



Dave Yost • Auditor of State



**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

Firelands Local School District  
Lorain County  
112 North Lake Street  
South Amherst, Ohio 44001

To the Board of Education:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Firelands Local School District, Lorain County, Ohio, (the District), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the District's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Firelands Local School District, Lorain County, Ohio, as of June 30, 2013, and the respective changes in financial position, thereof and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

As discussed in Note 3 to the financial statements, during the year ended June 30, 2013, the District adopted the provisions of Governmental Accounting Standard No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and No. 65, *Items Previously Reported as Assets and Liabilities*. We did not modify our opinion regarding this matter.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

#### *Supplementary and Other Information*

Our audit was conducted to opine on the District's basic financial statements taken as a whole.

The Federal Awards Receipts and Expenditures Schedule presents additional analysis as required by the 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 financial statements.

The schedule is management's responsibility, and derives from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling the schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, this schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2013, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

**Dave Yost**  
Auditor of State  
Columbus, Ohio

December 30, 2013

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(UNAUDITED)**

The management's discussion and analysis of Firelands Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2013. 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 fiscal year 2013 are as follows:

- The District restated net position at June 30, 2012 as described in Note 3.A to the basic financial statements. In total, net position increased \$1,154,177, a 19.60% increase from fiscal year 2012.
- General revenues accounted for \$16,265,426 in revenue or 82.18% of all revenues. Program specific revenues in the form of charges for services and sales, and operating grants and contributions accounted for \$3,527,530, or 17.82% of total revenues of \$19,792,956.
- The District had \$18,638,779 in expenses related to governmental activities; only \$3,527,530 of these expenses were offset by program specific charges for services and sales, and operating grants and contributions. General revenues supporting governmental activities (primarily property taxes and unrestricted grants and entitlements) of \$16,265,426 were adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$17,985,616 in revenues and \$17,101,554 in expenditures and other financing uses. During fiscal year 2013, the general fund's fund balance increased \$884,062 from \$1,393,117 to \$2,277,179.

**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 position 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 nonmajor funds presented in total in one column. In the case of the District, the general fund is by far the most significant fund, and the only governmental fund reported as a major fund.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(UNAUDITED)

**Reporting the District as a Whole**

*Statement of Net Position 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 the District do financially during fiscal year 2013?" The statement of net position and the statement of activities answer this question. These statements include all non-fiduciary assets, deferred outflows, liabilities, deferred inflows, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's net position and changes in net position. This change in net position 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 position and the statement of activities, the governmental activities include the District's programs and services, including instruction, support services, operation and maintenance, pupil transportation, extracurricular activities, and food service operations.

The District's statement of net position and statement of activities can be found on pages 17-18 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 11. 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 financial 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 position and the statement of activities) and governmental funds is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 19-23 of this report.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(UNAUDITED)

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

The District acts in a trustee capacity as an agent for individuals and other governments or organizations. These activities are reported in an agency fund. The District's fiduciary activities are reported in a separate statement of fiduciary assets and liabilities on page 24. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

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

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 25-53 of this report.

**The District as a Whole**

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

Certain asset, deferred outflow, liability, deferred inflow, and net position classifications have been restated by the District for fiscal year 2012 to conform to fiscal year 2013 presentation in accordance with GASB Statement No. 63 and GASB Statement No. 65. The net position of the District was restated at June 30, 2012 as described in Note 3.A to the basic financial statements. The table below provides a summary of the District's net position at June 30, 2013 and June 30, 2012.

