



**Auditor of State
Betty Montgomery**

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

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Firelands Local School District
Lorain County
11970 Vermilion Road
Oberlin, Ohio 44074-9499

To the Board of Education:

We have audited the accompanying general-purpose financial statements of the Firelands Local School District, Lorain County, Ohio (the District) as of and for the year ended June 30, 2002, as listed in the table of contents. These general-purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Firelands Local School District, Lorain County, as of June 30, 2002, and the results of its operations and the cash flows of its proprietary fund type 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 February 20, 2003 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The schedule of federal awards expenditures is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general-purpose financial statements. We subjected this information to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

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

Betty Montgomery
Auditor of State

February 20, 2003

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

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2002

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
ASSETS AND OTHER DEBITS				
Assets:				
Equity in pooled cash and cash equivalents	\$1,544,071	\$268,911	\$7,386	\$471,772
Cash with fiscal agent	392,074			
Receivables (net of allowances of uncollectibles):				
Property taxes - current and delinquent	5,994,358			290,339
Accounts	470			
Interfund loan receivable	342,621			
Due from other governments	6,503	335,649		
Materials and supplies inventory				
Prepayments	43,880			
Property, plant and equipment (net of accumulated depreciation where applicable)				
Other debits:				
Amount available in debt service fund				
Amount to be provided for retirement of general long-term obligations				
Total assets and other debits	\$8,323,977	\$604,560	\$7,386	\$762,111

Proprietary Fund Type	Fiduciary Fund Type	Account Groups		Total (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
Enterprise	Agency			
\$126,042	\$36,631			\$2,454,813
				392,074
				6,284,697
				470
				342,621
6,974				342,152
1,043				6,974
				44,923
57,809		\$12,887,749		12,945,558
			\$7,386	7,386
			1,262,486	1,262,486
\$191,868	\$36,631	\$12,887,749	\$1,269,872	\$24,084,154

(Continued)

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

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2002
(Continued)

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
LIABILITIES, EQUITY AND OTHER CREDITS				
Liabilities:				
Accounts payable	\$20,208	\$2,168		\$17,355
Accrued wages and benefits	1,031,845	17,213		
Compensated absences payable	14,682			
Pension obligation payable	202,523	5,072		
Claims payable	188,384			
Interfund loan payable		342,621		
Deferred revenue	5,282,743	235,331		253,704
Due to other governments	43,919	1,747		
Due to students				
Energy conservation notes payable				
Total liabilities	6,784,304	604,152		271,059
Equity and other credits:				
Investment in general fixed assets				
Retained earnings: unreserved				
Fund balances:				
Reserved for encumbrances	4,742	23,266		35,468
Reserved for prepayments	43,880			
Reserved for tax revenue unavailable for appropriation	711,615			36,635
Unreserved-undesignated (deficit)	779,436	(22,858)	7,386	418,949
Total equity and other credits	1,539,673	408	7,386	491,052
Total liabilities, equity and other credits	\$8,323,977	\$604,560	\$7,386	\$762,111

The notes to the general-purpose financial statements are an integral part of this statement.

Proprietary Fund Type	Fiduciary Fund Type	Account Groups		Total (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
Enterprise	Agency			
				\$39,731
\$14,101				1,063,159
5,439			\$826,483	846,604
14,720			113,389	335,704
				188,384
				342,621
3,701				5,775,479
875				46,541
	\$36,631			36,631
			330,000	330,000
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
38,836	36,631		1,269,872	9,004,854
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
		\$12,887,749		12,887,749
153,032				153,032
				63,476
				43,880
				748,250
				1,182,913
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
153,032		12,887,749		15,079,300
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
\$191,868	\$36,631	\$12,887,749	\$1,269,872	\$24,084,154

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

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	<u>Governmental Fund Types</u>	
	<u>General</u>	<u>Special Revenue</u>
Revenues:		
From local sources:		
Taxes	\$5,626,472	
Tuition	243,734	
Earnings on investments	88,794	
Extracurricular		\$180,634
Other local revenues	124,956	21,914
Intergovernmental - State	7,364,696	83,999
Intergovernmental - Federal		767,170
Total revenue	<u>13,448,652</u>	<u>1,053,717</u>
Expenditures:		
Current:		
Instruction:		
Regular	6,021,874	57,117
Special	960,105	249,213
Vocational	275,499	
Other	199,950	280,002
Support services:		
Pupil	825,958	120,461
Instructional staff	275,124	143,086
Board of Education	11,538	
Administration	1,105,509	73,959
Fiscal	312,243	28,608
Business	124,898	
Operations and maintenance	885,109	2,122
Pupil transportation	872,699	
Central	190,352	4,200
Community services		61,894
Extracurricular activities	280,707	114,376
Facilities acquisition and construction		100,000
Debt service:		
Principal retirement	1,538	
Interest and fiscal charges	74	
Total expenditures	<u>12,343,177</u>	<u>1,235,038</u>
Excess of revenues over (under) expenditures	<u>1,105,475</u>	<u>(181,321)</u>
Other financing sources (uses):		
Operating transfers in		
Operating transfers out	(74,663)	
Proceeds from sale of fixed assets	388	
Total other financing sources (uses)	<u>(74,275)</u>	
Excess of revenues and other financing sources over (under) expenditures and other financing uses	1,031,200	(181,321)
Fund balances, July 1 (restated)	<u>508,473</u>	<u>181,729</u>
Fund balances, June 30	<u>\$1,539,673</u>	<u>\$408</u>

The notes to the general-purpose financial statements are an integral part of this statement.

