

Mary Taylor, CPA
Auditor of State

**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Statement of Net Assets	15
Statement of Activities.....	16
Balance Sheet – Governmental Funds	17
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	18
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	19
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	20
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual – General Fund	21
Statement of Fiduciary Net Assets – Fiduciary Funds.....	22
Notes to the Basic Financial Statements	23
Schedule of Federal Awards Receipts and Expenditures.....	51
Notes to the Schedule of Federal Awards Receipts and Expenditures	52
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	53
Independent Accountants' Report on Compliance with Requirements Applicable To Its Major Federal Program and on Internal Control Over Compliance In Accordance With OMB Circular A-133	55
Schedule of Findings.....	57

This Page Intentionally Left Blank



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Firelands Local School District, Lorain County, Ohio (the District), as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Firelands Local School District, Lorain County, Ohio, as of June 30, 2008, and the respective changes in financial position, thereof and the budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As more fully described in Note 3, the July 1, 2007 fund balances of the General Fund and the Internal Service Fund were restated to eliminate the Internal Service Fund and include the balance as part of the General Fund.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 27, 2009, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

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

Mary Taylor, CPA
Auditor of State

April 27, 2009

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

The management's discussion and analysis of Firelands Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2008. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2008 are as follows:

- In total, net assets decreased \$1,284,032, a 14.65% decrease from 2007.
- General revenues accounted for \$15,174,438 in revenue or 84.60% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions and capital grants accounted for \$2,763,262, or 15.40% of total revenues of \$17,937,700.
- The District had \$19,221,732 in expenses related to governmental activities; only \$2,763,262 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$15,174,438 were not adequate to provide for these programs.
- The District's only major governmental funds are the general fund and the permanent improvement fund. The general fund had \$16,092,458 in revenues and other financing sources and \$18,483,469 in expenditures and other financing uses. The general fund's fund balance decreased \$2,391,011 from \$5,031,428 to \$2,640,417.
- The District's permanent improvement fund had \$1,568,633 in revenues and other financing sources and \$552,048 in expenditures. During fiscal year 2008, the permanent improvement fund's fund balance increased \$1,016,585 from \$693,397 to \$1,709,982.

Using these Basic Financial Statements

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2008?" The statement of net assets and the statement of activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the *financial position* of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the statement of net assets and the statement of activities, the governmental activities include the District's programs and services, including instruction, support services, operation and maintenance, pupil transportation, extracurricular activities, and food service operations.

The District's statement of net assets and statement of activities can be found on pages 14-15 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental fund begins on page 9. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's only major governmental funds are the general fund and the permanent improvement fund.

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the statement of net assets and the statement of activities) and governmental *funds* is reconciled in the financial statements. The basic governmental fund financial statements can be found on pages 17-21 of this report.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Reporting the District's Fiduciary Responsibilities

The District acts in a trustee capacity as an agent for individuals. These activities are reported in an agency fund. The District's fiduciary activities are reported in separate statements of fiduciary net assets on page 22. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 23-49 of this report.

The District as a Whole

The statement of net assets provides the perspective of the District as a whole.

The table below provides a summary of the District's net assets at June 30, 2008 and 2007.

	Net Assets	
	Governmental	
	Activities	
	2008	2007
<u>Assets</u>		
Current assets	\$ 13,221,259	\$ 14,620,345
Capital assets, net	3,551,033	3,418,933
Total assets	16,772,292	18,039,278
<u>Liabilities</u>		
Current liabilities	8,037,099	8,204,507
Long-term liabilities	1,257,048	1,072,594
Total liabilities	9,294,147	9,277,101
<u>Net Assets</u>		
Invested in capital assets, net of debt	3,490,467	3,395,289
Restricted	1,931,598	970,666
Unrestricted	2,056,080	4,396,222
Total net assets	\$ 7,478,145	\$ 8,762,177

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2008, the District's assets exceeded liabilities by \$7,478,145.

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

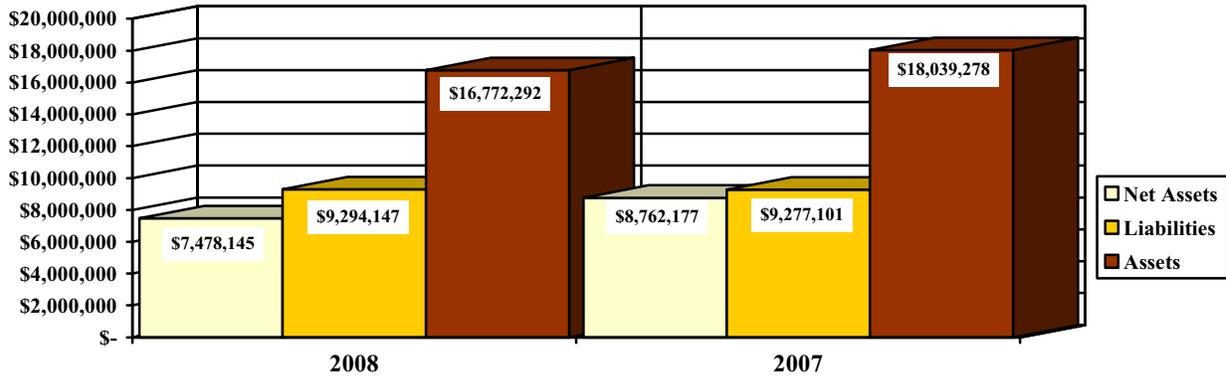
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

At year-end, capital assets represented 21.17% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2008, were \$3,490,467. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$1,931,598, represents resources that are subject to external restriction on how they may be used. The District had a remaining balance of unrestricted net assets of \$2,056,080.

The table below provides a summary of the District's net assets for 2008 and 2007:

Governmental - Net Assets



The table below shows the changes in net assets for governmental activities for fiscal years 2008 and 2007.

Change in Net Assets

	Governmental Activities	
	2008	2007
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 1,477,227	\$ 1,398,990
Operating grants and contributions	1,273,649	1,350,471
Capital grants and contributions	12,386	34,633
General revenues:		
Property taxes	6,414,617	6,482,753
Grants and entitlements	8,438,829	8,122,579
Investment earnings	260,916	369,163
Other	60,076	41,832
Total revenues	17,937,700	17,800,421

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Governmental Activities

<u>Expenses</u>	<u>2008</u>	<u>2007</u>
Program expenses:		
Instruction:		
Regular	7,972,079	7,641,085
Special	2,103,104	1,906,854
Vocational	282,215	333,677
Other	1,125,025	1,055,936
Support services:		
Pupil	1,221,298	1,151,030
Instructional staff	408,697	369,210
Board of Education	28,077	16,332
Administration	1,488,360	1,378,701
Fiscal	382,707	373,323
Operations and maintenance	1,381,541	1,401,869
Pupil transportation	1,285,161	1,154,135
Central	371,365	290,043
Operation of non-instructional services:		
Other Non-instructional services	22,772	21,005
Food service operations	628,750	587,220
Extracurricular activities	519,336	505,630
Interest and fiscal charges	1,245	4,134
Total expenses	<u>19,221,732</u>	<u>18,190,184</u>
Changes in net assets	(1,284,032)	(389,763)
Net assets at beginning of year	<u>8,762,177</u>	<u>9,151,940</u>
Net assets at end of year	<u>\$ 7,478,145</u>	<u>\$ 8,762,177</u>

Governmental Activities

Net assets of the District's governmental activities decreased \$1,284,032. Total governmental expenses of \$19,221,732 were offset by program revenues of \$2,763,262 and general revenues of \$15,174,438. Program revenues supported 14.38% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These revenue sources represent 82.81% of total governmental revenue. Real estate property is reappraised every six years.