	<b>Net Position</b>	
	Governmental Activities 2013	(Restated) Governmental Activities 2012
<u>Assets</u>		
Current assets	\$ 12,564,274	\$ 11,785,365
Capital assets, net	<u>5,425,447</u>	<u>5,502,260</u>
Total assets	<u>17,989,721</u>	<u>17,287,625</u>
<u>Liabilities</u>		
Current liabilities	1,803,421	2,013,592
Long-term liabilities	<u>1,978,411</u>	<u>2,125,422</u>
Total liabilities	<u>3,781,832</u>	<u>4,139,014</u>
<u>Deferred Inflows</u>	<u>7,166,545</u>	<u>7,261,444</u>
<u>Net Position</u>		
Net investment in capital assets	4,414,154	4,389,812
Restricted	39,729	54,313
Unrestricted	<u>2,587,461</u>	<u>1,443,042</u>
Total net position	<u>\$ 7,041,344</u>	<u>\$ 5,887,167</u>

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2013, the District's assets exceeded liabilities and deferred inflows by \$7,041,344.

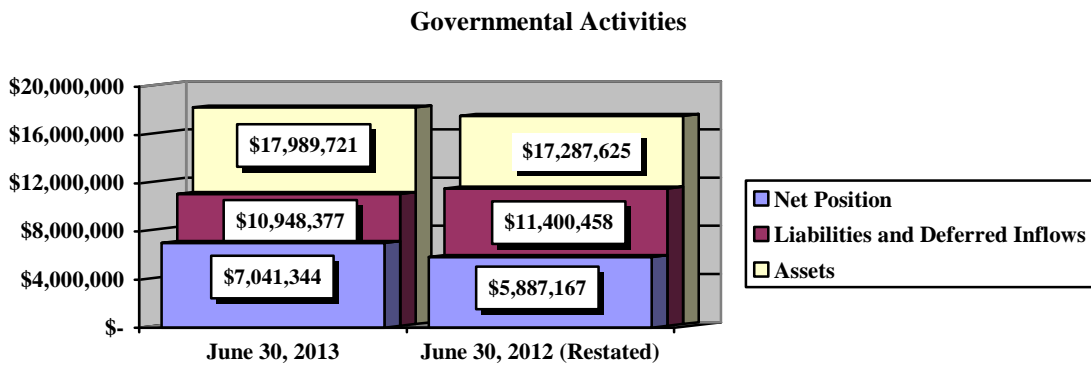
**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(UNAUDITED)**

At year end, capital assets represented 30.16% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. The District's net investment in capital assets at June 30, 2013 was \$4,414,154. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net position, \$39,729, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position of \$2,587,461 may be used to meet the District's ongoing obligations to the students and creditors.

The net position of the District was restated at June 30, 2012 as described in Note 3.A to the basic financial statements. The graph below illustrates the District's assets, liabilities, deferred inflows, and net position at June 30, 2013 and June 30, 2012.



The net position of the District was restated at June 30, 2012 as described in Note 3.A to the basic financial statements. The table below shows the changes in net position for governmental activities for fiscal years 2013 and 2012.

**Change in Net Position**

	Governmental Activities	
	2013	(Restated) 2012
<b>Revenues</b>		
Program revenues:		
Charges for services and sales	\$ 2,260,038	\$ 1,916,371
Operating grants and contributions	1,267,492	1,343,256
General revenues:		
Property taxes	8,250,515	7,782,708
Grants and entitlements	7,972,972	8,116,583
Investment earnings	15,740	23,313
Decrease in fair value of investments	(29,540)	-
Miscellaneous	55,739	116,310
<b>Total revenues</b>	<u>19,792,956</u>	<u>19,298,541</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(UNAUDITED)

<u>Expenses</u>	Governmental Activities	
	2013	(Restated) 2012
Program expenses:		
Instruction:		
Regular	\$ 7,181,967	\$ 7,295,769
Special	1,813,365	1,952,146
Vocational	239,901	263,870
Other	1,635,931	1,588,960
Support services:		
Pupil	1,132,572	1,136,450
Instructional staff	494,194	497,976
Board of education	24,645	26,757
Administration	1,395,230	1,386,022
Fiscal	456,154	417,257
Operations and maintenance	1,304,331	1,211,421
Pupil transportation	1,267,862	1,354,324
Central	401,655	376,112
Operation of non-instructional services:		
Other non-instructional services	28,428	28,955
Food service operations	691,171	678,044
Extracurricular activities	509,992	487,456
Interest and fiscal charges	61,381	60,088
Total expenses	18,638,779	18,761,607
Change in net position	1,154,177	536,934
Net position at beginning of year (restated)	5,887,167	5,350,233
Net position at end of year	\$ 7,041,344	\$ 5,887,167