Governmental Fund Types		
Debt Service	Capital Projects	Total (Memorandum Only)
	\$260,815	\$5,887,287
		243,734
		88,794
		180,634
	5,229	152,099
	130,994	7,579,689
		767,170
	<u>397,038</u>	<u>14,899,407</u>
	31,690	6,110,681
		1,209,318
		275,499
		479,952
		946,419
	9,082	427,292
		11,538
		1,179,468
	4,505	345,356
		124,898
		887,231
		872,699
		194,552
		61,894
		395,083
	1,577,308	1,677,308
\$55,000		56,538
19,663		19,737
<u>74,663</u>	<u>1,622,585</u>	<u>15,275,463</u>
<u>(74,663)</u>	<u>(1,225,547)</u>	<u>(376,056)</u>
74,663		74,663
		(74,663)
		388
<u>74,663</u>		<u>388</u>
	(1,225,547)	(375,668)
7,386	1,716,599	2,414,187
<u>\$7,386</u>	<u>\$491,052</u>	<u>\$2,038,519</u>

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

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	General		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)
Revenues:			
From local sources:			
Taxes	\$5,535,368	\$5,902,751	\$367,383
Tuition	228,564	243,734	15,170
Earnings on investments Extracurricular	83,268	88,794	5,526
Other local revenues	104,217	111,134	6,917
Intergovernmental - State	6,900,226	7,358,193	457,967
Intergovernmental - Federal			
Total revenues	<u>12,851,643</u>	<u>13,704,606</u>	<u>852,963</u>
Expenditures:			
Current:			
Instruction:			
Regular	6,485,869	6,247,823	238,046
Special	1,073,910	998,992	74,918
Vocational	294,200	284,034	10,166
Other	155,960	199,873	(43,913)
Support services:			
Pupil	823,700	854,527	(30,827)
Instructional staff	299,000	288,164	10,836
Board of Education	22,200	10,198	12,002
Administration	1,251,104	1,186,678	64,426
Fiscal	318,810	318,136	674
Business	138,790	120,458	18,332
Operations and maintenance	1,027,092	911,506	115,586
Pupil transportation	1,021,252	952,640	68,612
Central	212,850	194,968	17,882
Community services			
Extracurricular activities	288,600	279,029	9,571
Facilities acquisition and construction			
Debt service:			
Principal retirement			
Interest and fiscal charges			
Total expenditures	<u>13,413,337</u>	<u>12,847,026</u>	<u>566,311</u>
Excess of revenues over (under) expenditures	<u>(561,694)</u>	<u>857,580</u>	<u>1,419,274</u>
Other financing sources (uses):			
Operating transfers in			
Operating transfers out	(74,663)	(74,663)	
Advances in	203,217	216,704	13,487
Advances out	(425,337)	(342,619)	82,718
Refund of prior year expenditure	12,977	13,838	861
Total other financing sources (uses)	<u>(283,806)</u>	<u>(186,740)</u>	<u>97,066</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	<u>(845,500)</u>	<u>670,840</u>	<u>1,516,340</u>
Fund balances, July 1	830,182	830,182	
Prior year encumbrances appropriated	18,262	18,262	
Fund balances, June 30	<u>\$2,944</u>	<u>\$1,519,284</u>	<u>\$1,516,340</u>

Special Revenue			Debt Service		
Revised Budget	Actual	Variance: Favorable (Unfavorable)	Budget Revised	Actual	Variance: Favorable (Unfavorable)
\$163,721	\$181,061	\$17,340			
11,711	12,951	1,240			
62,853	69,510	6,657			
616,090	681,342	65,252			
854,375	944,864	90,489			
85,582	56,895	28,687			
339,254	250,725	88,529			
309,288	293,356	15,932			
114,970	125,706	(10,736)			
198,740	151,079	47,661			
73,171	73,239	(68)			
28,608	28,608				
2,122	2,122				
37,200	4,200	33,000			
66,600	61,894	4,706			
120,818	120,597	221			
100,000	100,000				
			\$55,000	\$55,000	
			19,670	19,663	\$7
1,476,353	1,268,421	207,932	74,670	74,663	7
(621,978)	(323,557)	298,421	(74,670)	(74,663)	7
			74,663	74,663	
309,807	342,620	32,813			
(102,432)	(181,694)	(79,262)			
8,318	9,199	881			
215,693	170,125	(45,568)	74,663	74,663	
(406,285)	(153,432)	252,853	(7)		7
368,334	368,334		7,386	7,386	
28,575	28,575				
(\$9,376)	\$243,477	\$252,853	\$7,379	\$7,386	\$7

(Continued)

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

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)

