

**Mary Taylor, CPA**  
Auditor of State



**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY**

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# 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, business-type activities, the major fund, and the aggregate remaining fund information of the Firelands Local School District, Lorain County, Ohio, (the District) as of and for the year ended June 30, 2006, 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, business-type activities, each major fund, and the aggregate remaining fund information of Firelands Local School District, Lorain County, Ohio, as of June 30, 2006, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 1, 2007, 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 cursive script that reads "Mary Taylor".

Mary Taylor, CPA  
Auditor of State

June 1, 2007

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Unaudited)

The discussion and analysis of Firelands Local School District's (the District) financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2006. 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 2006 are as follows:

- In total, net assets increased \$739,372. Net assets of governmental activities increased \$742,788, which represents an 8.88% increase from 2005. Net assets of business-type activities decreased \$3,416 or 9.78% from 2005.
- General revenues accounted for \$15,499,418 in revenue or 87.55% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,204,626, or 12.45% of total revenues of \$17,704,044.
- The District had \$16,961,256 in expenses related to governmental activities; only \$2,204,626 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$15,499,418 were adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$15,858,806 in revenues and other financing sources and \$15,632,863 in expenditures and other financing uses. The general fund's fund balance increased \$225,943 from \$3,290,375 to \$3,516,318.
- Net assets for District's two non-major enterprise funds decreased \$3,416 from \$34,913 to \$31,497.

**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. The District's only major governmental fund is the general fund. The general fund is by far the most significant fund.

**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 2006?" 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.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Unaudited)

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

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

**Governmental Activities** - Most of the District's programs and services are reported here including instruction, support services, operation and maintenance, pupil transportation, extracurricular activities and food service operations.

**Business-Type Activities** - These services are provided on a charge for goods or services basis to recover all or a significant portion of the expenses of the goods or services provided. The District's community recreation and latchkey program are reported as business activities.

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

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

#### ***Fund Financial Statements***

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

#### ***Governmental Funds***

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the financial statements. The basic governmental fund financial statements can be found on pages 18-22 of this report.

#### ***Proprietary Funds***

The District maintains two types of proprietary funds. Enterprise funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match information provided in the statements for the District as a whole. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District's internal service fund accounts for medical self-insurance. The basic proprietary fund financial statements can be found on pages 23-25 of this report.

### **Reporting the District's Fiduciary Responsibilities**

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Unaudited)

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

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 27-52 of this report.

**The District as a Whole**

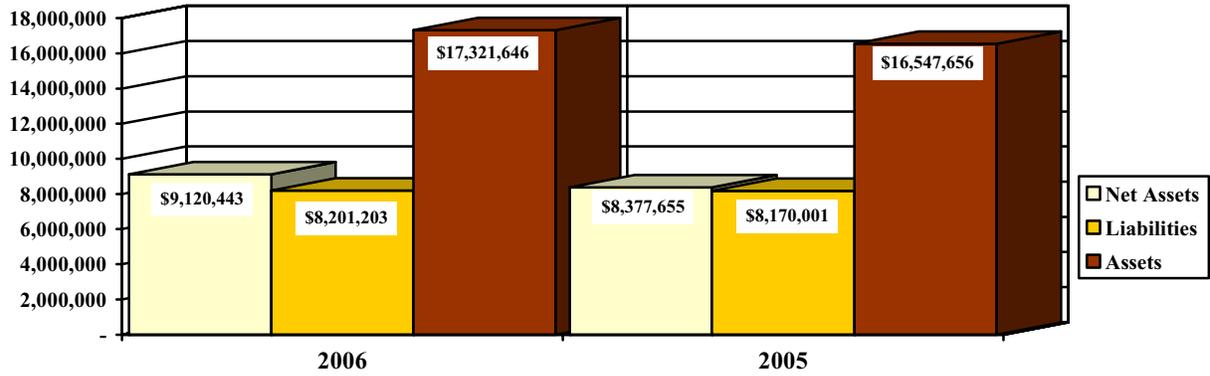
The Statement of Net Assets provides the perspective of the District as a whole. The table below provides a summary of the District's net assets for 2006 and 2005.

	<b>Net Assets</b>					
	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
<b><u>Assets</u></b>						
Current assets	\$ 13,595,685	\$ 12,719,487	\$ 33,354	\$ 36,360	\$ 13,629,039	\$ 12,755,847
Capital assets, net	<u>3,725,961</u>	<u>3,828,169</u>	<u>-</u>	<u>-</u>	<u>3,725,961</u>	<u>3,828,169</u>
Total assets	<u>17,321,646</u>	<u>16,547,656</u>	<u>33,354</u>	<u>36,360</u>	<u>17,355,000</u>	<u>16,584,016</u>
<b><u>Liabilities</u></b>						
Current liabilities	7,125,662	7,071,029	1,857	1,447	7,127,519	7,072,476
Long-term liabilities	<u>1,075,541</u>	<u>1,098,972</u>	<u>-</u>	<u>-</u>	<u>1,075,541</u>	<u>1,098,972</u>
Total liabilities	<u>8,201,203</u>	<u>8,170,001</u>	<u>1,857</u>	<u>1,447</u>	<u>8,203,060</u>	<u>8,171,448</u>
<b><u>Net Assets</u></b>						
Invested in capital assets, net of debt	3,616,216	3,637,251	-	-	3,616,216	3,637,251
Restricted	1,042,649	1,122,054	-	-	1,042,649	1,122,054
Unrestricted	<u>4,461,578</u>	<u>3,618,350</u>	<u>31,497</u>	<u>34,913</u>	<u>4,493,075</u>	<u>3,653,263</u>
Total net assets	<u>\$ 9,120,443</u>	<u>\$ 8,377,655</u>	<u>\$ 31,497</u>	<u>\$ 34,913</u>	<u>\$ 9,151,940</u>	<u>\$ 8,412,568</u>

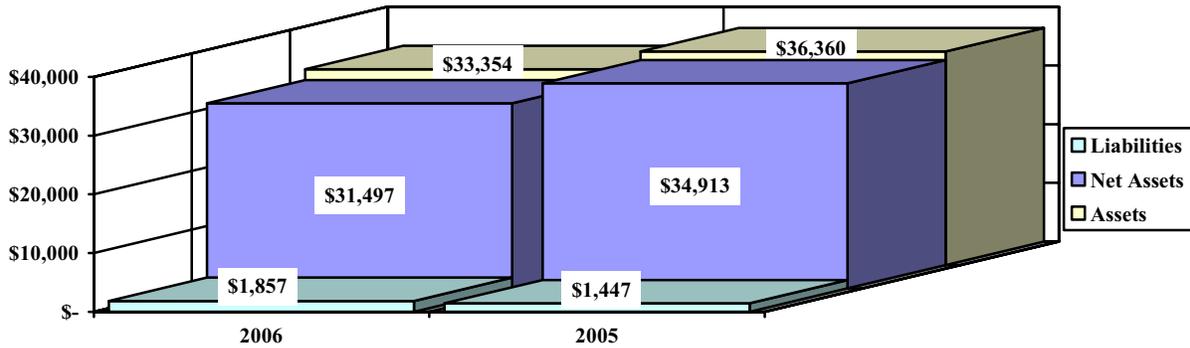
**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Unaudited)

**Governmental - Net Assets**



**Business-Type - Net Assets**



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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Unaudited)

The table below shows the changes in net assets for governmental activities and business-type activities for fiscal years 2006 and 2005.