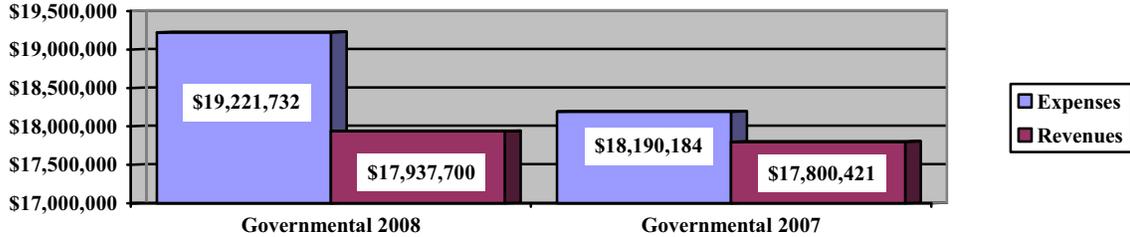
The largest expense of the District is for instructional programs. Instruction expenses totaled \$11,482,423 or 59.74% of total governmental expenses for fiscal year 2008.

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2008 and 2007.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Governmental Activities - Revenues and Expenses



The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services for 2008 and 2007. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

	Governmental Activities			
	Total Cost of Services 2008	Net Cost of Services 2008	Total Cost of Services 2007	Net Cost of Services 2007
Program expenses:				
Instruction:				
Regular	\$ 7,972,079	\$ 7,190,740	\$ 7,641,085	\$ 6,855,664
Special	2,103,104	1,200,921	1,906,854	924,778
Vocational	282,215	244,684	333,677	291,562
Other	1,125,025	1,125,025	1,055,936	1,055,936

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

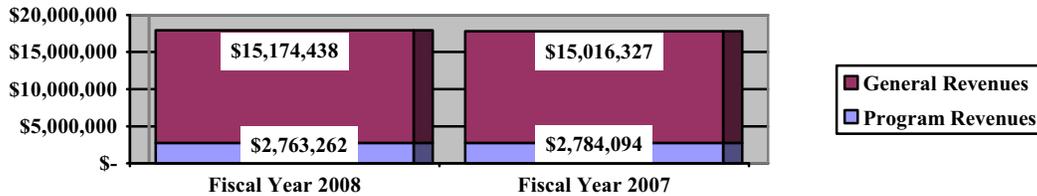
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

	Total Cost of Services <u>2008</u>	Net Cost of Services <u>2008</u>	Total Cost of Services <u>2007</u>	Net Cost of Services <u>2007</u>
Support services:				
Pupil	1,221,298	1,071,715	1,151,030	1,017,137
Instructional staff	408,697	381,121	369,210	335,540
Board of Education	28,077	28,077	16,332	16,332
Administration	1,488,360	1,440,366	1,378,701	1,378,701
Fiscal	382,707	382,707	373,323	373,323
Operations and maintenance	1,381,541	1,380,883	1,401,869	1,401,869
Pupil transportation	1,285,161	1,210,802	1,154,135	1,050,870
Central	371,365	333,516	290,043	254,024
Operation of non-instructional services				
Other non-instructional services	22,772	5,529	21,005	886
Food service operations	628,750	19,617	587,220	6,461
Extracurricular activities	519,336	441,522	505,630	438,873
Interest and fiscal charges	1,245	1,245	4,134	4,134
Total expenses	<u>\$ 19,221,732</u>	<u>\$ 16,458,470</u>	<u>\$ 18,190,184</u>	<u>\$ 15,406,090</u>

The dependence upon tax revenues and other general revenue during fiscal year 2008 for governmental activities is apparent, as 85.01% of 2008 instruction activities are supported through taxes and other general revenues. In 2008, general revenues supported 78.94% of all governmental expenditures. The District's taxpayers and grants and entitlements not restricted to specific programs are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2008 and 2007.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds (as presented on the balance sheet on page 16) reported a combined fund balance of \$4,715,526, which is below last year's restated total of \$6,106,792. The fund balance for the District was restated at June 30, 2008 as described in Note 3.A to the basic financial statements.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2008 and 2007.

	Fund Balance June 30, 2008	Restated Fund Balance June 30, 2007	(Decrease)
General	\$ 2,640,417	\$ 5,031,428	\$ (2,391,011)
Permanent Improvement	1,709,982	693,397	1,016,585
Other Governmental	<u>365,127</u>	<u>381,967</u>	<u>(16,840)</u>
Total	<u>\$ 4,715,526</u>	<u>\$ 6,106,792</u>	<u>\$ (1,391,266)</u>

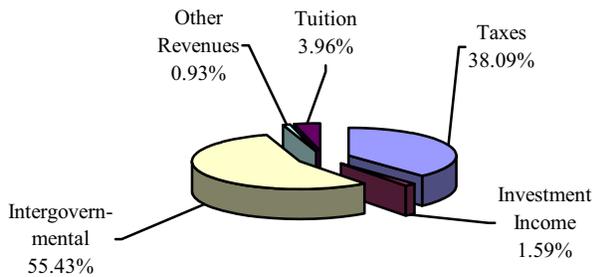
General Fund

The District's general fund balance decreased \$2,391,011. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

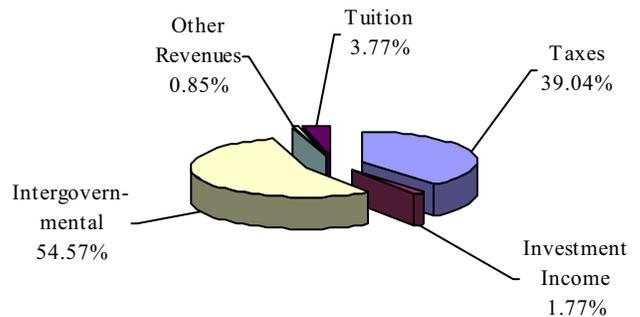
	2008 Amount	2007 Amount	Percentage Change
Revenues			
Taxes	\$ 6,115,354	\$ 6,231,897	(1.87) %
Tuition	635,578	601,635	5.64 %
Interest earnings	254,814	283,929	(10.25) %
Intergovernmental	8,901,092	8,711,240	2.18 %
Other revenues	<u>150,187</u>	<u>134,971</u>	11.27 %
Total	<u>\$ 16,057,025</u>	<u>\$ 15,963,672</u>	0.58 %

Interest earnings revenue decreased \$29,115 or 10.25% from 2007. This decrease is due to a decrease in interest rates and the reduction of interest through fair market value adjustments made to investments. The increase in other revenues is due to an increase in miscellaneous receipts. All other revenue remained comparable to 2007.