	Capital Projects		
	Budget Revised	Actual	Variance: Favorable (Unfavorable)
Revenues:			
From local sources:			
Taxes	\$272,672	\$273,574	\$902
Tuition			
Earnings on investments			
Extracurricular			
Other local revenues	5,212	5,229	17
Intergovernmental - State	130,562	130,994	432
Intergovernmental - Federal			
Total revenues	<u>408,446</u>	<u>409,797</u>	<u>1,351</u>
Expenditures:			
Current:			
Instruction:			
Regular	31,690	31,690	
Special			
Vocational			
Other			
Support services:			
Pupil			
Instructional staff	16,719	9,082	7,637
Board of Education			
Administration			
Fiscal	5,000	4,505	495
Business			
Operations and maintenance			
Pupil transportation			
Central	7,500		7,500
Community services			
Extracurricular activities			
Facilities acquisition and construction	1,993,568	1,633,876	359,692
Debt service:			
Principal retirement			
Interest and fiscal charges			
Total expenditures	<u>2,054,477</u>	<u>1,679,153</u>	<u>375,324</u>
Excess of revenues over (under) expenditures	<u>(1,646,031)</u>	<u>(1,269,356)</u>	<u>376,675</u>
Other financing sources (uses):			
Operating transfers in			
Operating transfers out			
Advances in	(31,000)	(35,010)	(4,010)
Advances out			
Refund of prior year expenditure			
Total other financing sources (uses)	<u>(31,000)</u>	<u>(35,010)</u>	<u>(4,010)</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(1,677,031)	(1,304,366)	372,665
Fund balances, July 1	1,514,372	1,514,372	
Prior year encumbrances appropriated	208,943	208,943	
Fund balances, June 30	<u>\$46,284</u>	<u>\$418,949</u>	<u>\$372,665</u>

The notes to the general-purpose financial statements are an integral part of this statement.

Total (Memorandum only)

Budget Revised	Actual	Variance: Favorable (Unfavorable)
\$5,808,040	\$6,176,325	\$368,285
228,564	243,734	15,170
83,268	88,794	5,526
163,721	181,061	17,340
121,140	129,314	8,174
7,093,641	7,558,697	465,056
616,090	681,342	65,252
14,114,464	15,059,267	944,803
6,603,141	6,336,408	266,733
1,413,164	1,249,717	163,447
294,200	284,034	10,166
465,248	493,229	(27,981)
938,670	980,233	(41,563)
514,459	448,325	66,134
22,200	10,198	12,002
1,324,275	1,259,917	64,358
352,418	351,249	1,169
138,790	120,458	18,332
1,029,214	913,628	115,586
1,021,252	952,640	68,612
257,550	199,168	58,382
66,600	61,894	4,706
409,418	399,626	9,792
2,093,568	1,733,876	359,692
55,000	55,000	
19,670	19,663	7
17,018,837	15,869,263	1,149,574
(2,904,373)	(809,996)	2,094,377
74,663	74,663	
(74,663)	(74,663)	
482,024	524,314	42,290
(527,769)	(524,313)	3,456
21,295	23,037	1,742
(24,450)	23,038	47,488
(2,928,823)	(786,958)	2,141,865
2,720,274	2,720,274	
255,780	255,780	
\$47,231	\$2,189,096	\$2,141,865

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

STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN RETAINED EARNINGS
PROPRIETARY FUND TYPE
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	Proprietary Fund Type
	Enterprise
Operating revenues:	
Tuition and fees	\$23,166
Sales/charges for services	374,101
Total operating revenues	397,267
Operating expenses:	
Personal services	221,262
Contract services	3,142
Materials and supplies	241,827
Depreciation	12,930
Total operating expenses	479,161
Operating loss	(81,894)
Nonoperating revenues:	
Operating grants	89,007
Interest revenue	1,265
Federal commodities	24,321
Total nonoperating revenues	114,593
Net income	32,699
Retained earnings, July 1	120,333
Retained earnings, June 30	\$153,032

The notes to the general-purpose financial statements are an integral part of this statement.

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

STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPE
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	Proprietary Fund Type
	Enterprise
Cash flows from operating activities:	
Cash received from tuition and fees	\$23,166
Cash received from sales/service charges	374,101
Cash payments for personal services	(230,363)
Cash payments for contract services	(3,142)
Cash payments for materials and supplies	(217,494)
	(53,732)
Net cash used in operating activities	(53,732)
Cash flows from noncapital financing activities:	
Cash received from operating grants	89,427
	89,427
Net cash provided by noncapital financing activities	89,427
Cash flows from investing activities:	
Interest received	1,265
	1,265
Net cash provided by investing activities	1,265
Net increase in cash and cash equivalents	36,960
Cash and cash equivalents at beginning of year	89,082
	89,082
Cash and cash equivalents at end of year	\$126,042
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	(\$81,894)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	12,930
Federal donated commodities	24,321
Changes in assets and liabilities:	
Increase in prepaids	(1,043)
Decrease in material and supplies inventory	376
Decrease in accrued wages and benefits	(5,348)
Decrease in compensated absences payable	(3,438)
Increase in due to other governments	875
Decrease in pension obligation payable	(147)
Decrease in deferred revenue	(364)
	(364)
Net cash used in operating activities	(\$53,732)

The notes to the general-purpose financial statements are an integral part of this statement.

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

**NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

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

The District is the 258th largest in the State of Ohio (among the 705 public and community school districts in the state) in terms of enrollment. It is staffed by 95 non-certificated and 141 certificated personnel to provide services to approximately 2,174 students and other community members.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The general-purpose financial statements (GPFS) 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 prior to November 30, 1989 to its proprietary activities unless those pronouncements conflict with or contradict GASB pronouncements. The District's significant accounting policies are described below.

A. Reporting Entity

The District's reporting entity has been defined in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity". A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements of the District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities of the District. Component units are legally separate organizations for which the District is financially accountable.

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

JOINTLY GOVERNED ORGANIZATIONS

Lorain County Joint Vocational School District

The Lorain County Joint Vocational School District is a distinct political 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 Lorain County Joint Vocational School District is not part of the District

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

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)

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 thirty school districts. The jointly governed organization was formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to administrative and instructional functions 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 fourteen school districts. The jointly governed organization was formed for the purpose of promoting cooperative agreements and activities among its members in dealing with problems of mutual concern such as a media center, gas consumption, driver education, food service and insurance. Each member provides operating resources to LERC on a per pupil or actual usage charge. The LERC assembly consists of a superintendent or designated representative from each participating school district and the fiscal agent. LERC is governed by a Board of Directors chosen from the general membership. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained by contacting the Treasurer at the Educational Service Center of Lorain County, who serves as fiscal agent, at 1885 Lake Avenue, Elyria, Ohio.