**Change in Net Assets**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
<b><u>Revenues</u></b>						
Program revenues:						
Charges for services and sales	\$ 1,397,575	\$ 1,373,178	\$ 21,112	\$ 18,924	\$ 1,418,687	\$ 1,392,102
Operating grants and contributions	807,051	756,988	-	-	807,051	756,988
Capital grants and contributions	-	83,311	-	-	-	83,311
General revenues:						
Property taxes	6,575,680	6,759,337	-	-	6,575,680	6,759,337
Grants and entitlements	8,650,398	8,655,758	-	-	8,650,398	8,655,758
Investment earnings	253,414	131,406	-	-	253,414	131,406
Gain on sale of capital assets	-	17,456	-	-	-	17,456
Other	19,926	29,556	-	-	19,926	29,556
Total revenues	<u>17,704,044</u>	<u>17,806,990</u>	<u>21,112</u>	<u>18,924</u>	<u>17,725,156</u>	<u>17,825,914</u>
<b><u>Expenses</u></b>						
Program expenses:						
Instruction:						
Regular	7,177,180	6,903,930	-	-	7,177,180	6,903,930
Special	1,587,694	1,495,622	-	-	1,587,694	1,495,622
Vocational	311,574	325,990	-	-	311,574	325,990
Other	911,277	885,787	-	-	911,277	885,787
Support services:						
Pupil	1,160,932	1,077,794	-	-	1,160,932	1,077,794
Instructional staff	368,812	365,046	-	-	368,812	365,046
Board of Education	20,070	14,306	-	-	20,070	14,306
Administration	1,359,719	1,298,509	-	-	1,359,719	1,298,509
Fiscal	323,299	326,111	-	-	323,299	326,111
Business	-	20,704	-	-	-	20,704
Operations and maintenance	1,326,890	1,163,961	-	-	1,326,890	1,163,961
Pupil transportation	1,067,533	1,035,129	-	-	1,067,533	1,035,129
Central	259,286	199,554	-	-	259,286	199,554
Extracurricular activities	503,714	492,563	-	-	503,714	492,563
Food service operations	574,237	556,751	-	-	574,237	556,751
Interest and fiscal charges	9,039	13,652	-	-	9,039	13,652
Community recreation	-	-	1,777	1,767	1,777	1,767
Latchkey program	-	-	22,751	21,188	22,751	21,188
Total expenses	<u>16,961,256</u>	<u>16,175,409</u>	<u>24,528</u>	<u>22,955</u>	<u>16,985,784</u>	<u>16,198,364</u>
Changes in net assets	742,788	1,631,581	(3,416)	(4,031)	739,372	1,627,550
Net assets at beginning of year	<u>8,377,655</u>	<u>6,746,074</u>	<u>34,913</u>	<u>38,944</u>	<u>8,412,568</u>	<u>6,785,018</u>
Net assets at end of year	<u>\$ 9,120,443</u>	<u>\$ 8,377,655</u>	<u>\$ 31,497</u>	<u>\$ 34,913</u>	<u>\$ 9,151,940</u>	<u>\$ 8,412,568</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Unaudited)

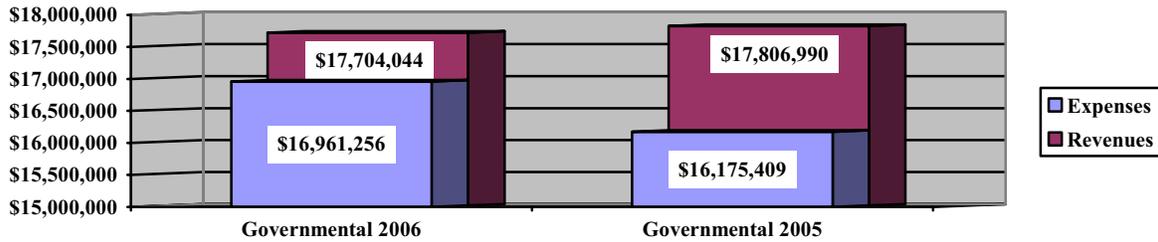
**Governmental Activities**

Net assets of the District's governmental activities increased \$742,788. Total governmental expenses of \$16,961,256 were offset by program revenues of \$2,204,626 and general revenues of \$15,499,418. Program revenues supported 13.00% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These revenue sources represent 86.00% of total governmental revenue. Real estate property is reappraised every six years.

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2006 and 2005.

**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 2006 and 2005. 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 2006	Net Cost of Services 2006	Total Cost of Services 2005	Net Cost of Services 2005
Program expenses:				
Instruction:				
Regular	\$ 7,177,180	\$ 6,309,668	\$ 6,903,930	\$ 5,998,682
Special	1,587,694	1,115,627	1,495,622	1,107,812
Vocational	311,574	311,574	325,990	325,990
Other	911,277	911,277	885,787	885,787

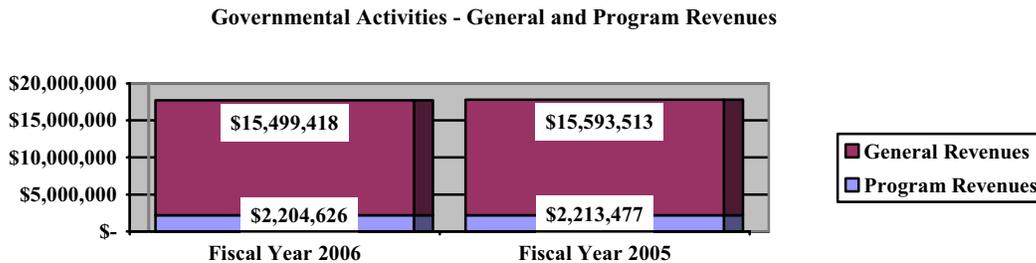
**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Unaudited)**

	Total Cost of Services <u>2006</u>	Net Cost of Services <u>2006</u>	Total Cost of Services <u>2005</u>	Net Cost of Services <u>2005</u>
Support services:				
Pupil	1,160,932	1,027,345	1,077,794	923,469
Instructional staff	368,812	336,590	365,046	325,482
Board of Education	20,070	20,070	14,306	14,306
Administration	1,359,719	1,359,719	1,298,509	1,298,509
Fiscal	323,299	323,299	326,111	315,366
Business	-	-	20,704	18,412
Operations and maintenance	1,326,890	1,326,890	1,163,961	1,138,155
Pupil transportation	1,067,533	1,067,533	1,035,129	1,035,129
Central	259,286	222,642	199,554	152,207
Extracurricular activities	503,714	435,666	492,563	417,414
Food service operations	574,237	(20,309)	556,751	(8,440)
Interest and fiscal charges	9,039	9,039	13,652	13,652
<b>Total expenses</b>	<b>\$ 16,961,256</b>	<b>\$ 14,756,630</b>	<b>\$ 16,175,409</b>	<b>\$ 13,961,932</b>

The dependence upon tax revenues during fiscal year 2006 for governmental activities is apparent, as 86.59% of 2006 instruction activities are supported through taxes and other general revenues. In 2006, general revenues supported 87.00% of all governmental expenditures. The District's taxpayers as a whole are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2006 and 2005.



**Business-Type Activities**

Business-type activities include community recreation and latchkey program. These programs had revenues of \$21,112 and expenses of \$24,528 for fiscal year 2006. The District's business activities receive no support from tax revenues.

