</u>	<u>245,818</u>
<i>Excess of revenues over (under) expenditures</i>	<u>(1,385,556)</u>	<u>(372,303)</u>	<u>792,855</u>	<u>1,165,158</u>
<b>Other financing sources (uses):</b>				
Transfers (out)	(75,255)	(75,255)	(75,255)	-
Proceeds from sale of capital assets	-	-	984	984
<i>Total other financing sources (uses)</i>	<u>(75,255)</u>	<u>(75,255)</u>	<u>(74,271)</u>	<u>984</u>
<i>Net change in fund balance</i>	<u>(1,460,811)</u>	<u>(447,558)</u>	<u>718,584</u>	<u>1,166,142</u>
<i>Fund balance at beginning of year</i>	2,054,808	2,054,808	2,054,808	-
Prior year encumbrances appropriated	41,228	41,228	41,228	-
<i>Fund balance at end of year</i>	<u>\$ 635,225</u>	<u>\$ 1,648,478</u>	<u>\$ 2,814,620</u>	<u>\$ 1,166,142</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY**

STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2004

	Business-Type Activities - Nonmajor Enterprise Funds	Governmental Activities - Internal Service Fund
<b>Assets:</b>		
Current assets:		
Equity in pooled cash and cash equivalents	\$ 40,637	\$ -
Cash and cash equivalents with fiscal agent	-	674,849
<i>Total current assets</i>	40,637	674,849
<b>Liabilities:</b>		
Accounts payable	142	-
Accrued wages and benefits	939	-
Pension obligation payable	545	-
Intergovernmental payable	67	-
Claims payable	-	344,827
<i>Total liabilities</i>	1,693	344,827
<b>Net assets:</b>		
Unrestricted	38,944	330,022
<i>Total net assets</i>	\$ 38,944	\$ 330,022

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY**

STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN NET ASSETS  
PROPRIETARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Business-Type Activities - Nonmajor Enterprise Funds	Governmental Activities - Internal Service Fund
	<u>                    </u>	<u>                    </u>
<b>Operating revenues:</b>		
Sales/charges for services	\$ 20,500	\$ 1,688,668
<i>Total operating revenues</i>	<u>20,500</u>	<u>1,688,668</u>
<b>Operating expenses:</b>		
Personal services	19,611	-
Purchased services	600	143,090
Materials and supplies	860	-
Claims expense	-	1,499,522
<i>Total operating expenses</i>	<u>21,071</u>	<u>1,642,612</u>
<i>Operating loss</i>	<u>(571)</u>	<u>46,056</u>
<b>Nonoperating revenues:</b>		
Interest revenue	-	11,996
<i>Total nonoperating revenues</i>	<u>-</u>	<u>11,996</u>
Change in net assets	(571)	58,052
<i>Net assets at beginning of year</i>	<u>39,515</u>	<u>271,970</u>
<i>Net assets at end of year</i>	<u>\$ 38,944</u>	<u>\$ 330,022</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY**

STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Business-Type Activities - Nonmajor Enterprise Funds	Governmental Activities - Internal Service Fund
<b>Cash flows from operating activities:</b>		
Cash received from sales/charges for services	\$ 20,500	\$ 1,688,668
Cash payments for personal services	(19,579)	-
Cash payments for contractual services	(600)	(143,090)
Cash payments for materials and supplies	(718)	-
Cash payments for claims expense	-	(1,508,035)
	(397)	37,543
<i>Net cash provided by (used in) operating activities</i>	<i>(397)</i>	<i>37,543</i>
<b>Cash flows from investing activities:</b>		
Interest received	-	11,996
	-	11,996
<i>Net cash provided by investing activities</i>	<i>-</i>	<i>11,996</i>
Net increase (decrease) in cash and cash equivalents	(397)	49,539
<i>Cash and cash equivalents at beginning of year</i>	41,034	625,310
<i>Cash and cash equivalents at end of year</i>	\$ 40,637	\$ 674,849
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:</b>		
Operating income (loss)	\$ (571)	\$ 46,056
<b>Changes in assets and liabilities:</b>		
Increase in accounts payable	142	-
Increase in accrued wages and benefits	26	-
Increase in intergovernmental payable	50	-
Decrease in pension obligation payable	(44)	-
Decrease in claims payable	-	(8,513)
	-	(8,513)
<i>Net cash provided by (used in) operating activities</i>	<i>\$ (397)</i>	<i>\$ 37,543</i>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY**