The District is also a member of a public entity risk-sharing pool, described in Note 11 part C.

B. Fund Accounting

The District uses funds and account groups 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. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain district activities or functions. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category is divided into separate fund types.

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GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions of the District are financed. The acquisition, use and balances of the District's expendable financial resources and the related liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The following are the District's governmental fund types:

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

Special Revenue Funds - The special revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Fund - The debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Funds - The capital projects funds are used to account for financial resources to be used for the acquisition of construction of major capital facilities (other than those financed by proprietary funds).

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 is the District's proprietary fund type:

Enterprise Funds - The enterprise funds are used to account for operations that (a) 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.

FIDUCIARY FUNDS

Fiduciary funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. The District's only fiduciary fund is an agency fund. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency fund is presented on a budget basis, with note disclosure, regarding items which, in other fund types, would be subject to accrual (See Note 3.C.).

ACCOUNT GROUPS

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of general nature, the following account groups are used.

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General Fixed Assets Account Group - This group of accounts is established to account for all fixed assets of the District, other than those accounted for in the proprietary funds.

General Long-Term Obligations Account Group - This group of accounts is established to account for all long-term obligations of the District, other than those accounted for in the proprietary funds.

C. Measurement Focus/Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. The modified accrual basis of accounting is utilized by the governmental fund types.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations of these funds are included on the balance sheet. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means 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 the 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 the modified accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied and the resources are available. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been met and the resources are available.

Revenues accrued at the end of the year include taxes, (to the extent they are intended to finance the current fiscal year), interest, and accounts (student fees and tuition).

The District reports deferred revenue on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the recognition of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized. Current property taxes measurable as of June 30, 2002, but which are intended to finance fiscal 2003 operations, have been recorded as deferred revenues.

Expenditures (decreases in net financial resources) are recognized in the period in which the fund liability is incurred with the following exception: general long-term obligation principal and interest are reported only when due; and costs of accumulated unpaid vacation and sick leave are reported

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as expenditures in the period in which they will be liquidated with available financial resources rather than in the period earned by employees.

The proprietary funds are accounted for on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense and a like amount is reported as donated commodities revenue.

On the accrual basis of accounting, revenue from nonexchange transactions, such as grants, entitlements, and donations, is recognized in the fiscal year in which all eligibility requirements have been met. The proprietary funds receive no revenue from property taxes.

D. Budgets

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2002 is as follows:

1. Prior to January 15 of the preceding year, 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 expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Lorain County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's 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 a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. 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 statement reflect the amounts set forth in the final Amended Certificate issued for fiscal year 2002.
4. By July 1, the annual Appropriation Resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. All funds, other than agency funds, are legally required to be budgeted and appropriated. Short-term interfund loans are not required to be budgeted since they represent a temporary cash flow resource, and are intended to be repaid.

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6. Any revisions that alter the total of any fund appropriation, any function appropriation or any object appropriation must be approved by the Board of Education.
7. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All departments/functions and funds completed the year within the amount of their legally authorized cash basis appropriation.
8. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board during fiscal 2002 in the following amounts:
9. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund, function and/or object level.

Encumbrance accounting is utilized with District funds in the normal course of operations, for purchase orders and contract related expenditures. An encumbrance is a reserve on the available spending authority due to commitment for a future expenditure and does not represent a liability. For governmental fund types, encumbrances outstanding at year-end appear as a reserve to the fund balance on a GAAP basis and as the equivalent of expenditures on a non-GAAP budgetary basis in order to demonstrate legal compliance. Note 15 provides a reconciliation of the budgetary and GAAP basis of accounting, there were no encumbrances outstanding for the enterprise funds at fiscal year-end.

E. Cash and Investments

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

During fiscal 2002, the District's investments were limited to investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Investments in STAR Ohio are reported at fair value.

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, 2002.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the general fund during fiscal 2002 amounted to \$88,794, which includes \$50,107 assigned from other District funds.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, 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

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equivalents. Investments with an initial maturity of more than three months are reported as investments.

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

F. Inventory

Inventories of proprietary funds consist of donated food, purchased food, food service paper and janitorial supplies and are valued at the lower of cost (first-in/first-out method) or market and expensed when used rather than when purchased.

G. Prepayments

Prepayments for governmental funds represent cash disbursements, which have occurred and are therefore not current expendable resources. These items are reported as fund assets on the balance sheet using the allocation method, which amortizes their cost over the periods benefiting from the advance payment. 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.

H. Fixed Assets and Depreciation

General Fixed Assets Account Group

General fixed assets are capitalized at cost or estimated historical cost. Donated fixed assets are recorded at their fair market values as of the date donated. The District follows the policy of not capitalizing assets with a cost of less than \$500 and a useful life of less than five years. 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 capitalized. Also, interest on debt issued to construct or acquire general fixed assets is not capitalized. No depreciation is recognized for assets in the general fixed assets account group. The District has not included infrastructure in the general fixed assets account group.

Proprietary Funds

Equipment reflected in these funds is stated at historical cost or estimated historical cost and updated for the cost of additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date donated. Depreciation of furniture, fixtures and minor equipment in the enterprise funds is computed using the straight-line method over an estimated useful life of five to twenty years.