**The District's Funds**

The District's governmental funds (as presented on the balance sheet on page 18) reported a combined fund balance of \$4,679,268, which is above last year's total of \$4,486,697. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2006 and 2005.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Unaudited)

	Fund Balance <u>June 30, 2006</u>	Fund Balance <u>June 30, 2005</u>	Increase <u>(Decrease)</u>
General	\$ 3,516,318	\$ 3,290,375	\$ 225,943
Other Governmental	<u>1,162,950</u>	<u>1,196,322</u>	<u>(33,372)</u>
<b>Total</b>	<b><u>\$ 4,679,268</u></b>	<b><u>\$ 4,486,697</u></b>	<b><u>\$ 192,571</u></b>

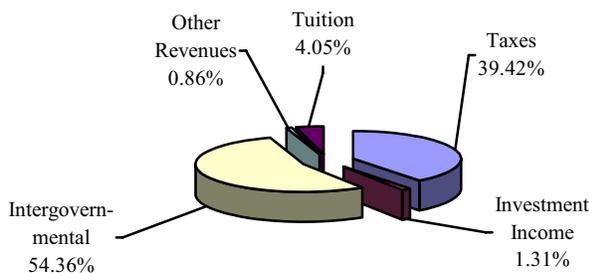
**General Fund**

The District's general fund balance increased \$225,943, due to decreasing revenues exceeding increasing expenditures. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

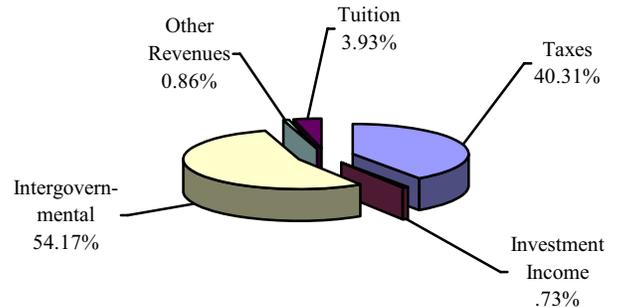
	2006 <u>Amount</u>	2005 <u>Amount</u>	Percentage <u>Change</u>
<b><u>Revenues</u></b>			
Taxes	\$ 6,243,867	\$ 6,441,338	(3.07) %
Tuition	641,558	627,242	2.28 %
Interest earnings	207,046	116,722	77.38 %
Intergovernmental	8,609,389	8,655,758	(0.54) %
Other revenues	<u>136,245</u>	<u>136,673</u>	(0.31) %
<b>Total</b>	<b><u>\$15,838,105</u></b>	<b><u>\$15,977,733</u></b>	<b>(0.87) %</b>

Interest earnings revenue increased \$90,324 or 77.38% from 2005. This increase is due to an increase in interest rates by the Federal Reserve Bank throughout the year. The increase in tuition is due to an increase in open enrollment. All other revenue remained comparable to 2005.

**Revenues - Fiscal Year 2006**



**Revenues - Fiscal Year 2005**



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

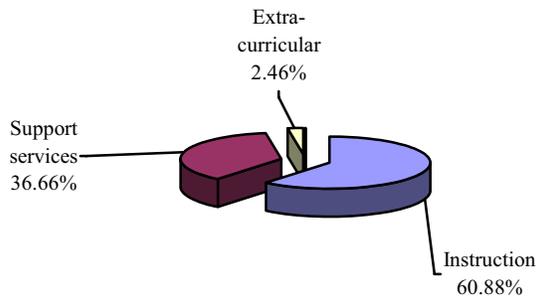
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Unaudited)

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

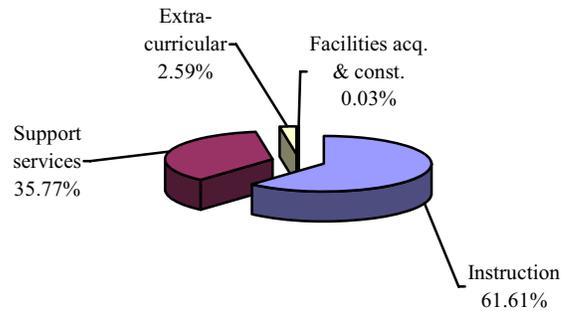
<u>Expenditures</u>	<u>2006 Amount</u>	<u>2005 Amount</u>	<u>Percentage Change</u>
Instruction	\$ 9,461,846	\$ 8,986,543	5.29 %
Support services	5,697,490	5,217,630	9.20 %
Extracurricular activities	382,532	378,349	1.11 %
Facilities acquisition and construction	-	3,975	(100.00) %
<b>Total</b>	<u>\$ 15,541,868</u>	<u>\$ 14,586,497</u>	6.55 %

The most significant increases were in the areas of support services and instructional activities. The increase in support services is due the District providing more services and the increase in instructional activities is due to an increase in the wages and salaries of the employees.

**Expenditures - Fiscal Year 2006**



**Expenditures - Fiscal Year 2005**



***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 2006, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$15,160,799. The final budgeted revenues and other financing sources were \$15,620,798. Actual revenues and other financing sources were \$15,636,273 which was more than final budgeted revenues by \$15,475.

General fund original appropriations (appropriated expenditures plus other financing uses) of \$15,886,780 were unchanged in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2006 totaled \$15,473,733, which was \$413,047 less than the original and final budget appropriations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Unaudited)

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal 2006, the District had \$3,725,961 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. The following table shows fiscal 2006 balances compared to the balance of 2005.

	<b>Capital Assets at June 30</b>	
	<b>(Net of Depreciation)</b>	
	Governmental Activities	
	2006	2005
Land	\$ 851,565	\$ 851,565
Land improvements	340,564	323,448
Building and improvements	1,492,321	1,731,488
Furniture and equipment	248,774	269,112
Vehicles	792,737	652,556
Total	<u>\$ 3,725,961</u>	<u>\$ 3,828,169</u>

The overall decrease in capital assets of \$102,208 is due to depreciation expense of \$587,885 exceeding capital outlays of \$510,251. In addition, the District had disposals of \$24,574, 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, 2006 the District had \$74,000 in energy conservation notes and \$35,745 in a capital lease outstanding. Of this total, \$86,101 is due within one year and \$23,644 is due within greater than one year. The following table summarizes the notes and lease outstanding.

	Governmental Activities	
	2006	2005
	Energy conservation notes	\$ 74,000
Capital lease	35,745	46,918
Total	<u>\$ 109,745</u>	<u>\$ 190,918</u>

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

At June 30, 2006, the District's overall legal debt margin was \$24,016,539 with an unvoted debt margin of \$266,768.

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, 2006  
(Unaudited)

**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. Budget cuts for field trips, professional development, supplies and equipment were made in fiscal year 2005 and have been continued for fiscal year 2006. 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 2009.

District enrollment decreased again in fiscal year 2006 but with the current "hold harmless" clause in the foundation funding formula we maintained our state funding level of fiscal year 2005, which included \$600,000 in reappraisal guarantee. As we enter fiscal year 2007 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 in the new state budget for fiscal year 2008, we could see some major cut backs in our state foundation funding.

Another challenge facing the District are the continually growing costs of open enrollment and community school students leaving our district. We are currently able to accept enough incoming open enrollment students annually to offset the cost of those students leaving. 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 49% of the general operating revenues, one of the largest challenges facing the District is that of state funding. The State of Ohio was found by the Supreme Court in March 1997 to be operating an unconstitutional educational system, one that was neither adequate or equitable. Since 1997, the State has directed its tax revenue growth toward school districts with little property tax wealth. On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional. At this time, the District is unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

During the 2005-2006 school year a building advisory committee was formed to review what is currently being done in the construction of new high schools and to make recommendations as to what the needs are for the District. Their report was presented to the board in June 2006. The board has proceeded to hire an architect and plans are under way to place a bond issue on the May 2007 ballot for the purpose of constructing a new high school.