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2004

	<u>Agency</u>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents	\$ 24,069
<i>Total assets</i>	<u>\$ 24,069</u>
<b>Liabilities:</b>	
Due to students	\$ 24,069
<i>Total liabilities</i>	<u>\$ 24,069</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**1. DESCRIPTION OF THE SCHOOL DISTRICT**

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

The District is the 247<sup>th</sup> largest in the State of Ohio (among the 613 public school districts in the state) in terms of enrollment. It is staffed by 106 non-certified and 144 certified personnel to provide services to approximately 2,239 students and other community members.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental and business-type activity and to its proprietary funds provided they do not conflict with or contradict GASB pronouncements. The District 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*". When applying GASB Statement No. 14, management has considered all potential component units. Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or (4) provide financial support to the organization; or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the debt, the issuance of debt, or the levying of taxes. Based upon the application of these criteria, the District has no component

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units. The financial statements of the reporting entity include only those of the District (the primary government).

**JOINTLY GOVERNED ORGANIZATIONS**

**Lorain County Joint Vocation School District (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.

**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 Lorain County Board of Education, 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

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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 at fiscal agent, at 1885 Lake Avenue, Elyria, Ohio.

Ohio School Boards Association Workers' Compensation Group Rating Plan

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

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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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 two classifications: private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District has no private-purpose 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.

**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

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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

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

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

**D. Basis of Accounting**

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

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 6). Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

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.



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Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 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.

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.

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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 expenses of the District. The appropriation resolution must be within the estimated resources as certified by the County Budget Commission and the total of expenditures may not exceed the appropriation totals at any level of control. Any revisions that alter the fund level must be approved by the Board of Education.

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

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original budget amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior year. The amounts reported as the 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

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is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Investments" on the financial statements.

During fiscal year 2004, 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 2004. 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, 2004.

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 2004 amounted to \$55,921 which includes \$22,653 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.

**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 received. 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.

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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. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated 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. Interest incurred during the construction of capital assets is also capitalized.

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-Type Activities Estimated Lives</u>
Land improvements	10 years	N/A
Buildings and improvements	10 - 50 years	N/A
Furniture/equipment	5 - 10 years	5 - 20 years
Vehicles	10 years	N/A

**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.

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**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, 2004, and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

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

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

**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.

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

**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 inventories, prepayments, and property taxes unavailable for appropriation. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute.

**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.

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**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.

**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 2004.

**3. ACCOUNTABILITY AND COMPLIANCE**

**Deficit Fund Balances**

Fund balances at June 30, 2004 included the following individual fund deficits:

<u>Nonmajor Funds</u>	<u>Deficit</u>
Title I	\$ 9,997

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This fund complied with Ohio state law, which does not permit cash basis deficits. The general fund is liable for any deficits in District funds and provides transfers when cash is required, not when accruals occur. The deficit fund balance resulted from adjustments for accrued liabilities. These deficits should be eliminated by future revenues not recognized under GAAP at June 30.

**4. EQUITY IN POOLED CASH AND INVESTMENTS**

Monies held by the District into three categories.

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;



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3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);

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

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

Deposits: At fiscal year-end, the carrying amount of the District's deposits was \$1,695,122 and the bank balance was \$1,756,483. These balances included \$1,685,000 in nonnegotiable certificates of deposit. Of the bank balance:

1. \$1,356,483 was covered by federal depository insurance; and
2. \$400,000 was uninsured and uncollateralized as defined by GASB although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although all State statutory requirements for the deposits of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

Collateral is required for demand deposits and certificates of deposit in excess of all deposits not covered by federal depository insurance. Obligations that may be placed as

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collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of the other states. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

Investments: Investments are categorized to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or for which securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department, but not in the District's name. Investments in STAR Ohio are unclassified investments since they are not evidenced by securities that exist in physical or book entry form. The following is a breakdown of the District's investments:

	Category 2	Carrying Amount	Fair Value
Federal agency securities	\$ 495,008	\$ 495,008	\$ 495,008
Investment in STAR Ohio		1,915,941	1,915,941
Total investments		\$ 2,410,949	\$ 2,410,949