I. Compensated Absences

Compensated absences of the District consist of vacation leave and sick leave to the extent that payment 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

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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 50 or greater with at least 10 years of service and all employees with at least 20 years of service regardless of their age and with at least 3 years with the District were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at the balance sheet date, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

J. Long-Term Obligations

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a government fund. The remaining portion of such obligations is reported in the general long-term obligations account group.

Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

K. Fund Balance Reserves

The District records reservations for portions of fund equity, which are legally segregated for specific future use, or which do not represent available expendable resources and therefore are not available for appropriations or expenditures. Unreserved fund balance indicates that portion of fund equity, which is available for appropriation in future periods. Fund equity reserves are established for encumbrances, prepayments, and tax revenue unavailable for appropriation. The reserve for property taxes represents taxes recognized as revenue under GAAP, but not available for appropriations under state statute.

L. Interfund Transactions

During the course of normal operations, the District may have numerous transactions between funds. The most significant include:

1. Transfers of resources from one fund to another fund. The resources transferred are to be expended for operations by the receiving fund and are recorded as operating transfers, with the exception of agency funds, which do not show transfers of resources as operating transfers.
2. Reimbursements from one fund to another are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditures/expenses in the reimbursed fund. Quasi-external transactions are accounted for as revenues, expenditures or expenses.
3. Short-term interfund loans and accrued interfund reimbursements and accrued operating transfers are reflected as "interfund loans receivable or payable". The District had short-term interfund loans receivable and payable at June 30, 2002.

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4. Long-term interfund loans that will not be repaid within the next year are termed "advances" and are shown as reservations of fund balances on the combined balance sheet for those funds that report advances to other funds as assets because they are not spendable, available resources. The District had no long-term advances receivable or payable at June 30, 2002.

See Note 5 for an analysis of interfund transactions.

M. Estimates

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

N. Memorandum Only - Total Columns

Total columns on the GPFS are captioned (Memorandum Only) to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with GAAP. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Prior Period Adjustment

In the prior year, the District "advanced" monies from the general fund to the Title VI-B, Title VI, and the Miscellaneous Federal Grants special revenue funds. These "advances" were subject to repayment, however, they were not reported as an "interfund loans receivable" or an "interfund loans payable" on the combined balance sheet. A prior period adjustment is required to properly state the interfund loans at June 30, 2001.

The District has contracted with the Lake Erie Regional Council of Governments (LERC) to provide employee health and medical benefits. LERC is a claims-servicing pool comprised of fourteen Lorain County school districts. The District retains the risks associated with the employee health and medical benefits provided and are therefore considered to be self-insured for these benefits. In the prior year, the District did not report the associated liabilities for the deficit cash balance with the fiscal agent (LERC) nor the incurred but not reported claims. The District has restated the July 1, 2001 fund equity to reflect the associated liabilities for the deficit cash balance with the fiscal agent (LERC) and the incurred but not reported claims.

The restatement had the following effect on fund type balances as previously report as of June 30, 2001:

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	General	Special Revenue
Previously reported - Fund Balance, June 30, 2001	\$655,670	\$284,473
Adjustment for interfund loans receivable/payable	102,744	(102,744)
Adjustment for funds due to fiscal agent	(68,258)	
Adjustment for incurred but not reported claims	(181,683)	
Restated - Fund Balance June 30, 2001	\$508,473	\$181,729

The restatement had the following effect on the excess of revenues and other financing sources over (under) expenditures and other financing uses as previously reported for the fiscal year ended June 30, 2001.

	General	Special Revenue
Previously reported - Excess of revenues and other financing sources over (under) expenditures and other financing uses	(\$413,833)	\$44,546
Adjustment for advances	102,744	(102,744)
Adjustment for funds due to fiscal agent	(68,258)	
Adjustment for incurred but not reported claims	(181,683)	
Restated - Excess of revenues and other financing Sources over (under) expenditures and other financing uses	(\$561,030)	(\$58,198)

B. Deficit Fund Balances

Fund balance at June 30, 2002 includes the following individual fund deficit:

Special Revenue Funds	Deficit Balance
Title VI-B	\$97,153
Title I	39,910
Title VI-R	75
Miscellaneous Federal Grants	135,003

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end.

The deficit balances in the special revenue funds are caused by the application of GAAP, namely in the reporting of a liability for short-term interfund loans as a liability rather than as "other financing source". These deficit balances will be eliminated as revenues become available to repay the short-term interfund loans.

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C. Agency Funds

The following is an accrual for the agency funds, which, in another fund type, would be recognized in the combined balance sheet:

<u>LIABILITIES</u>	
Accounts payable	\$539

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Cash Equivalents". Statutes require the classification of 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 financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and that the term of the agreement must not exceed 30 days;

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4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25% of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instruments rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

The District had \$392,074 in cash and cash equivalents which are included on the combined balance sheet as part of "Cash with Fiscal Agent". This represents monies held by the Lake Erie Regional Council of Governments (LERC). LERC is the District's fiscal agent for health insurance, and therefore, the District cannot classify this money by risk under GASB Statement No. 3.