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

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

STATEMENT OF NET ASSETS  
JUNE 30, 2006

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>Assets:</b>			
Equity in pooled cash and cash equivalents. . .	\$ 5,045,808	\$ 33,354	\$ 5,079,162
Cash with fiscal agent. . . . .	1,743,423	-	1,743,423
Receivables:			
Taxes . . . . .	6,723,283	-	6,723,283
Accounts . . . . .	8,906	-	8,906
Intergovernmental . . . . .	33,886	-	33,886
Accrued interest . . . . .	15,065	-	15,065
Prepayments . . . . .	19,357	-	19,357
Materials and supplies inventory. . . . .	5,957	-	5,957
Capital assets:			
Land. . . . .	851,565	-	851,565
Depreciable capital assets, net. . . . .	2,874,396	-	2,874,396
Total capital assets, net . . . . .	<u>3,725,961</u>	<u>-</u>	<u>3,725,961</u>
Total assets. . . . .	<u>17,321,646</u>	<u>33,354</u>	<u>17,355,000</u>
<b>Liabilities:</b>			
Accounts payable. . . . .	20,132	-	20,132
Accrued wages and benefits . . . . .	1,283,708	992	1,284,700
Intergovernmental payable . . . . .	50,627	75	50,702
Deferred revenue . . . . .	5,042,448	-	5,042,448
Pension obligation payable . . . . .	368,184	790	368,974
Accrued interest payable . . . . .	323	-	323
Claims payable . . . . .	360,240	-	360,240
Long-term liabilities:			
Due within one year. . . . .	237,651	-	237,651
Due in more than one year. . . . .	837,890	-	837,890
Total liabilities . . . . .	<u>8,201,203</u>	<u>1,857</u>	<u>8,203,060</u>
<b>Net Assets:</b>			
Invested in capital assets, net of related debt. . . . .	3,616,216	-	3,616,216
Restricted for:			
Capital projects . . . . .	871,412	-	871,412
Debt service. . . . .	7,063	-	7,063
State funded programs . . . . .	61,530	-	61,530
Federally funded programs . . . . .	93,755	-	93,755
Student activities . . . . .	8,889	-	8,889
Unrestricted . . . . .	<u>4,461,578</u>	<u>31,497</u>	<u>4,493,075</u>
Total net assets . . . . .	<u>\$ 9,120,443</u>	<u>\$ 31,497</u>	<u>\$ 9,151,940</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>
<b>Governmental activities:</b>			
Instruction:			
Regular . . . . .	\$ 7,177,180	\$ 766,770	\$ 100,742
Special . . . . .	1,587,694	-	472,067
Vocational . . . . .	311,574	-	-
Other . . . . .	911,277	-	-
Support services:			
Pupil . . . . .	1,160,932	94,485	39,102
Instructional staff . . . . .	368,812	1,070	31,152
Board of education . . . . .	20,070	-	-
Administration . . . . .	1,359,719	-	-
Fiscal . . . . .	323,299	-	-
Operations and maintenance . . . . .	1,326,890	-	-
Pupil transportation . . . . .	1,067,533	-	-
Central . . . . .	259,286	20,653	15,991
Food service operations . . . . .	574,237	446,549	147,997
Extracurricular activities . . . . .	503,714	68,048	-
Interest and fiscal charges . . . . .	9,039	-	-
Total governmental activities . . . . .	<u>16,961,256</u>	<u>1,397,575</u>	<u>807,051</u>
<b>Business-Type activities:</b>			
Community recreation . . . . .	1,777	1,880	-
Latchkey program . . . . .	22,751	19,232	-
Total business-type activities . . . . .	<u>24,528</u>	<u>21,112</u>	<u>-</u>
Totals . . . . .	<u>\$ 16,985,784</u>	<u>\$ 1,418,687</u>	<u>\$ 807,051</u>

**General Revenues:**

Property taxes levied for:
General fund . . . . .
Capital outlay . . . . .
Grants and entitlements not restricted to specific programs . . . . .
Investment earnings . . . . .
Miscellaneous . . . . .
Total general revenues . . . . .
Change in net assets . . . . .
<b>Net assets at beginning of year . . . . .</b>
<b>Net assets at end of year . . . . .</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
\$ (6,309,668)	\$ -	\$ (6,309,668)
(1,115,627)	-	(1,115,627)
(311,574)	-	(311,574)
(911,277)	-	(911,277)
(1,027,345)	-	(1,027,345)
(336,590)	-	(336,590)
(20,070)	-	(20,070)
(1,359,719)	-	(1,359,719)
(323,299)	-	(323,299)
(1,326,890)	-	(1,326,890)
(1,067,533)	-	(1,067,533)
(222,642)	-	(222,642)
20,309	-	20,309
(435,666)	-	(435,666)
(9,039)	-	(9,039)
(14,756,630)	-	(14,756,630)
-	103	103
-	(3,519)	(3,519)
-	(3,416)	(3,416)
(14,756,630)	(3,416)	(14,760,046)
6,235,108	-	6,235,108
340,572	-	340,572
8,650,398	-	8,650,398
253,414	-	253,414
19,926	-	19,926
15,499,418	-	15,499,418
742,788	(3,416)	739,372
8,377,655	34,913	8,412,568
\$ 9,120,443	\$ 31,497	\$ 9,151,940

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

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2006

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>			
Equity in pooled cash and cash equivalents . . . . .	\$ 3,893,394	\$ 1,152,414	\$ 5,045,808
Receivables:			
Taxes . . . . .	6,372,140	351,143	6,723,283
Accounts . . . . .	8,171	735	8,906
Intergovernmental . . . . .	-	33,886	33,886
Accrued interest . . . . .	15,065	-	15,065
Prepayments . . . . .	19,357	-	19,357
Materials and supplies inventory . . . . .	-	5,957	5,957
Total assets . . . . .	<u>\$ 10,308,127</u>	<u>\$ 1,544,135</u>	<u>\$ 11,852,262</u>
<b>Liabilities:</b>			
Accounts payable . . . . .	\$ 11,389	\$ 8,743	\$ 20,132
Accrued wages and benefits . . . . .	1,225,318	58,390	1,283,708
Compensated absences payable . . . . .	98,216	-	98,216
Pension obligation payable . . . . .	347,340	20,844	368,184
Intergovernmental payable . . . . .	48,125	2,502	50,627
Deferred revenue . . . . .	5,061,421	290,706	5,352,127
Total liabilities . . . . .	<u>6,791,809</u>	<u>381,185</u>	<u>7,172,994</u>
<b>Fund Balances:</b>			
Reserved for encumbrances . . . . .	9,224	274,988	284,212
Reserved for materials and supplies inventory . . . . .	-	5,957	5,957
Reserved for property tax unavailable for appropriation . . . . .	1,316,269	76,883	1,393,152
Reserved for prepayments . . . . .	19,357	-	19,357
Reserved for debt service . . . . .	-	7,386	7,386
Unreserved, undesignated, reported in:			
General fund . . . . .	2,171,468	-	2,171,468
Special revenue funds . . . . .	-	255,811	255,811
Capital projects funds . . . . .	-	541,925	541,925
Total fund balances . . . . .	<u>3,516,318</u>	<u>1,162,950</u>	<u>4,679,268</u>
Total liabilities and fund balances . . . . .	<u>\$ 10,308,127</u>	<u>\$ 1,544,135</u>	<u>\$ 11,852,262</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, 2006