Revenues - Fiscal Year 2008



Revenues - Fiscal Year 2007



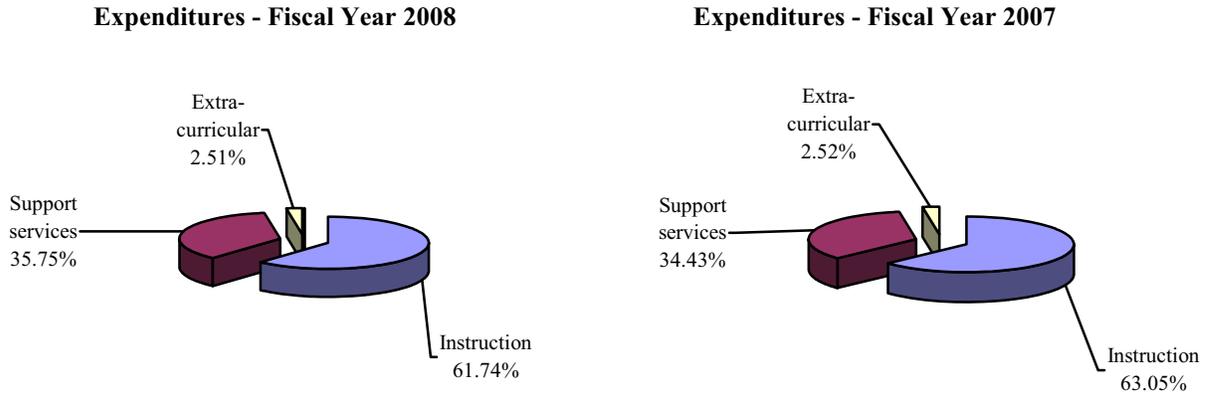
**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

<u>Expenditures</u>	<u>2008 Amount</u>	<u>2007 Amount</u>	<u>Percentage Change</u>
Instruction	\$ 10,718,846	\$ 10,048,000	6.68 %
Support services	6,207,424	5,487,493	13.12 %
Extracurricular activities	436,199	401,284	8.70 %
Total	<u>\$ 17,362,469</u>	<u>\$ 15,936,777</u>	8.95 %

The most significant increase was in the areas of support services. The increase in support services is due to an increase in the pupil and pupil transportation expenditures.



Permanent Improvement Fund

The District's permanent improvement fund's fund balance increased by \$1,016,585. The permanent improvement fund had \$1,568,633 in revenues and other financing sources and \$552,048 in expenditures. The primary sources of revenue in the permanent improvement fund in 2008 are a transfer in the fund and permanent improvement tax levy.

General Fund Budgeting Highlights

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

During the course of fiscal year 2008, the District amended its general fund budget several times. For the general fund, original budgeted revenues of \$16,394,803 were the same as in the final budget. Actual revenues and other financing sources were \$16,582,356 which was more than final budgeted revenues by \$187,553.

General fund original appropriations (appropriated expenditures plus other financing uses) of \$17,682,800 were increased to \$19,084,200 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2008 totaled \$18,798,290, which was \$285,910 less than the final budget appropriations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2008, the District had \$3,551,033 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. The following table shows fiscal year 2008 balances compared to the balance of 2007.

	Capital Assets at June 30	
	(Net of Depreciation)	
	<u>Governmental Activities</u>	
	<u>2008</u>	<u>2007</u>
Land	\$ 851,565	\$ 851,565
Land improvements	342,816	321,190
Building and improvements	1,099,469	1,309,762
Furniture and equipment	351,844	237,982
Vehicles	<u>905,339</u>	<u>698,434</u>
Total	<u>\$ 3,551,033</u>	<u>\$ 3,418,933</u>

The overall increase in capital assets of \$132,100 is due to capital outlays of \$711,552 exceeding depreciation expense of \$543,231. Total disposals to capital assets for 2008 were \$36,221 (net of accumulated depreciation).

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

Debt Administration

At June 30, 2008 the District had \$60,566 in a capital lease outstanding. Of this total, \$10,473 is due within one year and \$50,093 is due within greater than one year. The following table summarizes the notes and lease outstanding.

	<u>Governmental Activities</u>	
	<u>2008</u>	<u>2007</u>
Capital lease	<u>\$ 60,566</u>	<u>\$ 23,644</u>
Total	<u>\$ 60,566</u>	<u>\$ 23,644</u>

At June 30, 2008, the District's overall legal debt margin was \$26,695,166 with an unvoted debt margin of \$296,531.

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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Current Financial Related Activities

The District continues to face a challenging future as do many districts in the State of Ohio. As the preceding information shows, the District relies heavily upon grants and entitlements and property taxes. Since future grant and entitlement revenue stability is in question, the reliance upon local property taxes is increasingly important. In May of 2006 the community approved the renewal of a 5 year emergency levy which raises \$820,000 annually. With this renewal the District is projected to be in the black through June 2011. The recent mortgage crisis and skyrocketing foreclosures have the district facing possible reductions in property values during our 2009 update.

District enrollment decreased again in fiscal year 2008 but with the current "hold harmless" clause in the foundation funding formula we maintained our state funding level of fiscal year 2008, which included \$600,000 in reappraisal guarantee. As we enter fiscal year 2009 our enrollment is continuing to decrease, but our State funding has remained steady. If the hold harmless clause in the current budget is not continued, we could see some major cut backs in our State foundation funding in future years. The SF3 for fiscal year 2009 shows that we are receiving more than \$1.9 million of our foundation funding based on the transitional aid guarantee.

Another challenge facing the District is the continually growing costs of open enrollment and community school students leaving our district. We experienced a net loss of approximately \$2,500 in fiscal year 2007 which grew to a net loss of \$56,000 in fiscal year 2008 on open enrollment. With our reductions in teaching staff it limits the number of open enrollment students that we can accept.

Since the District relies on the State for approximately 50% of the general operating revenues, one of the largest challenges facing the District is that of State funding. The State of Ohio was found by the Supreme Court in March 1997 to be operating an unconstitutional educational system, one that was neither adequate nor equitable. Since 1997, the State has directed its tax revenue growth toward school districts with little property tax wealth. On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional. At this time, The District is unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

In May of 2007 the community voted down a \$24.6 million bond issue to build a new high school. With the many changes occurring with the Ohio Schools Facilities Commission and our state share dropping to 37% we were unable to place a bond issue on the ballot in fiscal year 2008. A building project is still a high priority with our local board of education.

The District's system of budgeting and internal controls is well regarded. All of the District's financial abilities will be needed to meet the financial challenges of the future.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact: Ms. Barbara S. Bechtel, Treasurer, Firelands Local School District, 11970 Vermilion Road, Oberlin, Ohio 44074-9629.

This Page Intentionally Left Blank

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

STATEMENT OF NET ASSETS
JUNE 30, 2008

	Governmental Activities
Assets:	
Equity in pooled cash and investments	\$ 6,283,745
Receivables:	
Taxes	6,868,570
Accounts	9,350
Intergovernmental	5,261
Accrued interest	30,104
Prepayments	18,142
Materials and supplies inventory	6,087
Capital assets:	
Land	851,565
Depreciable capital assets, net	2,699,468
Total capital assets, net.	3,551,033
 Total assets	 16,772,292
 Liabilities:	
Accounts payable.	45,289
Contracts payable.	35,835
Accrued wages and benefits	1,370,435
Intergovernmental payable	178,810
Unearned revenue.	6,004,436
Pension obligation payable	402,294
Long-term liabilities:	
Due within one year	390,647
Due in more than one year.	866,401
 Total liabilities	 9,294,147
 Net Assets:	
Invested in capital assets, net of related debt.	3,490,467
Restricted for:	
Capital projects	1,728,306
Debt service.	7,386
State funded programs	33,258
Federally funded programs	60,389
Student activities	5,309
Other purposes	96,950
Unrestricted	2,056,080
 Total net assets	 \$ 7,478,145