The following information classifies deposits and investments by categories of 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 \$265,660 and the bank balance was \$401,696. Of the bank balance:

1. \$100,000 was covered by federal depository insurance; and
2. \$301,696 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 in depository institutions; these securities not being in the name of the District. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

Investments: The District's investments are categorized below to give an indication of the level of risk assumed by the District at year-end. Category 1 includes investments that are insured or registered or securities held by the District. Category 2 includes uninsured and unregistered investments for which securities are held by the counterpart'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 counterpart or by its trust department, but not in the District's name. At June 30, 2002, the District's had an investment

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of \$2,189,153 in STAR Ohio, which is the State Treasurer's Investment Pool. STAR Ohio is not categorized because it is not evidenced by securities that exist in physical or book entry form.

A reconciliation between the classifications of cash and cash equivalents and investments on the combined balance sheet per GASB Statement No. 9 and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$2,846,887	
Cash with fiscal agent	(392,074)	
Investments:		
STAR Ohio	(2,189,153)	\$2,189,153
GASB Statement No. 3	\$265,660	\$2,189,153

NOTE 5 - INTERFUND TRANSACTIONS

A. The following is a reconciliation of the District's operating transfers for fiscal year 2002:

	Transfers In	Transfers Out
General Fund		\$74,633
Debt Service Fund:		
Bond Retirement	\$74,633	
Totals	\$74,633	\$74,633

B. Interfund balances at June 30, 2002, consist of the following individual interfund loans receivable and payable:

	Interfund Receivable	Interfund Payable
General Fund	\$342,621	
<u>Sepecial Revenue Funds:</u>		
Title VI-B		\$99,543
Title I		67,775
Title VI		7,506
Drug Free Schools Grant		5,984
Miscellaneous Federal Grants		161,813
Totals	\$342,621	\$342,621

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NOTE 6 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. Distributions from the second half of the calendar year occur in a new fiscal year and are intended to finance the operations of that year. Property taxes include amounts levied against all real, public utility and tangible (used in business) property located in the District. Real property taxes and public utility taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Assessed values are established by state law at 35% of appraised market value.

Public utility property taxes are assessed on tangible personal property, as well as land and improvements. Real property is assessed at 35% of market value and personal property is assessed at varying rates of true value.

The assessed value upon which the 2001 taxes were collected was \$221,918,677. Agricultural/residential and public utility/minerals real estate represented 82.37% or \$182,789,770 of this total; commercial and industrial real estate represented 7.74% or \$17,179,000 of this total; public utility tangible represented 5.26% or \$11,674,730 of this total and general tangible property represented 4.63% or \$10,275,177 of this total. The voted general tax rate at the fiscal year ended June 30, 2002 was \$428 per \$1,000.00 of assessed valuation for operations, and \$1.40 per \$1,000.00 of assessed valuation for permanent improvement.

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.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The District receives property taxes from Lorain County and Erie County. The County Treasurers collect property taxes on behalf of the District. The County Auditors periodically remit to the District its portion of the taxes collected. These tax "advances" are based on statutory cash flow collection rates. Final "settlements" are made each February and August.

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property, and public utility taxes which became measurable as of June 30, 2002. Although total property tax collections for the next fiscal year are measurable, they are not (exclusive of advances) intended to finance current year operations. The net receivable (total receivable less the amount available intended to finance the current year) is therefore offset by a credit to deferred revenue. The amount recorded as an advance, and recorded as revenue, at June 30, 2002 was \$711,615 in the general fund, and \$36,635 in the Permanent Improvement capital projects fund.

NOTE 7 - RECEIVABLES

Receivables at June 30, 2002 consisted of taxes, accounts (billings for user charged services and student fees), interfund loans, and intergovernmental grants (to the extent eligibility requirements have been met by fiscal year-end). Intergovernmental grants receivable have been presented as "Due From Other Governments" on the combined balance sheet. Taxes and intergovernmental receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes and the stable condition of state programs.

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

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)

A summary of the principal items of receivables follows:

	Amount
<u>General Fund:</u>	
Taxes - current and delinquent	\$5,994,358
Accounts	470
Due from other governments	6,503
Interfund loans	342,621
 <u>Special Revenue Funds:</u>	
Due from other governments	335,649
 <u>Capital Projects Funds:</u>	
Taxes - current and delinquent	290,339

NOTE 8 - FIXED ASSETS

The following changes occurred in the general fixed assets account group during the year:

	Balance July 1, 2001	Additions	Deletions	Balance June 30, 2002
Land and improvements	\$1,440,519			\$1,440,519
Buildings	6,473,252	\$1,343,815		7,817,067
Furniture and equipment	2,318,047	228,525	(\$32,694)	2,513,878
Vehicles	1,019,835	96,450		1,116,285
Totals	\$11,251,653	\$1,668,790	(\$32,694)	\$12,887,749

A summary of the proprietary fixed assets at June 30, 2002 follows:

Furniture and equipment	\$259,278
Less: accumulated depreciation	(201,469)
Net fixed assets	\$57,809

NOTE 9 - CAPITALIZED LEASES - LESSEE DISCLOSURE

In prior years, the District has entered into capital leases for copiers. New leases are accounted for as a capital outlay expenditure and other financing sources.

The terms of each agreement provide options to purchase the equipment. Each lease meets 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 at the conclusion of the lease term. Capital lease payments have been reclassified and are reflected as debt service expenditures in the Combined Statement of Revenues, Expenditures and Changes in Fund Balances for

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

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)

Governmental Fund Types. These expenditures are reflected as program/function expenditures on a budgetary basis.

Principal payments in the 2002 fiscal year totaled \$1,538. This amount is reflected as debt service principal retirement in the general fund. There are no capital lease obligations outstanding as of June 30, 2002..