<b>Total governmental fund balances</b>		\$ 4,679,268
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		3,725,961
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 287,683	
Interest revenue	5,550	
Intergovernmental revenue	16,446	
Total		309,679
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net assets.		1,383,183
In the statement of activities interest is accrued on outstanding notes, whereas in governmental funds, interest expenditures are reported when due.		(323)
Long-term liabilities, including notes payable, are not due and payable in the current period and therefore are not reported in the funds.		
Energy conservation notes	\$ (74,000)	
Capital lease obligation	(35,745)	
Compensated absences	(867,580)	
Total		(977,325)
<b>Net assets of governmental activities</b>		<b>\$ 9,120,443</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>			
From local sources:			
Taxes . . . . .	\$ 6,243,867	\$ 341,674	\$ 6,585,541
Tuition . . . . .	641,558	-	641,558
Transportation fees . . . . .	14,234	-	14,234
Charges for services . . . . .	-	446,549	446,549
Earnings on investments . . . . .	207,046	2,987	210,033
Extracurricular . . . . .	-	184,256	184,256
Classroom materials and fees . . . . .	72,366	41,499	113,865
Other local revenues . . . . .	49,645	9,891	59,536
Intergovernmental - State . . . . .	8,609,389	77,720	8,687,109
Intergovernmental - Federal . . . . .	-	715,142	715,142
Total revenues . . . . .	<u>15,838,105</u>	<u>1,819,718</u>	<u>17,657,823</u>
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular . . . . .	7,080,741	91,817	7,172,558
Special . . . . .	1,163,319	432,468	1,595,787
Vocational . . . . .	306,509	-	306,509
Other . . . . .	911,277	-	911,277
Support Services:			
Pupil . . . . .	1,042,885	143,025	1,185,910
Instructional staff . . . . .	340,942	29,351	370,293
Board of education . . . . .	20,070	-	20,070
Administration . . . . .	1,376,652	-	1,376,652
Fiscal . . . . .	322,868	5,391	328,259
Operations and maintenance . . . . .	1,131,459	-	1,131,459
Pupil transportation . . . . .	1,285,306	-	1,285,306
Central . . . . .	177,308	73,148	250,456
Extracurricular activities . . . . .	382,532	81,097	463,629
Facilities acquisition and construction . . . . .	-	422,964	422,964
Food service operations . . . . .	-	576,319	576,319
Debt service:			
Principal retirement . . . . .	-	81,173	81,173
Interest and fiscal charges . . . . .	-	9,345	9,345
Total expenditures . . . . .	<u>15,541,868</u>	<u>1,946,098</u>	<u>17,487,966</u>
Excess of revenues over (under) expenditures.	<u>296,237</u>	<u>(126,380)</u>	<u>169,857</u>
<b>Other financing sources (uses):</b>			
Transfers in . . . . .	-	90,995	90,995
Transfers (out) . . . . .	(90,995)	-	(90,995)
Insurance proceeds . . . . .	20,701	-	20,701
Total other financing sources (uses) . . . . .	<u>(70,294)</u>	<u>90,995</u>	<u>20,701</u>
Net change in fund balances . . . . .	225,943	(35,385)	190,558
<b>Fund balances at beginning of year . . . . .</b>	3,290,375	1,196,322	4,486,697
<b>Increase in reserve for inventory . . . . .</b>	-	2,013	2,013
<b>Fund balances at end of year . . . . .</b>	<u>\$ 3,516,318</u>	<u>\$ 1,162,950</u>	<u>\$ 4,679,268</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, 2006

<b>Net change in fund balances - total governmental funds</b>	\$	190,558
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeds capital outlays in the current period.		
Capital asset additions	\$ 510,251	
Current year depreciation	<u>(587,885)</u>	
Total		(77,634)
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.		
		(24,574)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Delinquent property taxes	(9,861)	
Intergovernmental revenues	12,701	
Accrued interest	<u>3,753</u>	
Total		6,593
Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as an expense when consumed.		
		2,013
Repayment of note and lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
		81,173
In the statement of activities, interest is accrued on outstanding notes, whereas in governmental funds, an interest expenditure is reported when due.		
		306
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.		
		40,474
The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.		
		<u>523,879</u>
<b>Change in net assets of governmental activities</b>	<b>\$</b>	<b><u>742,788</u></b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>		<u>(Negative)</u>
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 5,844,341	\$ 6,021,713	\$ 6,020,314	\$ (1,399)
Tuition . . . . .	623,242	642,157	642,008	(149)
Transportation fees . . . . .	15,657	16,132	16,128	(4)
Earnings on investments . . . . .	199,965	206,034	205,986	(48)
Classroom materials and fees . . . . .	71,834	74,014	73,997	(17)
Other local revenues . . . . .	44,022	45,358	45,347	(11)
Intergovernmental - State . . . . .	8,357,738	8,611,390	8,609,389	(2,001)
Total revenues . . . . .	<u>15,156,799</u>	<u>15,616,798</u>	<u>15,613,169</u>	<u>(3,629)</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	7,017,583	7,017,583	6,990,420	27,163
Special . . . . .	1,172,395	1,172,395	1,149,739	22,656
Vocational . . . . .	333,189	333,189	307,138	26,051
Other . . . . .	911,320	911,320	911,192	128
Support Services:				
Pupil . . . . .	1,068,753	1,068,753	1,032,801	35,952
Instructional staff . . . . .	338,868	338,868	338,139	729
Board of education . . . . .	21,550	21,550	20,051	1,499
Administration . . . . .	1,423,529	1,423,529	1,339,581	83,948
Fiscal . . . . .	360,960	360,960	321,401	39,559
Operations and maintenance . . . . .	1,197,400	1,197,400	1,133,724	63,676
Pupil transportation . . . . .	1,309,873	1,309,873	1,280,775	29,098
Central . . . . .	202,260	202,260	179,715	22,545
Extracurricular activities . . . . .	433,100	433,100	378,062	55,038
Total expenditures . . . . .	<u>15,790,780</u>	<u>15,790,780</u>	<u>15,382,738</u>	<u>408,042</u>
Excess of revenues over (under) expenditures . . . . .	<u>(633,981)</u>	<u>(173,982)</u>	<u>230,431</u>	<u>404,413</u>
<b>Other financing sources (uses):</b>				
Refund of prior year expenditure . . . . .	-	-	2,078	2,078
Transfers (out) . . . . .	(96,000)	(96,000)	(90,995)	5,005
Insurance proceeds . . . . .	-	-	20,701	20,701
Sale of capital assets . . . . .	4,000	4,000	325	(3,675)
Total other financing sources (uses) . . . . .	<u>(92,000)</u>	<u>(92,000)</u>	<u>(67,891)</u>	<u>24,109</u>
Net change in fund balance . . . . .	(725,981)	(265,982)	162,540	428,522
<b>Fund balance at beginning of year . . . . .</b>	3,604,862	3,604,862	3,604,862	-
<b>Prior year encumbrances appropriated . .</b>	126,780	126,780	126,780	-
<b>Fund balance at end of year . . . . .</b>	<u>\$ 3,005,661</u>	<u>\$ 3,465,660</u>	<u>\$ 3,894,182</u>	<u>\$ 428,522</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2006