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	Expenses	Program Revenues			Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Governmental Activities
Governmental activities:					
Instruction:					
Regular	\$ 7,972,079	\$ 703,709	\$ 77,630	\$ -	\$ (7,190,740)
Special	2,103,104	60,259	841,924	-	(1,200,921)
Vocational	282,215	-	37,531	-	(244,684)
Other	1,125,025	-	-	-	(1,125,025)
Support services:					
Pupil	1,221,298	110,950	38,633	-	(1,071,715)
Instructional staff	408,697	-	27,576	-	(381,121)
Board of education	28,077	-	-	-	(28,077)
Administration	1,488,360	47,994	-	-	(1,440,366)
Fiscal	382,707	-	-	-	(382,707)
Operations and maintenance	1,381,541	-	658	-	(1,380,883)
Pupil transportation	1,285,161	-	61,973	12,386	(1,210,802)
Central	371,365	22,056	15,793	-	(333,516)
Operation of non-instructional services:					
Other non-instructional services	22,772	17,243	-	-	(5,529)
Food service operations	628,750	437,202	171,931	-	(19,617)
Extracurricular activities	519,336	77,814	-	-	(441,522)
Interest and fiscal charges	1,245	-	-	-	(1,245)
Totals	\$ 19,221,732	\$ 1,477,227	\$ 1,273,649	\$ 12,386	(16,458,470)
General Revenues:					
Property taxes levied for:					
					6,064,894
					349,723
					8,438,829
					260,916
					60,076
					<u>15,174,438</u>
					(1,284,032)
					<u>8,762,177</u>
					<u>\$ 7,478,145</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008

	<u>General</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and investments	\$ 4,107,733	\$ 1,723,763	\$ 452,249	\$ 6,283,745
Receivables:				
Taxes	6,495,677	372,893	-	6,868,570
Accounts	9,247	-	103	9,350
Intergovernmental	482	-	4,779	5,261
Accrued interest	30,104	-	-	30,104
Due from other funds	777	-	-	777
Prepayments	18,142	-	-	18,142
Materials and supplies inventory	-	-	6,087	6,087
Total assets	<u>\$ 10,662,162</u>	<u>\$ 2,096,656</u>	<u>\$ 463,218</u>	<u>\$ 13,222,036</u>
Liabilities:				
Accounts payable	\$ 25,342	\$ 19,890	\$ 57	\$ 45,289
Contracts payable	-	35,835	-	35,835
Accrued wages and benefits	1,307,638	-	62,797	1,370,435
Compensated absences payable	318,756	-	-	318,756
Pension obligation payable	374,615	-	27,679	402,294
Intergovernmental payable	176,808	-	2,002	178,810
Due to other funds	-	-	777	777
Deferred revenue	138,182	6,917	4,779	149,878
Unearned revenue	5,680,404	324,032	-	6,004,436
Total liabilities	<u>8,021,745</u>	<u>386,674</u>	<u>98,091</u>	<u>8,506,510</u>
Fund Balances:				
Reserved for encumbrances	8,286	104,657	-	112,943
Reserved for materials and supplies inventory	-	-	6,087	6,087
Reserved for property tax unavailable for appropriation	693,726	41,944	-	735,670
Reserved for prepayments	18,142	-	-	18,142
Reserved for debt service	-	-	7,386	7,386
Unreserved, undesignated, reported in:				
General fund	1,920,263	-	-	1,920,263
Special revenue funds	-	-	340,247	340,247
Capital projects funds	-	1,563,381	11,407	1,574,788
Total fund balances	<u>2,640,417</u>	<u>1,709,982</u>	<u>365,127</u>	<u>4,715,526</u>
Total liabilities and fund balances	<u>\$ 10,662,162</u>	<u>\$ 2,096,656</u>	<u>\$ 463,218</u>	<u>\$ 13,222,036</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2008

Total governmental fund balances		\$	4,715,526
<i>Amounts reported for governmental activities on the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			3,551,033
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	129,828	
Accrued interest		15,271	
Intergovernmental receivables		<u>4,779</u>	
Total			149,878
Long-term liabilities, including compensated absences payable, are not due and payable in the current period and therefore are not reported in the funds.			
Capital lease obligation		(60,566)	
Compensated absences		<u>(877,726)</u>	
Total			<u>(938,292)</u>
Net assets of governmental activities		<u>\$</u>	<u>7,478,145</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	<u>General</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Taxes	\$ 6,115,354	\$ 351,433	\$ -	\$ 6,466,787
Tuition	635,578	-	-	635,578
Transportation fees	10,526	-	-	10,526
Charges for services	-	-	437,202	437,202
Earnings on investments	254,814	-	3,048	257,862
Extracurricular	5,827	-	204,620	210,447
Classroom materials and fees	76,169	-	35,868	112,037
Other local revenues	57,665	2,000	101,304	160,969
Intergovernmental - Intermediate.	482	-	-	482
Intergovernmental - State.	8,900,610	50,899	40,781	8,992,290
Intergovernmental - Federal	-	-	706,086	706,086
Total revenues	<u>16,057,025</u>	<u>404,332</u>	<u>1,528,909</u>	<u>17,990,266</u>
Expenditures:				
Current:				
Instruction:				
Regular	7,676,386	-	101,858	7,778,244
Special.	1,640,028	-	440,577	2,080,605
Vocational.	277,407	-	-	277,407
Other	1,125,025	-	-	1,125,025
Support Services:				
Pupil.	1,044,979	-	181,163	1,226,142
Instructional staff	361,356	-	28,204	389,560
Board of education	28,077	-	-	28,077
Administration	1,468,537	-	-	1,468,537
Fiscal	383,484	6,368	-	389,852
Operations and maintenance	1,178,309	40,861	450	1,219,620
Pupil transportation	1,490,461	-	-	1,490,461
Central.	252,221	40,208	57,389	349,818
Operation of non-instructional services:				
Non-instructional services.	-	-	22,772	22,772
Food service operations	-	-	614,167	614,167
Extracurricular activities	436,199	-	80,469	516,668
Facilities acquisition and construction	-	395,330	-	395,330
Capital outlay	-	64,301	-	64,301
Debt service:				
Principal retirement	-	3,735	-	3,735
Interest and fiscal charges	-	1,245	-	1,245
Total expenditures	<u>17,362,469</u>	<u>552,048</u>	<u>1,527,049</u>	<u>19,441,566</u>
Deficiency of revenues under expenditures.	<u>(1,305,444)</u>	<u>(147,716)</u>	<u>1,860</u>	<u>(1,451,300)</u>
Other financing sources (uses):				
Transfers in	35,433	1,100,000	21,000	1,156,433
Transfers (out)	(1,121,000)	-	(35,433)	(1,156,433)
Capital lease transactions.	-	64,301	-	64,301
Total other financing sources (uses).	<u>(1,085,567)</u>	<u>1,164,301</u>	<u>(14,433)</u>	<u>64,301</u>
Net change in fund balances.	(2,391,011)	1,016,585	(12,573)	(1,386,999)
Fund balances at beginning of year (restated).				
	5,031,428	693,397	381,967	6,106,792
Decrease in reserve for inventory.				
	-	-	(4,267)	(4,267)
Fund balances at end of year	<u>\$ 2,640,417</u>	<u>\$ 1,709,982</u>	<u>\$ 365,127</u>	<u>\$ 4,715,526</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Net change in fund balances - total governmental funds	\$	(1,386,999)
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceed depreciation expense in the current period.		
Capital asset additions	\$ 711,552	
Current year depreciation	<u>(543,231)</u>	
Total		168,321
Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.		
		(36,221)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Taxes	(52,170)	
Intergovernmental revenues	(6,498)	
Accrued interest	<u>6,102</u>	
Total		(52,566)
Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as an expense when consumed.		
		(4,267)
Repayment of lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
		3,735
Capital lease transactions are recorded as an other financing source in the funds; however, in the statement of activities, they are not reported as revenues as they increase the liabilities on the statement of net assets.		
		(64,301)
Capital lease obligation payable balance forgiven as part of the lease trade-in agreement. This reduces the long-term obligations on the statement of net assets.		
		23,644
Some expenses reported in the statement of activities, such as compensated absences do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Vacation accrual	(13,736)	
Severance accrual	<u>78,358</u>	
Total		<u>64,622</u>
Change in net assets of governmental activities	\$	<u><u>(1,284,032)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 6,597,400	\$ 6,597,400	\$ 6,601,769	\$ 4,369
Tuition.	594,753	594,753	636,084	41,331
Transportation fees	5,000	5,000	10,357	5,357
Earnings on investments.	300,000	300,000	251,547	(48,453)
Classroom materials and fees	62,150	62,150	75,958	13,808
Other local revenues.	49,500	49,500	70,597	21,097
Intergovernmental - State	8,786,000	8,786,000	8,900,611	114,611
Total revenues.	<u>16,394,803</u>	<u>16,394,803</u>	<u>16,546,923</u>	<u>152,120</u>
Expenditures:				
Current:				
Instruction:				
Regular	6,945,125	7,514,555	7,507,043	7,512
Special.	1,478,124	1,599,315	1,570,469	28,846
Vocational.	240,649	260,380	259,334	1,046
Other	982,532	1,063,090	1,049,036	14,054
Support Services:				
Pupil.	945,951	1,023,510	1,009,167	14,343
Instructional staff	338,279	366,015	353,875	12,140
Board of education	26,636	28,820	28,060	760
Administration.	1,373,782	1,486,419	1,465,899	20,520
Fiscal	365,947	395,951	381,841	14,110
Operations and maintenance.	1,116,618	1,208,170	1,195,457	12,713
Pupil transportation	1,462,265	1,582,156	1,496,303	85,853
Central.	941,814	970,619	926,121	44,498
Extracurricular activities.	429,024	464,200	434,685	29,515
Total expenditures	<u>16,646,746</u>	<u>17,963,200</u>	<u>17,677,290</u>	<u>285,910</u>
Excess (deficiency) of revenues over (under) expenditures.	<u>(251,943)</u>	<u>(1,568,397)</u>	<u>(1,130,367)</u>	<u>438,030</u>
Other financing sources (uses):				
Transfers in	-	-	35,433	35,433
Transfers (out)	<u>(1,036,054)</u>	<u>(1,121,000)</u>	<u>(1,121,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>(1,036,054)</u>	<u>(1,121,000)</u>	<u>(1,085,567)</u>	<u>35,433</u>
Net change in fund balance	(1,287,997)	(2,689,397)	(2,215,934)	473,463
Fund balance at beginning of year (restated) .	6,132,826	6,132,826	6,132,826	-
Prior year encumbrances appropriated . .	178,211	178,211	178,211	-
Fund balance at end of year	<u>\$ 5,023,040</u>	<u>\$ 3,621,640</u>	<u>\$ 4,095,103</u>	<u>\$ 473,463</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2008