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

	Cash and Cash Equivalents/ Deposits	Investments
<b>GASB Statement No. 9</b>	\$ 4,780,920	\$ -
Investments of the cash management pool:		
Investments in STAR Ohio	(1,915,941)	1,915,941
Federal securities	(495,008)	495,008
Cash and cash equivalents with fiscal agent	(674,849)	-
<i>GASB Statement No. 3</i>	\$ 1,695,122	\$ 2,410,949

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**5. INTERFUND TRANSACTIONS**

Interfund transfers for the year ended June 30, 2004, consisted of the following, as reported on the fund statements:

	<u>Amount</u>
Transfers from general fund to:	
Nonmajor Governmental Funds	<u>\$ 210,069</u>

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.

**6. PROPERTY TAXES**

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed value listed as of January 1, 2003, 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 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 2002, were levied after April 1, 2003, and are collected in 2004 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.

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Tangible personal property tax revenue received during calendar 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2004, on the value as of December 31, 2003. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-three 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, 2004, are available to finance fiscal year 2004 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, 2004 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, 2004 was \$614,305 in the general fund, and \$35,800 in the Permanent Improvement capital projects fund. The amount available as an advance at June 30, 2003, was \$660,836 in the general fund, and \$34,720 in the Permanent Improvement capital projects fund.

On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been deferred.

The assessed values upon which the fiscal year 2004 taxes were collected are:

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	2003 Second Half Collections		2004 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/residential and other real estate	204,998,170	90.40%	233,068,290	92.23%
Public utility personal	12,454,300	5.49%	11,406,660	4.51%
Tangible personal property	9,323,668	4.11%	8,241,445	3.26%
Total	<u>\$ 226,776,138</u>	<u>100.00%</u>	<u>\$ 252,716,395</u>	<u>100.00%</u>
 Tax rate per \$1,000 of assessed valuation	 <u>\$ 44.20</u>		 <u>\$ 44.20</u>	

**7. RECEIVABLES**

Receivables at June 30, 2004 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:

<b>Governmental Activities</b>	
Taxes	\$ 6,432,156
Accounts	4,722
Intergovernmental	3,288
Accrued interest	3,763
<i>Total receivables</i>	<u>\$ 6,443,929</u>

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

**8. CAPITAL ASSETS**

Capital asset activity for the fiscal year-ended June 30, 2004, was as follows:

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	Balance June 30, 2003	Additions	Deductions	Balance June 30, 2004
<b>Governmental Activities</b>				
Capital assets, not being depreciated:				
Land	\$ 851,565	\$ -	\$ -	\$ 851,565
<i>Total capital assets, not being depreciated</i>	<u>851,565</u>	<u>-</u>	<u>-</u>	<u>851,565</u>
Capital assets, being depreciated:				
Land improvements	607,787	75,749	-	683,536
Buildings and improvements	7,742,232	20,390	-	7,762,622
Furniture and equipment	1,265,365	101,705	(5,383)	1,361,687
Vehicles	1,310,673	-	-	1,310,673
<i>Total capital assets, being depreciated</i>	<u>10,926,057</u>	<u>197,844</u>	<u>(5,383)</u>	<u>11,118,518</u>
Less: accumulated depreciation				
Land improvements	(361,703)	(41,200)	-	(402,903)
Buildings and improvements	(5,307,087)	(372,685)	-	(5,679,772)
Furniture and equipment	(987,402)	(90,933)	5,383	(1,072,952)
Vehicles	(553,537)	(109,931)	-	(663,468)
<i>Total accumulated depreciation</i>	<u>(7,209,729)</u>	<u>(614,749)</u>	<u>5,383</u>	<u>(7,819,095)</u>
<i>Governmental activities capital assets, net</i>	<u>\$ 4,567,893</u>	<u>\$ (416,905)</u>	<u>\$ -</u>	<u>\$ 4,150,988</u>

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Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 350,014
Special	17,162
Vocational	19,429
Support Services:	
Pupil	4,183
Instructional staff	12,677
Administration	9,377
Operations and maintenance	24,326
Pupil transportation	118,938
Extracurricular activities	43,634
Food service operations	15,009
Total depreciation expense	\$ 614,749

**9. CAPITALIZED LEASES - LESSEE DISCLOSURE**

During fiscal year 2004, 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 2004 totaled \$4,858 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, 2004:

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Fiscal Year Ending June 30,	Amount
2005	\$ 14,523
2006	14,523
2007	14,523
2008	14,523
2009	10,892
Total minimum lease payments	68,984
Less amount representing interest	(11,749)
Total	\$ 57,235

**10. LONG-TERM OBLIGATIONS**

- A.** During the fiscal year 2004, the following changes occurred in governmental activities long-term obligations:

	Balance 06/30/03	Additions	Reductions	Balance 06/30/04	Amounts Due in One Year
Governmental Activities					
Compensated absences payable	\$ 862,452	\$ 175,927	\$ (158,274)	\$ 880,105	\$ 68,564
Capital lease payable	-	62,093	(4,858)	57,235	10,317
Energy conservation notes payable	272,000	-	(62,000)	210,000	66,000
Total governmental activities long-term liabilities	\$ 1,134,452	\$ 238,020	\$ (225,132)	\$ 1,147,340	\$ 144,881

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 for the issuance of energy conservation notes without voter approval, and 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:



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Fiscal year Ending	Principal	Interest	Total
2005	\$ 66,000	\$ 9,735	\$ 75,735
2006	70,000	5,995	75,995
2007	74,000	2,035	76,035
Totals	<u>\$ 210,000</u>	<u>\$ 17,765</u>	<u>\$ 227,765</u>

**C. Legal Debt Margin**

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

The effects of these debt limitations at June 30, 2004 are a voted debt margin of \$22,751,862 (including available funds of \$7,386), an unvoted debt margin of \$252,716, and an energy conservation debt margin of \$2,064,448.

**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 55 days for certified employees and 50 days for classified employees.

**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 2004, the District contracted with Ohio School Plan for professional liability insurance. The District contracted with Auto-Owner's Insurance Company for fleet insurance. The District contracted with General Star Indemnity

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Company for excess coverage. The District has contracted with the Lake Erie Regional Council of Governments (LERC) to provide insurance coverage for property, boiler and machine, inland marine and employee theft. Coverages provided and deductibles are as follows:

Building and Contents - replacement cost (\$2,500 deductible)	\$21,461,457 value
Inland marine coverage (\$250 deductible)	420,026 value
Boiler and machinery (\$2,500 deductible)	10,000,000 limit
Automobile liability (\$1,000 deductible for comprehensive)	2,000,000 limit
Excessive coverage	1,000,000 limit
Uninsured Motorists (no deductible)	1,000,000 limit
Employee theft	25,000 limit
Education/General liability	1,000,000 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 2003.

**B. Employee Health and Dental**

The District has contracted with the Lake Erie Regional Council of Governments (LERC) to provide partially self-insured employee health and medical benefits since December 1988. The LERC is a claims-servicing pool comprised of 14 Lorain County school districts. Rates are set through an annual calculation process. The District pays a monthly contribution which is placed in a common fund from which claim payments are made for all participating school districts. Claims are paid for all participants regardless of claims flow or individual account balance. Upon termination, the terminating school district would be liable for all outstanding claims beyond their individual account balance. The LERC Board of Directors has the right to return monies to an existing district subsequent to the settlement of all expenses and claims. This plan provides a medical/surgical plan with deductibles of \$50 for single and \$100 for family coverage. Stop loss is provided by a private insurance carrier for all individual claims in excess of \$165,000.

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

The District currently reports all of its health care risk management activities in its general fund. Claims payable is based upon Governmental Accounting Standards

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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.

Fiscal Year	Beginning Balance	Current Year Claims	Claims Payments	Ending Balance
2004	\$ 353,340	\$ 1,499,522	\$ (1,508,035)	\$ 344,827
2003	188,384	1,379,522	(1,214,566)	353,340

**C. Workers' Compensation Plan**

The District participates in the Ohio School Boards Association Officials Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member board of directors consisting of the President, the President-Elect, and the Immediate Past President of the Ohio School Boards Association. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the plan.

The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

**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

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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 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate of 14 percent for 2004, 9.09 percent was the portion to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$171,374, \$151,245, and \$91,967, respectively; 36 percent has been contributed for fiscal year 2004 and 100 percent for the fiscal years 2003 and 2002. \$109,407 represents the unpaid contribution for fiscal year 2004.