	<b>Business-Type Activities - Nonmajor Enterprise Funds</b>	<b>Governmental Activities - Internal Service Fund</b>
	<u>                    </u>	<u>                    </u>
<b>Assets:</b>		
Current assets:		
Equity in pooled cash and cash equivalents. . . . .	\$ 33,354	\$ -
Cash with fiscal agent . . . . .	-	1,743,423
Total current assets . . . . .	<u>33,354</u>	<u>1,743,423</u>
<b>Liabilities:</b>		
Accrued wages and benefits . . . . .	992	-
Pension obligation payable. . . . .	790	-
Intergovernmental payable . . . . .	75	-
Claims payable . . . . .	-	360,240
Total liabilities . . . . .	<u>1,857</u>	<u>360,240</u>
<b>Net assets:</b>		
Unrestricted. . . . .	31,497	1,383,183
Total net assets . . . . .	<u>\$ 31,497</u>	<u>\$ 1,383,183</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS  
PROPRIETARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<b>Business-Type Activities - Nonmajor Enterprise Funds</b>	<b>Governmental Activities - Internal Service Fund</b>
	<u>          </u>	<u>          </u>
<b>Operating revenues:</b>		
Sales/charges for services . . . . .	\$ 21,112	\$ 2,138,162
Total operating revenues . . . . .	<u>21,112</u>	<u>2,138,162</u>
 <b>Operating expenses:</b>		
Salaries and wages. . . . .	14,627	-
Fringe benefits. . . . .	7,845	-
Purchased services. . . . .	600	-
Materials and supplies. . . . .	1,456	-
Claims expense. . . . .	-	1,653,911
Total operating expenses . . . . .	<u>24,528</u>	<u>1,653,911</u>
 Operating income (loss) . . . . .	<u>(3,416)</u>	<u>484,251</u>
 <b>Nonoperating revenues:</b>		
Interest revenue . . . . .	-	39,628
Total nonoperating revenues . . . . .	<u>-</u>	<u>39,628</u>
 Change in net assets. . . . .	(3,416)	523,879
 <b>Net assets at beginning of year. . . . .</b>	<u>34,913</u>	<u>859,304</u>
<b>Net assets at end of year . . . . .</b>	<u><u>\$ 31,497</u></u>	<u><u>\$ 1,383,183</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<b>Business-Type Activities - Nonmajor Enterprise Funds</b>	<b>Governmental Activities - Internal Service Fund</b>
<b>Cash flows from operating activities:</b>		
Cash received from sales/charges for services. . . . .	\$ 21,112	\$ 2,138,162
Cash payments for salaries and wages. . . . .	(14,599)	-
Cash payments for fringe benefits . . . . .	(7,463)	-
Cash payments for contractual services . . . . .	(600)	-
Cash payments for materials and supplies . . . . .	(1,456)	-
Cash payments for claims expense . . . . .	-	(1,674,263)
	(3,006)	463,899
<b>Net cash provided by (used in) operating activities . . . . .</b>		
	(3,006)	463,899
<b>Cash flows from investing activities:</b>		
Interest received . . . . .	-	39,628
	-	39,628
<b>Net cash provided by investing activities . . . . .</b>		
	-	39,628
<b>Net increase (decrease) in cash and cash equivalents . .</b>		
	(3,006)	503,527
<b>Cash and cash equivalents at beginning of year . . .</b>		
	36,360	1,239,896
<b>Cash and cash equivalents at end of year. . . . .</b>		
	\$ 33,354	\$ 1,743,423
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:</b>		
Operating income (loss) . . . . .	\$ (3,416)	\$ 484,251
<b>Changes in assets and liabilities:</b>		
Increase in accrued wages and benefits . . . . .	28	-
Decrease in intergovernmental payable . . . . .	-	-
Increase in pension obligation payable. . . . .	382	-
Decrease in claims payable . . . . .	-	(20,352)
	28	(20,352)
<b>Net cash provided by (used in) operating activities . . . . .</b>		
	\$ (3,006)	\$ 463,899

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2006

	<u>Agency</u>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents . . . . .	\$ 33,299
Total assets . . . . .	<u>\$ 33,299</u>
<b>Liabilities:</b>	
Due to students . . . . .	\$ 33,299
Total liabilities . . . . .	<u>\$ 33,299</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**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 261<sup>st</sup> largest in the State of Ohio (among the 615 public school districts in the state) in terms of enrollment. It is staffed by 98 non-certified and 142 certified personnel to provide services to approximately 2,141 students and other community members.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Reporting Entity**

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". When applying GASB Statement No. 14, management has considered all potential component units. Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or (4) provide financial support to the organization; or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes. Based upon the application of this criteria, the District has no component units. The financial statements of the reporting entity include only those of the District (the primary government).

*JOINTLY GOVERNED ORGANIZATIONS*

Lorain County Joint Vocational School District (JVS)

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

Lake Erie Education Computer Association (LEECA)

The Lake Erie Education Computer Association (LEECA) is a jointly governed organization among 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. 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 11 school districts. The jointly governed organization was formed for the purpose of promoting cooperative agreements and activities among its members in dealing with problems of mutual concern such as media center, gas consumption, driver education, food service and insurance. Each member provides operating resources to LERC on a per pupil or actual usage charge. The LERC assembly consists of a superintendent or designated representative from each participating school district and the fiscal agent. LERC is governed by a Board of Directors chosen from the general membership. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained by contacting the Treasurer at the Educational Service Center of Lorain County, who serves as fiscal agent, at 1885 Lake Avenue, Elyria, Ohio 44035.

Ohio School Boards Association Workers' Compensation Group Rating Plan

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

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

**B. Fund Accounting**

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

*GOVERNMENTAL FUNDS*

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

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

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

*PROPRIETARY FUNDS*

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

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

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

*FIDUCIARY FUNDS*

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

**C. Basis of Presentation**

*Government-wide Financial Statements* - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund activity is eliminated to avoid “doubling up” revenues and expenses. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

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

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

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

**D. Basis of Accounting**

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

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

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

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

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

*Deferred Revenue* - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2006, but which were levied to finance fiscal year 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

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

**E. Budgets**

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

Tax Budget:

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

Estimated Resources:

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

Appropriations:

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

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

**F. Cash and Investments**

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

During fiscal year 2006, investments were limited to federal agency securities, repurchase agreements, non-negotiable certificates of deposit and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio).

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

The District has invested funds in STAR Ohio during fiscal 2006. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2006.

Under existing Ohio statute, interest earnings are allotted to the general fund unless the Board of Education has, by resolution, specified funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal 2006 amounted to \$207,046 which includes \$84,670 assigned from other District funds.

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

**G. Inventory**

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

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

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

**H. Capital Assets**

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

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

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

<u>Description</u>	<u>Governmental Activities 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 severance liability to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

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

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2006, and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

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

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

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

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

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

**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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

**L. Net Assets**

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

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

**M. Prepayments**

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as 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.

**N. Estimates**

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

**O. Operating Revenues, Operating Expenses and Non-operating revenues**

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

**P. Interfund Activity**

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

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**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 2006.

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Change in Accounting Principles**

For fiscal year 2006, the District has implemented GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries", GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation", and GASB Statement No. 47, "Accounting for Termination Benefits".

GASB Statement No. 42 amends GASB Statement No. 34 and establishes accounting and financial reporting standards for impairment of capital assets and accounting requirements for insurance recoveries.

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

GASB Statement No. 47 establishes accounting standards for termination benefits.

The implementation of GASB Statement No. 42, GASB Statement No. 46 and GASB Statement No. 47 did not have an effect on the fund balances/net assets of the District as previously reported at June 30, 2005.

**B. Deficit Fund Balances**

Fund balances at June 30, 2006 included the following individual fund deficits:

<u>Nonmajor Funds</u>	<u>Deficit</u>
Entry Year Teacher Grant	\$ 5
Title I	683
Title VI	39
Title VI-R	209

These funds complied with Ohio state law, which does not permit cash basis deficits. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities.