	Agency
Assets:	
Equity in pooled cash and investments.	\$ 32,716
Receivables:	
Accounts	318
	318
Total assets.	\$ 33,034
	33,034
Liabilities:	
Due to students.	\$ 33,034
	33,034
Total liabilities	\$ 33,034
	33,034

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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 276th largest in the State of Ohio (among the 896 public school districts and community schools in the State) in terms of enrollment. It is staffed by 95 non-certified and 140 certified personnel to provide services to approximately 1,955 students and other community members.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic 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 have access to the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government).

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

JOINTLY GOVERNED ORGANIZATIONS

Lorain County Joint Vocational School District (JVS)

The Lorain County Joint Vocational School District (JVS) is a distinct subdivision of the State of Ohio operated under the direction of a Board, consisting of one representative from each participating school district's elected board, which possesses its own budgeting and taxing authority. Accordingly, the JVS is not part of the District and its operations are not included as part of the reporting entity. Financial information can be obtained by contacting the Treasurer at the Lorain County Joint Vocational School District, 15181 State Route 58, Oberlin, Ohio, 44074.

Lake Erie Education Computer Association (LEECA)

The Lake Erie Education Computer Association (LEECA) is a jointly governed organization among 35 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. During fiscal year 2008, the District paid \$40,442 in fees to LEECA. Financial information can be obtained by contacting the Treasurer at the Educational Service Center of Lorain County, who serves as the fiscal agent, at 1885 Lake Avenue, Elyria, Ohio 44035.

Lake Erie Regional Council (LERC)

The Lake Erie Regional Council (LERC) is a jointly governed organization comprised of 14 school districts. The jointly governed organization was formed for the purpose of promoting cooperative agreements and activities among its members in dealing with problems of mutual concern such as media center, gas consumption, driver education, food service and insurance. Each member provides operating resources to LERC on a per pupil or actual usage charge. The LERC assembly consists of a superintendent or designated representative from each participating school district and the fiscal agent. LERC is governed by a Board of Directors chosen from the general membership. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained by contacting the Treasurer at the Educational Service Center of Lorain County, who serves as fiscal agent, at 1885 Lake Avenue, Elyria, Ohio 44035.

PUBLIC ENTITY RISK POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

B. Fund Accounting

The District uses funds to report its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain school district activities or functions. Funds are classified into three categories: governmental, proprietary and fiduciary. The District has no proprietary funds.

GOVERNMENTAL FUNDS

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

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

Permanent Improvement Fund - The permanent improvement capital projects fund is used to account for the accumulation of resources used for facilities improvements other than those accounted for in other funds.

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by the permanent improvement fund or by trust funds; (b) for food service operations; (c) for the accumulation of resources for, and the repayment of long-term debt principal, interest and related costs; and (d) for grants and other resources whose use is restricted to a particular purpose.

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: private-purpose trust funds, agency funds, pension trust funds and investment trust funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities.

C. Basis of Presentation and Measurement Focus

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

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

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

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

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

D. Basis of Accounting

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

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

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

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2008, but which were levied to finance fiscal year 2009 operations and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at June 30, 2008 are recorded as deferred revenue.

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

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

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

E. Budgets

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

Tax Budget:

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

Estimated Resources:

By April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the 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 the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the original and final amended certificates of estimated resources issued during the fiscal year.

Appropriations:

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

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

F. Cash and Investments

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

During fiscal year 2008, investments were limited to federal agency securities, repurchase agreements, non-negotiable certificates of deposit, negotiable certificates of deposit and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio).

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

The District has invested funds in STAR Ohio during fiscal year 2008. 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 shares price which is the price the investment could be sold for on June 30, 2008.

Under existing Ohio statute, interest earnings are assigned to the general fund unless the Board of Education has, by resolution, specified funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2008 amounted to \$254,814 which includes \$59,122 assigned from other District funds.

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

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

G. Inventory

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

On the fund financial statements, reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

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

H. Capital Assets

General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and deductions during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

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

I. Compensated Absences

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination (severance) payments. A liability for sick leave 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 sick leave on employees expected to become eligible to retire in the future, all employees age fifty or greater with at least ten years of service and all employees with at least 20 years of service regardless of their age and with at least three years of service with the District were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2008, and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

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

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable". The noncurrent portion of the liability is not reported.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

J. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

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

K. Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, materials and supplies, prepayments, debt service and property taxes unavailable for appropriation. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP, but not available for appropriation under State statute.

L. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The amount that is restricted for other purposes includes amounts restricted by State statute for the latch key program fund (a nonmajor governmental fund) and the termination benefits fund (a nonmajor governmental fund).

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

M. Prepayments

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

N. Estimates

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

O. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include the amount required by State statute to be set-aside for school bus purchases. See Note 17 for details.

P. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements. On fund financial statements, receivables and payables resulting from short-term interfund loans between funds to cover negative cash balances are classified as "due to/from other funds." These amounts are eliminated in the governmental activities column of the statement of net assets.

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2008.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Prior Period Adjustment for Fund Reclassification Restatement of Fund Balance and Net Assets

A fund reclassification is required to properly report funds previously reported as the internal service fund as part of the general fund. The District was no longer self-insured as of July 1, 2007. This fund reclassification had the following effect on the District's governmental fund balances and internal service fund net assets as previously reported:

	<u>General</u>	<u>Internal Service</u>
Fund balance/net assets as previously reported	\$ 3,447,178	\$ 1,584,250
Fund reclassification:		
Net assets of internal service fund at June 30, 2007	<u>1,584,250</u>	<u>(1,584,250)</u>
Restated fund balance at July 1, 2007	<u>\$ 5,031,428</u>	<u>\$ -</u>

Budgetary Statement - General Fund - The beginning fund balance as reported on statement of revenues, expenditures and changes in fund balance - budget and actual (Non-GAAP Budgetary Basis) - general fund has been restated from \$3,885,879 to \$6,132,826 to properly reflect the balance of the fund at June 30, 2007, due to fund reclassification.

B. Change in Accounting Principles

For fiscal year 2008, the District has implemented GASB Statement No. 45, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions", GASB Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues" and GASB Statement No. 50, "Pension Disclosures".

GASB Statement No. 45 establishes uniform standards of financial reporting for other postemployment benefits and increases the usefulness and improves the faithfulness of representations in the financial reports. The implementation of GASB Statement No. 45 did not have an effect on the financial statements of the District; however, certain disclosures related to postemployment benefits (see Note 14) have been modified to conform to the new reporting requirements.

GASB Statement No. 48 establishes criteria to ascertain whether certain transactions should be regarded as sales or as collateralized borrowings, as well as disclosure requirements for future revenues that are pledged and sold. The implementation of GASB Statement No. 48 did not have an effect on the financial statements of the District.

GASB Statement No. 50 establishes standards that more closely align the financial reporting requirements for pensions with those of other postemployment benefits. The implementation of GASB Statement No. 50 did not have an effect on the financial statements of the District.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

C. Deficit Fund Balances

Fund balances at June 30, 2008 included the following individual fund deficits:

<u>Nonmajor funds</u>	<u>Deficit</u>
High school that works	\$ 784
Title I	4,039
Title VI-R	258

The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities.

NOTE 4 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the District into three categories.

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

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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.

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

A. Deposits with Financial Institutions

At June 30, 2008, the carrying amount of all District deposits was \$1,620,429, exclusive of the \$370,000 repurchase agreement mentioned below. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2008, \$902,028 of the District's bank balance of \$1,795,028 was exposed to custodial risk as discussed below, while \$893,000 was covered by the Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District. The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

B. Investments

As of June 30, 2008, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>				
		6 months or <u>less</u>	7 to 12 <u>months</u>	13 to 18 <u>months</u>	19 to 24 <u>months</u>	Greater than <u>24 months</u>
FHLB	\$ 196,938	\$ -	\$ -	\$ -	\$ -	\$ 196,938
FHLMC	1,500,334	-	-	-	-	1,500,334
FNMA	800,283	-	-	-	-	800,283
Repurchase agreement	370,000	370,000	-	-	-	-
STAR Ohio	749,322	749,322	-	-	-	-
Negotiable CDs	<u>1,079,155</u>	<u>198,770</u>	<u>195,140</u>	<u>99,292</u>	<u>194,377</u>	<u>391,576</u>
	<u>\$ 4,696,032</u>	<u>\$ 1,318,092</u>	<u>\$ 195,140</u>	<u>\$ 99,292</u>	<u>\$ 194,377</u>	<u>\$ 2,889,131</u>

The weighted average maturity of investments is 2.66 years.

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

Credit Risk: The District's investments in federal agency securities, and the federal agency securities that underlie the District's repurchase agreement, were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio an AAAM money market rating.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The federal agency securities are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent but not in the District's name. Of the District's investment in repurchase agreements, the entire balance is collateralized by underlying securities that are held by the investment's counterparty, not in the name of the District. Ohio law requires the market value of the securities subject to repurchase agreements must exceed the principal value of securities subject to a repurchase agreement by 2%. The District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2008:

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
FHLB	\$ 196,938	4.19
FHLMC	1,500,334	31.95
FNMA	800,283	17.04
Repurchase agreement	370,000	7.88
STAR Ohio	749,322	15.96
Negotiable CDs	<u>1,079,155</u>	<u>22.98</u>
	<u>\$ 4,696,032</u>	<u>100.00</u>

C. Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2008:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 1,620,429
Investments	<u>4,696,032</u>
Total	<u>\$ 6,316,461</u>
 <u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 6,283,745
Agency fund	<u>32,716</u>
Total	<u>\$ 6,316,461</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund balances for the year ended June 30, 2008, consisted of the following due to/from other funds, as reported on the fund financial statements:

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General fund	\$ 777	\$ -
Nonmajor governmental funds:		
High school that works	-	777
Total	<u>\$ 777</u>	<u>\$ 777</u>

The primary purpose of due to/from other funds is to cover a negative cash balance in a respective fund and to represent amounts owed between funds for goods or service provided. The general fund is liable for covering a cash deficit. Due to/from other funds are eliminated between governmental funds for reporting in the statement of net assets.

Amounts due to/from other funds are eliminated for reporting on the statement of net assets.

- B. Interfund transfers for the year ended June 30, 2008, consisted of the following, as reported on the fund statements:

Transfers from general fund to:	<u>Amount</u>
Other governmental funds	\$ 1,121,000
Transfers from other governmental funds to:	
General fund	35,433

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. The transfer of \$35,433 represents the remaining board share from an ADA building project.

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

All transfers were made in compliance with Ohio Revised Codes Sections 5705.14, 5705.15 and 5705.16.

NOTE 6 - PROPERTY TAXES

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 6 - PROPERTY TAXES - (Continued)

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar year 2008 represents collections of calendar year 2007 taxes. Real property taxes received in calendar year 2008 were levied after April 1, 2007, on the assessed value listed as of January 1, 2007, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar year 2008 represents collections of calendar year 2007 taxes. Public utility real and tangible personal property taxes received in calendar year 2008 became a lien December 31, 2006, were levied after April 1, 2007 and are collected in 2008 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar year 2008 (other than public utility property) represents the collection of 2008 taxes. Tangible personal property taxes received in calendar year 2008 were levied after April 1, 2007, on the value as of December 31, 2006. Tangible personal property tax is being phased out. For 2007, tangible personal property was assessed at 12.50% for property, including inventory. This percentage was reduced to 6.25% for 2008 and will be reduced to zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the District due to the phasing out of the tax. In calendar years 2008-2010, the District will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

The District receives property taxes from Lorain and Erie Counties. The County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2008, are available to finance fiscal year 2008 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2008 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to unearned revenue.