NOTE 10 - LONG-TERM OBLIGATIONS

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

The following is a description of the District's energy conservation notes outstanding as of June 30, 2002:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Balance July 1, 2001</u>	<u>Retired in Fiscal 2002</u>	<u>Balance June 30 2002</u>
Energy conservation note	5.50%	2/20/1997	12/6/2006	<u>\$385,000</u>	<u>(\$55,000)</u>	<u>\$330,000</u>

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

<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$58,000	\$16,555	\$74,555
2004	62,000	13,255	75,255
2005	66,000	9,735	75,735
2006	70,000	5,995	75,995
2007	<u>74,000</u>	<u>2,035</u>	<u>76,035</u>
Totals	<u>\$330,000</u>	<u>\$47,575</u>	<u>\$377,575</u>

C. During the year ended June 30, 2002, the following changes occurred in the liabilities reported in the general long-term obligations account group. Compensated absences and the pension obligation will be paid from the fund in which the employee was paid. The capital lease obligation is paid from the general fund.

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

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)

	Balance July 1, 2001	Increases	Decreases	Balance June 30, 2002
Energy notes payable	\$385,000		(\$55,000)	\$330,000
Capital lease obligation	1,538		(1,538)	
Compensated absences	805,951	\$72,035	(51,503)	826,483
Pension obligation payable	101,964	113,389	(101,964)	113,389
Totals	<u>\$1,294,453</u>	<u>\$185,424</u>	<u>(\$210,005)</u>	<u>\$1,269,872</u>

D. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code further provides that unvoted indebtedness for energy conservation measures shall not exceed 9/10 of 1% of the property valuation of the District. The effects of these debt limitations at June 30, 2002 are a voted debt margin of \$19,980,067 (including available funds of \$7,386), an unvoted debt margin of \$221,919, and an unvoted energy conservation debt margin of \$1,642,268.

NOTE 11 - RISK MANAGEMENT

A. Comprehensive

The District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2002, the District contracted with Ohio School Plan for professional liability insurance. The District contracted with Auto-Owner's Insurance Company for fleet insurance. The District contracted with General Star Indemnity Company for excess coverage. The District has contracted with LERC to provide insurance coverage for property, boiler and machine, inland marine and employee theft. Coverages provided and deductibles are as follows:

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

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

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 fourteen Lorain County school districts. Rates are set through an annual calculation process. The District pays a monthly contribution which is placed in a

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

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)

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 exiting 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 coverage 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 program 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 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.

Claims payable at June 30, 2002, is estimated by LERC at \$188,384. The change in claims liability for 2002 is as follows:

Year	Beginning Balance	Claims	Claims Payments	Ending Balance
2002	<u>\$181,683</u>	<u>\$862,989</u>	<u>\$856,288</u>	<u>\$188,384</u>

Only the change in liability for the fiscal year 2002 is reported above. Not enough information is available to report the change in liability for 2001.

C. Workers' Compensation

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

The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The worker's 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 and Co. provides administrative, cost control, and actuarial services to the GRP.

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

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)

NOTE 12 - SEGMENT INFORMATION - ENTERPRISE FUNDS

The District maintains four enterprise funds to account for the operations of food service, uniform school supplies, community recreation, and a latch key program. The following table reflects, in a summarized format, the more significant financial data relating to the enterprise funds of the District as of and for the year ended June 30, 2002.

	Food Service	Uniform School Supplies	Community Recreation	Latch Key Program	Totals
Operating revenue	\$352,538	\$23,166	\$1,821	\$19,742	\$397,267
Depreciation expense	12,930				12,930
Operating expenses before depreciation	428,315	18,181	1,420	18,315	466,231
Operation income / (loss)	(88,707)	4,985	401	1,427	(81,894)
Operating grants	89,007				89,007
Net income	25,886	4,985	401	1,427	32,699
Net working capital	51,906	15,678	676	39,166	107,426
Total assets	135,015	15,678	676	40,499	191,868
Total liabilities	37,323			1,513	38,836
Total equity	97,692	15,678	676	38,986	153,032

NOTE 13 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the School Employees Retirement Board. 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 Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Columbus, Ohio 43215-3634, or by calling (614) 222-5853.

Plan members are required to contribute 9% of their annual covered salary and the District is required to contribute 14% for 2002; 5.46% was the portion to fund pension obligations. The contribution rates are not determined actuarially, but are established by the School Employees Retirement Board within the rates allowed by state statute. The adequacy of the contribution rates is determined annually. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$235,813, \$237,602, and \$210,008, respectively; 42.08% has been contributed for fiscal year 2002 and 100% for the fiscal years 2001 and 2000. \$136,572, representing the unpaid contribution for fiscal year 2002, is recorded as a liability within the respective funds and the general long-term obligations account group.

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

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

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)

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.

Plan members are required to contribute 9.3% of their annual covered salary and the District is required to contribute 14%; 9.5% was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$929,831, \$897,766, and \$825,496, respectively; 82.34% has been contributed for fiscal year 2002 and 100 % for the fiscal years 2001 and 2000. \$164,128, representing the unpaid contribution for fiscal year 2002, is recorded as a liability within the respective funds.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose Social Security or SERS/STRS. As of June 30, 2002, certain members of the Board of Education have elected Social Security. The Board's liability is 6.2% of wages paid.

NOTE 14 - POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$298,874 during fiscal 2002.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.256 billion at June 30, 2001 (the latest information available). For the fiscal year ended June 30, 2001 (the latest information available), net health care costs paid by STRS were \$300.772 million and STRS had 102,132 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

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

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)

For this fiscal year, employer contributions to fund health care benefits were 8.54 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 2002, the minimum pay has been established at \$12,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2001 (the latest information available), were \$161.440 million and the target level was \$242.2 million. At June 30, 2001 (the latest information available), SERS had net assets available for payment of health care benefits of \$315.7 million and SERS had approximately 50,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$175,237 during fiscal year 2002.