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**NOTE 4 - DEPOSITS AND INVESTMENTS**

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

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

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

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

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

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

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

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

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

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

**A. Cash With Fiscal Agent**

The District is self-insured through a fiscal agent. The money held by the fiscal agent cannot be identified as an investment or deposit, since it is held in a pool made up of numerous participants. The amount held by the fiscal agent at June 30, 2006, was \$1,743,423.

**B. Deposits with Financial Institutions**

At June 30, 2006, the carrying amount of all District deposits was \$4,387,252, exclusive of the \$130,000 Repurchase Agreement mentioned below. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2006, \$2,065,317 of the District's bank balance of \$4,525,317 was exposed to custodial risk as discussed below, while \$2,460,000 was covered by 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.

**C. Investments**

As of June 30, 2006, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>		
		<u>6 months or less</u>	<u>7 to 12 months</u>	<u>Greater than 24 months</u>
FHLB	\$ 831,405	\$ 143,686	\$ 197,750	\$ 489,969
Repurchase agreement	130,000	130,000	-	-
STAR Ohio	1,507,227	1,507,227	-	-
	<u>\$ 2,468,632</u>	<u>\$ 1,780,913</u>	<u>\$ 197,750</u>	<u>\$ 489,969</u>

The weighted average maturity of investments is .53 years.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

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

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

*Concentration of Credit Risk:* The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2006:

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
FHLB	\$ 831,405	33.68
Repurchase agreement	130,000	5.27
STAR Ohio	<u>1,507,227</u>	<u>61.05</u>
	<u>\$ 2,468,632</u>	<u>100.00</u>

**D. Reconciliation of Cash and Investments to the Statement of Net Assets**

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2006:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 4,387,252
Investments	<u>2,468,632</u>
Total	<u>\$ 6,855,884</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 6,789,231
Business-type activities	33,354
Agency fund	<u>33,299</u>
Total	<u>\$ 6,855,884</u>

**FIRELANDS LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 5 - INTERFUND TRANSACTIONS**

Interfund transfers for the year ended June 30, 2006, consisted of the following, as reported on the fund statements:

	<u>Amount</u>
Transfers from General Fund to:	
Other Governmental Funds	\$ 90,995

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

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

**NOTE 6 - PROPERTY TAXES**

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

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 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed as of January 1, 2005, 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 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien December 31, 2004, were levied after April 1, 2005 and are collected in 2006 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 2006 (other than public utility property) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value as of December 31, 2005. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

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

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 2006-2010, 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 County. The County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2006, are available to finance fiscal year 2006 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, 2006 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2006 was \$1,316,269 in the general fund, and \$76,883 in the Permanent Improvement capital projects fund. The amount available as an advance at June 30, 2005, was \$1,092,716 in the general fund, and \$67,519 in the Permanent Improvement capital projects fund.

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 2006 taxes were collected are:

	2005 Second Half Collections		2006 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 240,194,670	92.14	\$ 248,001,030	92.96
Public utility personal	11,849,730	4.54	10,855,290	4.07
Tangible personal property	<u>8,644,182</u>	<u>3.32</u>	<u>7,912,051</u>	<u>2.97</u>
Total	<u>\$ 260,688,582</u>	<u>100.00</u>	<u>\$ 266,768,371</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$44.20		\$44.20	

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2006 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	\$ 6,723,283
Accounts	8,906
Intergovernmental	33,886
Accrued interest	<u>15,065</u>
Total receivables	<u>\$ 6,781,140</u>

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

**NOTE 8 - CAPITAL ASSETS**

Capital asset activity for the fiscal year-ended June 30, 2006, was as follows:

	<u>Balance June 30, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2006</u>
<b>Governmental Activities</b>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 851,565	\$ -	\$ -	\$ 851,565
Total capital assets, not being depreciated	<u>851,565</u>	<u>-</u>	<u>-</u>	<u>851,565</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	767,781	64,408	-	832,189
Buildings and improvements	7,769,867	120,940	-	7,890,807
Furniture and equipment	1,411,021	80,011	(26,394)	1,464,638
Vehicles	<u>1,375,951</u>	<u>244,892</u>	<u>(154,068)</u>	<u>1,466,775</u>
Total capital assets, being depreciated	<u>11,324,620</u>	<u>510,251</u>	<u>(180,462)</u>	<u>11,654,409</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(444,333)	(47,292)	-	(491,625)
Buildings and improvements	(6,038,379)	(360,107)	-	(6,398,486)
Furniture and equipment	(1,141,909)	(80,995)	7,040	(1,215,864)
Vehicles	<u>(723,395)</u>	<u>(99,491)</u>	<u>148,848</u>	<u>(674,038)</u>
Total accumulated depreciation	<u>(8,348,016)</u>	<u>(587,885)</u>	<u>155,888</u>	<u>(8,780,013)</u>
Governmental activities capital assets, net	<u>\$ 3,828,169</u>	<u>\$ (77,634)</u>	<u>\$ (24,574)</u>	<u>\$ 3,725,961</u>

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**NOTE 8 - CAPITAL ASSETS – (Continued)**

Depreciation expense was charged to governmental activities as follows:

Instruction:	
Regular	\$ 312,437
Special	23,004
Vocational	11,327
Support Services:	
Pupil	10,195
Instructional staff	12,242
Administration	9,062
Operations and maintenance	39,763
Pupil transportation	101,905
Central	13,282
Extracurricular activities	14,583
Food service operations	<u>40,085</u>
Total depreciation expense	<u>\$ 587,885</u>

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

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

Capital assets consisting of office equipment have been capitalized in the amount of \$62,093. These amounts represent the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2006 for equipment was \$25,872, leaving a current book value of \$36,221. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2006 totaled \$11,173 paid by the permanent improvement capital project fund.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2006:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2007	\$ 14,523
2008	14,523
2009	<u>10,892</u>
Total minimum lease payments	39,938
Less amount representing interest	<u>(4,193)</u>
Total	<u>\$ 35,745</u>

**FIRELANDS LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 10 - LONG-TERM OBLIGATIONS**

- A. During the fiscal year 2006, the following changes occurred in governmental activities long-term obligations:

	Balance			Balance	Amounts
	June 30, 2005	Additions	Reductions	June 30, 2006	Due in
					One Year
<b>Governmental Activities</b>					
Compensated absences payable	\$ 908,054	\$ 124,050	\$ (66,308)	\$ 965,796	\$ 151,550
Capital lease payable	46,918	-	(11,173)	35,745	12,101
Energy conservation notes payable	144,000	-	(70,000)	74,000	74,000
Total governmental activities					
long-term liabilities	<u>\$ 1,098,972</u>	<u>\$ 124,050</u>	<u>\$ (147,481)</u>	<u>\$ 1,075,541</u>	<u>\$ 237,651</u>

*Energy Conservation Notes:*

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

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

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

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

Fiscal year			
Ending	Principal	Interest	Total
2007	<u>\$ 74,000</u>	<u>\$ 2,035</u>	<u>\$ 76,035</u>

**C. Legal Debt Margin**

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

The effects of these debt limitations at June 30, 2006 are a voted debt margin of \$24,016,539 (including available funds of \$7,386) and an unvoted debt margin of \$266,768.

**FIRELANDS LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**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.

**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 2006, 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 2005.