**B. State Teachers Retirement System**

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

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

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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 percent of their annual covered salary and the District is required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$954,301, \$917,942, and \$630,957 respectively; 83 percent has been contributed for fiscal year 2004 and 100 percent for the fiscal years 2003 and 2002. \$161,293 represents the unpaid contribution for fiscal year 2004. Contributions to the DC and Combined Plans for fiscal 2004 were \$5,983 made by the District and \$15,391 made by plan members.

**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 percent of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$73,408 during fiscal 2004.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.1 billion at June 30, 2004. For the fiscal year ended

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June 30, 2004, 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 4.91 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$25,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2004 were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, 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 \$130,988 during the 2004 fiscal year.

**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);

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- (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	General Fund
Budget basis	\$ 718,584
Net adjustment for revenue accruals	(47,278)
Net adjustment for expenditure accruals	(112,091)
Net adjustment for other financing sources and uses	(134,814)
Adjustment for encumbrances	131,538
GAAP basis	\$ 555,939

**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.

**B. Litigation**

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

**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

**C. State School Funding Decision**

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the state's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient..."

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

**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, 2004, the reserve activity was as follows:

	Textbooks	Capital Acquisition
Set-aside balance as of June 30, 2003	\$ (404,099)	\$ -
Current year required set-aside	293,398	293,398
Offset credits		(338,739)
Qualifying disbursements	(189,376)	(19,479)
Total	\$ (300,077)	\$ (64,820)
Balance carried forward to FY 2005	\$ (300,077)	

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 EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2004**

<b>FEDERAL GRANTOR</b> <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number
<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
Total - School Breakfast Program		
National School Lunch Program	048157-LLP4-2003 048157-LLP4-2004 048157-VGS1-2003	10.555
Total - National School Lunch Program		
Total Department of Agriculture- Nutrition Cluster		
<b>U.S. DEPARTMENT OF EDUCATION</b>		
<i>Passed through the Ohio Department of Education</i>		
Special Education - Grants to States	048157-6BSF-2004	84.027
Title I Grants to Local Educational Agencies	048157-C1S1 2003 048157-C1S1 2004	84.010
Total - Title I Grants to Local Educational Agencies		
Safe and Drug Free Schools and Communities - State Grants	048157-DRS1-2004	84.186
Innovative Education Program Strategies	048157-C2S1-2004	84.298
Technology Literacy Challenge Fund Grants	048157-TJS1-2003 048157-TJ-S1 2004	84.318
Total - Technology Literacy Challenge Fund Grants		
School Renovation Grants	048157-ATS3-2002	84.352A
Improving Teacher Quality State Grants	048157-TRS1-2003 048157-TRS1-2004	84.367
Total - Improving Teacher Quality State Grants		
<b>Direct Program</b>		
21st Century Community Learning Center	n/a	84.287
Total Department of Education		
<b>TOTALS</b>		

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

Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
	\$24,670		\$24,670
13,905		13,905	
77,302		77,302	
1,318			
92,525		91,207	
92,525	24,670	91,207	24,670
234,902		234,902	
6,659		12,920	
90,733		86,237	
97,392		99,157	
7,516		7,516	
11,808		11,808	
(575)			
1,513		1,006	
938		1,006	
(59)			
3,883		6,961	
67,812		58,672	
71,695		65,633	
17,573		17,573	
<b>441,824</b>		<b>437,595</b>	
<b>\$534,349</b>	<b>\$24,670</b>	<b>\$528,802</b>	<b>\$24,670</b>

**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FISCAL YEAR ENDED JUNE 30, 2004**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B - CHILD NUTRITION CLUSTER**

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

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

**NOTE C - MATCHING REQUIREMENTS**

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



**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**

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

To the Board of Education:

We have audited the financial statements of the governmental activities, the business-type 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, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated June 9, 2005. 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 opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting 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 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. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated June 9, 2005, we reported a matter involving internal control over financial reporting we did not deem a reportable condition.

### **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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the District's management dated June 9, 2005, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the audit committee, 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

June 9, 2005



**Auditor of State  
Betty Montgomery**

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

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

To the Board of Education:

**Compliance**

We have audited the compliance of the Firelands Local School District, Lorain County, (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to its major federal program for the year ended June 30, 2004. 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, Lorain County, Ohio complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2004

### **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 the audit committee, 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

June 9, 2005



**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2004**

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

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

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

None.

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None.





**Auditor of State  
Betty Montgomery**

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**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
AUGUST 4, 2005**