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

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

The Combined Statement of Revenue, Expenditures, and Changes in Fund Balances - Budget and Actual Comparison - All Governmental Fund Types is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

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

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the governmental funds are as follows:

	Governmental Fund Types		
	General	Special Revenue	Capital Projects
Budget basis	\$670,840	(\$153,432)	(\$1,304,366)
Net adjustments:			
For revenue accruals	(255,954)	108,853	(12,759)
For expenditure accruals	479,062	7,949	3,745
For other financing sources / (uses)	112,465	(170,125)	35,010
Encumbrances (budget basis)	24,787	25,434	52,823
GAAP basis	\$1,031,200	(\$181,321)	(\$1,225,547)

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

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)

NOTE 16 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds; however, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District at June 30, 2002.

B. Litigation

The District was party to legal proceedings; however any liability is expected to be covered by insurance.

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

NOTE 17 - STATUTORY RESERVES

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2002, the reserve activity was as follows:

	Textbooks	Capital Acquisition
Set-aside cash balance as of June 30, 2001	(\$150,969)	
Current year set-aside requirement	251,374	\$251,374
Current year offsets		(273,574)
Qualifying disbursement	(471,957)	(41,710)
Total	(\$371,552)	(\$63,910)
Set-aside cash balance as of June 30, 2002	(\$371,552)	

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

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

SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2002

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number
U.S. DEPARTMENT OF AGRICULTURE		
<i>Passed Through Ohio Department of Education</i>		
<u>Nutrition Cluster:</u>		
Food Distribution Program	N/A	10.550
National School Lunch Program	48157-LLP4-2001 48157-LLP4-2002	10.555
Total National School Lunch Program		
Special Milk Program	48157-02PU-2001 48157-02PU-2002	10.556
Total Special Milk Program		
Total U.S. Department of Agriculture - Nutrition Cluster		
U.S. DEPARTMENT OF EDUCATION		
<i>Direct Program</i>		
21st Century Community Learning Centers	N/A	84.287
<i>Passed Through Ohio Department of Education</i>		
Special Education Grants to States (IDEA Part B)	485157-6BSF-2001-P 485157-6BSF-2002-P 485157-6BSX-2002-P	84.027
Total Special Education Grants to States		
Grants to Local Educational Agencies (ESEA Title I)	48157-C1S1-2002	84.010
Eisenhower Professional Development State Grant	48157-MSS1-2000 48157-MSS1-2001 48157-MSS1-2002	84.281
Total Eisenhower Professional Development State Grant		
Innovative Educational Program Strategies	48157-C2S1-2000 48157-C2S1-2002	84.298
Total Innovative Educational Program Strategies		
Comprehensive School Reform Demo	48157-RFS2-2001	84.332
Class Size Reduction	48157-CRS1-2000 48157-CRS1-2001 48157-CRS1-2002	84.340
Total Class Size Reduction		
Drug-Free Schools Grant	48157-DRS1-2000 48157-DRS1-2001 48157-DRS1-2002	84.186
Total Drug-Free Schools Grant		
Total Department of Education		

Totals

The accompanying notes are an integral part of this schedule.

Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
	\$23,958		\$24,321
\$8,930		\$8,930	
74,396		74,396	
<u>83,326</u>		<u>83,326</u>	
712		712	
2,204		2,204	
<u>2,916</u>		<u>2,916</u>	
<u>86,242</u>	<u>23,958</u>	<u>86,242</u>	<u>24,321</u>
433,688		439,646	
77,477			
39,503		131,678	
8,574		12,442	
<u>125,554</u>		<u>144,120</u>	
18,164		85,939	
4,737		334	
		2,641	
7,703			
<u>12,440</u>		<u>2,975</u>	
6,833		6,833	
3,066		10,572	
<u>9,899</u>		<u>17,405</u>	
45,000		111,157	
18,433		18,433	
		28,665	
10,373		10,373	
<u>28,806</u>		<u>57,471</u>	
6,025			
		6,958	
1,765		1,591	
7,790		8,549	
<u>681,341</u>		<u>867,262</u>	
<u>\$767,583</u>	<u>\$23,958</u>	<u>\$953,504</u>	<u>\$24,321</u>

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

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2002**

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 - FOOD DISTRIBUTION

Nonmonetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2002, the District had no significant food commodities in inventory.

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

Firelands Local School District
Lorain County
11970 Vermilion Road
Oberlin, Ohio 44074-9499

To the Board of Education:

We have audited the financial statements of the Firelands Local School District, Lorain County, Ohio (the District) as of and for the year ended June 30, 2002, and have issued our report thereon dated February 20, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving

the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the management of the District in a separate letter dated February 20, 2003.

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

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

Betty Montgomery
Auditor of State

February 20, 2003



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTS' 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 44074-9499

To the Board of Education:

Compliance

We have audited the compliance of the Firelands Local School District, Lorain County, Ohio (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2002. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2002.

Internal Control over Compliance

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

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

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



Betty Montgomery
Auditor of State

February 20, 2003

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

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
JUNE 30, 2002

1. SUMMARY OF AUDITOR'S RESULTS

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

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.



**Auditor of State
Betty Montgomery**

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800-282-0370

Facsimile 614-466-4490

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
MARCH 25, 2003**