**B. Employee Health and Dental**

The District has contracted with the Lake Erie Regional Council of Governments (LERC) to provide partially self-insured employee health and medical benefits since December 1988. The LERC is a claims-servicing pool comprised of 11 Lorain County school districts. Rates are set through an annual calculation process. The District pays a monthly contribution which is placed in a common fund from which claim payments are made for all participating school districts. Claims are paid for all participants regardless of claims flow or individual account balance. Upon termination, the terminating school district would be liable for all outstanding claims beyond their individual account balance. The LERC Board of Directors has the right to return monies to an existing district subsequent to the settlement of all expenses and claims. This plan provides a medical/surgical plan with deductibles of \$100 single and \$200 family for in network and \$150 single and \$250 family out-of-network coverage. Stop loss is provided by a private insurance carrier for all individual claims in excess of \$165,000.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 12 - RISK MANAGEMENT - (Continued)**

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

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

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Current Year Claims</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2006	\$ 380,592	\$ 1,653,911	\$ (1,674,263)	\$ 360,240
2005	344,827	1,204,205	(1,168,440)	380,592

**C. Workers’ Compensation Plan**

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

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

**NOTE 13 - PENSION PLANS**

**A. School Employees Retirement System**

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](http://www.ohsers.org), under Forms and Publications.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

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 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 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, up to statutory maximum amounts, by the SERS' Retirement Board. The District's required contribution for pension obligations to SERS for fiscal years ended 2006, 2005, and 2004 were \$210,715, \$201,943, and \$171,374, respectively. 44.27 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. \$117,438 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability within the respective funds.

**B. State Teachers Retirement System**

The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. 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 43215-3371 or by calling (614) 227-4090.

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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

For the fiscal year ended June 30, 2006, 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 recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for fund pension obligations to the DB Plan for the fiscal years ended June 30, 2006, 2005, and 2004 were \$970,557, \$946,942, and \$954,301, respectively. 83.05 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. \$164,539 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal year 2006 were \$12,021 made by the District and \$25,849 made by the plan members.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS have an option to choose Social Security or the SERS/ STRS. As of June 30, 2006, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

**NOTE 14 - POSTEMPLOYMENT BENEFITS**

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

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$74,658 for fiscal year 2006.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, the balance in the Health Care Stabilization Fund was \$3.5 billion. For the fiscal year ended June 30, 2006, net health care costs paid by STRS were \$282.743 million and STRS had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 14 - POSTEMPLOYMENT BENEFITS - (Continued)**

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, a decrease of 0.01 percent from fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2006 fiscal year, District paid \$107,404 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2006 were \$178.221 million. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million, which is about 221 percent of next years projected net health care costs of \$158.751 million. On the basis of actuarial projections, the allocated contributions will be insufficient in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has 59,492 participants currently receiving health care benefits.

**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, 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);
- (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).

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 15 - BUDGETARY BASIS OF ACCOUNTING – (Continued)**

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:

<b>Net Change in Fund Balance</b>	<u>General Fund</u>
Budget basis	\$ 162,540
Net adjustment for revenue accruals	224,936
Net adjustment for expenditure accruals	(173,682)
Net adjustment for other financing sources/(uses)	(2,403)
Adjustment for encumbrances	<u>14,552</u>
GAAP basis	<u>\$ 225,943</u>

**NOTE 16 - CONTINGENCIES**

**A. Grants**

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

**B. Litigation**

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**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, 2006, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Acquisition</u>
Set-aside cash balance as of June 30, 2005	\$ (231,170)	\$ -
Current year set-aside requirement	307,543	307,543
Qualifying disbursements	<u>(324,721)</u>	<u>(682,426)</u>
Total	<u>\$ (248,348)</u>	<u>\$ (374,883)</u>
Balance carried forward to FY 2007	<u>\$ (248,348)</u>	<u>\$ -</u>

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

**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2006**

<b>Federal Grantor/ Pass Through Grantor Program Title</b>	<b>Pass Through Entity Number</b>	<b>Federal CFDA Number</b>	<b>Receipts</b>	<b>Non-Cash Receipts</b>	<b>Expenditures</b>	<b>Non-Cash Expenditures</b>
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>						
<i>Passed Through the Ohio Department of Education:</i>						
Food Distribution	N/A	10.550		\$30,837		\$30,837
<i>Child Nutrition Cluster:</i>						
National School Lunch Program	048157-LLP4-2005	10.555	\$28,474		\$28,474	
	048157-LLP4-2006	10.555	82,111		82,111	
Total U.S. Department of Agriculture			110,585	30,837	110,585	30,837
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>						
<i>Passed Through the Ohio Department of Education:</i>						
Special Education - Grants to States	048157-6BSF-2005	84.027	(4,186)		9,218	
	048157-6BSF-2006	84.027	436,007		405,947	
Total Special Education - Grants to States			431,821	0	415,165	0
Title I Grants to Local Educational Agencies	048157-C1S1-2006	84.010	63,488		54,613	
Safe and Drug-Free Schools and Communities State Grants	048157-DRS1-2006	84.186	6,202		6,202	
State Grants for Innovative Programs	048157-C2S1-2006	84.298	5,933		5,933	
Education Technology State Grants	048157-TJS1-2005	84.318	(981)			
	048157-TJS1-2006	84.318	2,145		2,145	
Total Education Technology State Grants			1,164	0	2,145	0
Improving Teacher Quality State Grants	048157-TRS1-2005	84.367	3,745		7,663	
	048157-TRS1-2006	84.367	59,784		52,055	
Total Improving Teacher Quality State Grants			63,529	0	59,718	0
Total U.S. Department of Education			572,137	0	543,776	0
Total All Federal Awards			<u>\$682,722</u>	<u>\$30,837</u>	<u>\$654,361</u>	<u>\$30,837</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  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B – FOOD DISTRIBUTION PROGRAM**

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

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

**NOTE C - MATCHING REQUIREMENTS**

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

**NOTE D – CARRYOVER FUNDS**

Negative receipts are shown in the Special Education – Grants to States, CFDA #84.027 and the Education Technology State Grants, CFDA #84.318. The negative receipts represent monies on the final expenditure report that were unspent after the initial period of availability had ended. In accordance with carryover provisions permitted by the Ohio Department of Education, these monies were carried over to the subsequent years' award amount.

N/A – Not Applicable

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, the business-type activities, the 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, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated June 1, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

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

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated June 1, 2007, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

#### **Compliance and Other Matters**

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the District's management dated June 1, 2007, we reported other matters related to noncompliance we deemed immaterial.

Lausche Building / 615 Superior Ave., NW / Twelfth Floor / Cleveland, OH 44113-1801  
Telephone: (216) 787-3665 (800) 626-2297 Fax: (216) 787-3361  
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Firelands Local School District  
Lorain County  
Independent Accountants' Report on Internal Control Over Financial  
Reporting and on Compliance and Other Matters Required by  
*Government Auditing Standards*  
Page 2

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

June 1, 2007



# Mary Taylor, CPA

## Auditor of State

### 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

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, Lorain County, Ohio, (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to its major federal program for the year ended June 30, 2006. 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, 2006.

#### Internal Control Over Compliance

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

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

We intend this report solely for the information and use of management, the Board of Education, 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

June 1, 2007

**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2006**

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

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	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?	No

**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.

**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A -133 § .315 (b)  
JUNE 30, 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2005-001	The District's health insurance third-party administrator did not obtain a Tier II SAS 70 report.	Yes	N/A
2005-002	Source financial documentation was not retained for the District's latch key program.	Yes	N/A
2005-003	Individual Education Plans could not be located for several student included on the District's inclusion/exclusion report. In addition, some of the students listed were not enrolled with the District.	Yes	N/A



**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  
AUGUST 14, 2007**