The amount available as an advance at June 30, 2008 was \$693,726 in the general fund and \$41,944 in the permanent improvement fund and is recognized as revenue. The amount that was available as an advance at June 30, 2007, was \$1,180,141 in the general fund, and \$71,229 in the permanent improvement fund.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 6 - PROPERTY TAXES - (Continued)

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

The assessed values upon which the fiscal year 2008 taxes were collected are:

	2007 Second Half Collections		2008 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 288,961,940	94.91	\$ 287,572,950	94.76
Public utility personal	10,751,200	3.53	9,773,230	3.22
Tangible personal property	<u>4,731,530</u>	<u>1.56</u>	<u>6,138,919</u>	<u>2.02</u>
Total	<u>\$ 304,444,670</u>	<u>100.00</u>	<u>\$ 303,485,099</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$47.01		\$47.06	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2008 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental activities	
Taxes	\$ 6,868,570
Accounts	9,350
Intergovernmental	5,261
Accrued interest	<u>30,104</u>
Total receivables	<u>\$ 6,913,285</u>

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year-ended June 30, 2008, was as follows:

	Balance <u>June 30, 2007</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2008</u>
Governmental activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 851,565	\$ -	\$ -	\$ 851,565
Total capital assets, not being depreciated	<u>851,565</u>	<u>-</u>	<u>-</u>	<u>851,565</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	857,489	69,525	-	927,014
Buildings and improvements	8,072,978	128,753	-	8,201,731
Furniture and equipment	1,504,377	205,919	(62,093)	1,648,203
Vehicles	<u>1,466,775</u>	<u>307,355</u>	<u>(129,683)</u>	<u>1,644,447</u>
Total capital assets, being depreciated	<u>11,901,619</u>	<u>711,552</u>	<u>(191,776)</u>	<u>12,421,395</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(536,299)	(47,899)	-	(584,198)
Buildings and improvements	(6,763,216)	(339,046)	-	(7,102,262)
Furniture and equipment	(1,266,395)	(55,836)	25,872	(1,296,359)
Vehicles	<u>(768,341)</u>	<u>(100,450)</u>	<u>129,683</u>	<u>(739,108)</u>
Total accumulated depreciation	<u>(9,334,251)</u>	<u>(543,231)</u>	<u>155,555</u>	<u>(9,721,927)</u>
Governmental activities capital assets, net	<u>\$ 3,418,933</u>	<u>\$ 168,321</u>	<u>\$ (36,221)</u>	<u>\$ 3,551,033</u>

Depreciation expense was charged to governmental activities as follows:

Instruction:	
Regular	\$ 269,135
Special	15,026
Vocational	18,221
Support Services:	
Pupil	5,062
Instructional staff	11,572
Administration	8,667
Operations and maintenance	65,295
Pupil transportation	96,644
Central	8,291
Extracurricular activities	36,230
Food service operations	<u>9,088</u>
Total depreciation expense	<u>\$ 543,231</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 9 - CAPITALIZED LEASES - LESSEE DISCLOSURE

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

Capital assets consisting of office equipment have been capitalized in the amount of \$64,301. These amounts represent the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2008 for equipment was \$5,358, leaving a current book value of \$58,943. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2008 totaled \$3,735 paid by the permanent improvement fund. In addition to the amount of principal retired, the District also traded in leases with principal balances of \$23,644, which is included in the permanent improvement fund expenditures.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2008:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2009	\$ 14,940
2010	14,940
2011	14,940
2012	14,940
2013	<u>13,695</u>
Total minimum lease payments	73,455
Less amount representing interest	<u>(12,889)</u>
Total	<u>\$ 60,566</u>

NOTE 10 - LONG-TERM OBLIGATIONS

A. During the fiscal year 2008, the following changes occurred in governmental activities long-term obligations:

	<u>Balance</u>			<u>Balance</u>	<u>Amounts</u>
	<u>June 30, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2008</u>	<u>Due in</u>
					<u>One Year</u>
Governmental activities					
Compensated absences payable	\$ 1,048,950	\$ 310,270	\$ (162,738)	\$ 1,196,482	\$ 380,174
Capital lease payable	<u>23,644</u>	<u>64,301</u>	<u>(27,379)</u>	<u>60,566</u>	<u>10,473</u>
Total governmental activities long-term liabilities	<u>\$ 1,072,594</u>	<u>\$ 374,571</u>	<u>\$ (190,117)</u>	<u>\$ 1,257,048</u>	<u>\$ 390,647</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

Compensated Absences: Compensated absences are paid primarily from the general fund and the food service fund (a nonmajor governmental fund).

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

B. 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 additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2008, are a voted debt margin of \$26,695,166 (including available funds of \$7,386) and an unvoted debt margin of \$296,531.

NOTE 11 - COMPENSATED ABSENCES

Employees earn vacation at rates specified under various labor agreements and based on credited service. Teachers and some Administrators do not earn vacation time. Administrators, Clerical, Technical, and Maintenance and Operations employees with one or more years of service are entitled to vacation ranging from 5 to 20 days. Employees with less than one year of service earn one vacation day per month worked, not to exceed five days. Unused vacation is not cumulative to the next year.

All employees are entitled to a sick leave credit equal to one and one-quarter days for each month of service (earned on a pro rata basis for less than full-time employees). This sick leave will either be absorbed by time off due to illness or injury or, within certain limitations, be paid to the employee upon retirement. The amount paid to an employee upon retirement is limited to one-quarter of the accumulated sick leave to a maximum payout of 72 days for certified employees and 57 days for classified employees.

The District provides a retirement incentive plan for State Teacher's Retirement System of Ohio (STRS Ohio). In fiscal year 2008, employees who enroll in the retirement incentive plan will receive their choice of either (1) one year of service credit from STRS Ohio paid by the District in addition to their severance payment or; (2) an \$18,000 cash payment payable in January 2009. For fiscal year 2009, only STRS Ohio employees with 30 years of STRS Ohio service, but less than 31 years of STRS Ohio service will be eligible for the incentive. The fiscal year 2009 incentive is an \$18,000 cash payment. Nine employees took advantage of the retirement incentive in fiscal year 2008. A liability for the incentive payment has been recorded in the fund financial statements as a component of "compensated absences payable."

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 12 - RISK MANAGEMENT

A. Comprehensive

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2008, the District contracted with Indiana Insurance Company through Fitzgibbons, Arnold & Co. for professional liability insurance, fleet insurance, excess coverage, and insurance coverage for property, boiler and machine, inland marine and employee theft. Coverages provided and deductibles are as follows:

Building and Contents - replacement cost (\$2,500 deductible)	\$25,954,999	value
Inland marine coverage (\$250 deductible)	1,113,775	value
Boiler and machinery (\$2,500 deductible)	25,000,000	limit
Automobile liability (\$100 deductible for comprehensive)	1,000,000	limit
Excessive coverage	1,000,000	limit
Uninsured Motorists (no deductible)	1,000,000	limit
Employee theft	25,000	limit

Settled claims have not exceeded this commercial coverage in any of the past three years. There have been no significant reductions in coverage from fiscal year 2007.

B. Employee Health and Dental

The District has contracted with the Lake Erie Regional Council of Governments (LERC) to provide employee health and medical benefits since December 1988. At July 1, 2007, LERC changed from partial self-insurance to a fully insured consortium. All outstanding claims were deemed part of the pool and not charged to individual school districts.

The District provides medical and dental benefits to most employees. The premium and coverages vary with employee depending on marital status.

C. Workers' Compensation Plan

The District participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan"), an insurance purchasing pool. 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 Plan to cover the costs of administering the plan.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 13 - PENSION PLANS

A. School Employees Retirement System

Plan Description - The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under *Forms and Publications*.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2008, 9.16 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2008, 2007 and 2006 were \$204,962, \$209,970 and \$195,180, respectively; 43.00 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

B. State Teachers Retirement System of Ohio

Plan Description - The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 13 - PENSION PLANS - (Continued)

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

Funding Policy - For fiscal year 2008, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2008, 2007 and 2006 were \$970,557, \$1,005,818 and \$1,050,750, respectively; 83.75 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006. Contributions to the DC and Combined Plans for fiscal year 2008 were \$1,422 made by the District and \$12,767 made by plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System of Ohio. As of June 30, 2008, three members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

NOTE 14 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2008, 4.18 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2008, this amount was \$35,800.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 14 - POSTEMPLOYMENT BENEFITS - (Continued)

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The District's contributions for health care for the fiscal years ended June 30, 2008, 2007 and 2006 were \$137,056, \$100,721 and \$107,404, respectively; 43.00 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2008, this actuarially required allocation was 0.66 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2008, 2007 and 2006 were \$14,768, \$14,278 and \$15,535, respectively; 43.00 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

B. State Teachers Retirement System of Ohio

Plan Description - The District contributes to the cost sharing, multiple employer defined benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2008, 2007 and 2006 were \$80,827, \$77,371 and \$74,658, respectively; 83.75 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

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

The statement of revenue, expenditures and changes in fund balance - budget (non-GAAP) and actual presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);
- (d) Investments are reported at fair value (GAAP basis) rather than cost (budget basis).

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

Net Change in Fund Balance	<u>General fund</u>
Budget basis	\$(2,215,934)
Net adjustment for revenue accruals	(489,898)
Net adjustment for expenditure accruals	294,009
Adjustment for encumbrances	<u>20,812</u>
GAAP basis	<u><u>\$(2,391,011)</u></u>

NOTE 16 - CONTINGENCIES

A. Grants

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

B. Litigation

The District is not party to legal proceedings which, in the opinion of District management, will have a material effect, if any, on the financial condition of the District.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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, 2008, the reserve activity was as follows:

	Instructional Materials/ <u>Textbooks</u>	Capital <u>Acquisition</u>
Set-aside balance as of June 30, 2007	\$ (233,810)	\$ -
Current year set-aside requirement	298,515	298,515
Offset credits	-	(380,718)
Qualifying disbursements	<u>(294,168)</u>	<u>(307,414)</u>
Total	<u>\$ (229,463)</u>	<u>\$ (389,617)</u>
Balance carried forward to FY 2009	<u>\$ (229,463)</u>	<u>\$ -</u>

The District had qualifying expenditures during the year that reduced the textbooks/instructional materials set-aside amounts below zero. The extra amount for textbooks/instructional materials is being carried forward to reduce the set-aside requirements for future years. Although the District had offsets and qualifying disbursements during the year that reduced the set-aside amount below zero for the capital improvement reserve, this extra amount may not be used to reduce the set-aside requirement for future years. The negative amount is therefore not presented as being carried forward to the next fiscal year.

This Page Intentionally Left Blank

**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2008**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed Through the Ohio Department of Education:</i>						
<i>Child Nutrition Cluster:</i>						
National School Lunch Program	048157-LLP4-2007	10.555	\$17,870	\$0	\$17,870	\$0
	048157-LLP4-2008	10.555	132,516	42,195	132,516	42,195
Total U.S. Department of Agriculture			150,386	42,195	150,386	42,195
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed Through the Ohio Department of Education:</i>						
Special Education - Grants to States	048157-6BSF-2007	84.027	0	0	9,625	0
	048157-6BSF-2008	84.027	414,334	0	404,430	0
Total Special Education - Grants to States			414,334	0	414,055	0
Title I Grants to Local Educational Agencies	048157-C1S1-2007	84.010	0	0	8,447	0
	048157-C1S1-2008	84.010	63,238	0	57,233	0
			63,238	0	65,680	0
Safe and Drug-Free Schools and Communities State Grants	048157-DRS1-2007	84.186	(460)	0	0	0
	048157-DRS1-2008	84.186	3,943	0	2,850	0
			3,483	0	2,850	0
State Grants for Innovative Programs	048157-C2S1-2008	84.298	3,082	0	3,082	0
Education Technology State Grants	048157-TJS1-2007	84.318	(65)	0	0	0
	048157-TJS1-2008	84.318	667	0	648	0
Total Education Technology State Grants			602	0	648	0
Improving Teacher Quality State Grants	048157-TRS1-2007	84.367	64	0	6,918	0
	048157-TRS1-2008	84.367	56,337	0	49,037	0
Total Improving Teacher Quality State Grants			56,401	0	55,955	0
Total U.S. Department of Education			541,140	0	542,270	0
Total All Federal Awards			<u>\$691,526</u>	<u>\$42,195</u>	<u>\$692,656</u>	<u>\$42,195</u>

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

**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2008**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – NATIONAL SCHOOL LUNCH PROGRAM

Cash receipts from the U.S. Department of Agriculture are co-mingled with State grants and local monies. It is assumed federal monies are expended first.

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. Values may change from month to month and are entirely subjective. At June 30, 2008, the District had no significant food commodities in inventory.

NOTE C – TRANSFERS

The District generally must spend Federal assistance within 15 months of receipt (funds must be obligated by June 30th and spent by September 30th). However, with ODE's approval, a District can transfer unspent Federal assistance to the succeeding year, thus allowing the District a total of 27 months to spend the assistance. Schools can document this by using special cost centers for each year's activity, and transferring the amounts ODE approved between the cost centers. During fiscal year 2008, the Ohio Department of Education (ODE) authorized the following transfers.

<u>CFDA Number</u>	<u>Program Title</u>	<u>Pass Through Entity Number</u>	<u>Transfers Out</u>	<u>Transfers In</u>
84.186	Safe and Drug Free Schools and Communities State Grants	DRS1-2007	(460)	460
84.186	Safe and Drug Free Schools and Communities State Grants	DRS1-2008		
84.318	Education Technology State Grants	TJS1-2007	(65)	
84.318	Education Technology State Grants	TJS1-2008		65
TOTALS			(525)	525

CFDA – Catalog of Federal Domestic Assistance.



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Firelands Local School District, Lorain County, (the District) as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements and have issued our report thereon dated April 27, 2009 wherein we noted the District restated the July 1, 2007 fund balances of the General Fund and the Internal Service Fund to eliminate the Internal Service Fund. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the District's internal control will not prevent or detect a more than inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the District's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

We noted certain matters that we reported to the District's management in a separate letter dated April 27, 2009.

Compliance and Other Matters

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

We did note certain noncompliance or other matters that we reported to the District's management in a separate letter dated April 27, 2009.

We intend this report solely for the information and use of management, the Board of Education, and federal awarding agencies and pass-through entities. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

April 27, 2009



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

Compliance

We have audited the compliance of Firelands Local School District (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to its major federal program for the year ended June 30, 2008. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal program. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the Firelands Local School District complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2008.

Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

Lausche Building / 615 Superior Ave., NW / Twelfth Floor / Cleveland, OH 44113-1801
Telephone: (216) 787-3665 (800) 626-2297 Fax: (216) 787-3361
www.auditor.state.oh.us

A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that the District's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the District's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

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

Mary Taylor, CPA
Auditor of State

April 27, 2009

**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2008**

1. SUMMARY OF AUDITOR'S RESULTS

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

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.



Mary Taylor, CPA
Auditor of State

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
MAY 26, 2009