**Governmental Activities**

Net position of the District's governmental activities increased \$1,154,177. Total governmental expenses of \$18,638,779 were offset by program revenues of \$3,527,530 and general revenues of \$16,265,426. Program revenues supported 18.93% 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 81.97% of total governmental revenue. Charges for services and sales increased \$343,667 or 17.93% primarily due to an increase in open enrollment tuition revenue received during fiscal year 2013 compared to the prior year.

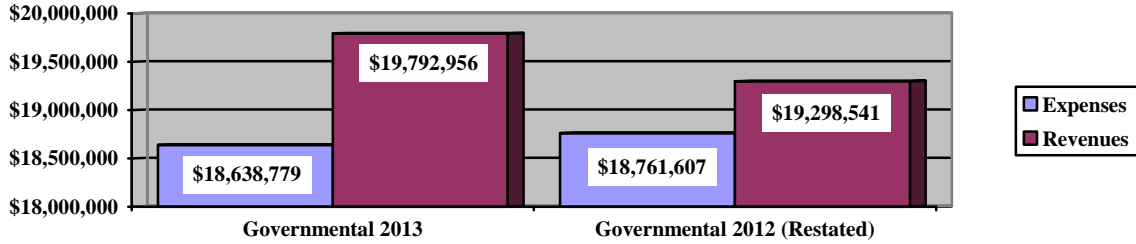
The largest expense of the District is for instructional programs. Instruction expenses totaled \$10,871,164 or 58.33% of total governmental expenses for fiscal year 2013. The overall decrease in expenses incurred by the District during fiscal year 2013 is a result of conservative spending practices across numerous District programs and functions.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(UNAUDITED)

The net position of the District was restated at June 30, 2012 as described in Note 3.A to the basic financial statements. The graph below presents the District's governmental activities revenues and expenses for fiscal years 2013 and 2012.

**Governmental Activities - Revenues and Expenses**



The net position of the District was restated at June 30, 2012 as described in Note 3.A to the basic financial statements. 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 fiscal years 2013 and 2012. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

	<b>Governmental Activities</b>			
	Total Cost of Services 2013	Net Cost of Services 2013	(Restated) Total Cost of Services 2012	(Restated) Net Cost of Services 2012
Program expenses:				
Instruction:				
Regular	\$ 7,181,967	\$ 5,524,966	\$ 7,295,769	\$ 6,037,890
Special	1,813,365	1,110,324	1,952,146	1,095,608
Vocational	239,901	203,799	263,870	227,768
Other	1,635,931	1,635,931	1,588,960	1,588,960
Support services:				
Pupil	1,132,572	981,535	1,136,450	1,017,738
Instructional staff	494,194	475,196	497,976	464,009
Board of education	24,645	24,645	26,757	26,757
Administration	1,395,230	1,395,230	1,386,022	1,386,022
Fiscal	456,154	456,154	417,257	417,257
Operations and maintenance	1,304,331	1,296,699	1,211,421	1,196,549
Pupil transportation	1,267,862	1,194,120	1,354,324	1,294,633
Central	401,655	381,561	376,112	359,193
Operation of non-instructional services:				
Other non-instructional services	28,428	(7,613)	28,955	(8,589)
Food service operations	691,171	7,714	678,044	(5,633)
Extracurricular activities	509,992	369,607	487,456	343,730
Interest and fiscal charges	61,381	61,381	60,088	60,088
<b>Total expenses</b>	<b>\$ 18,638,779</b>	<b>\$ 15,111,249</b>	<b>\$ 18,761,607</b>	<b>\$ 15,501,980</b>

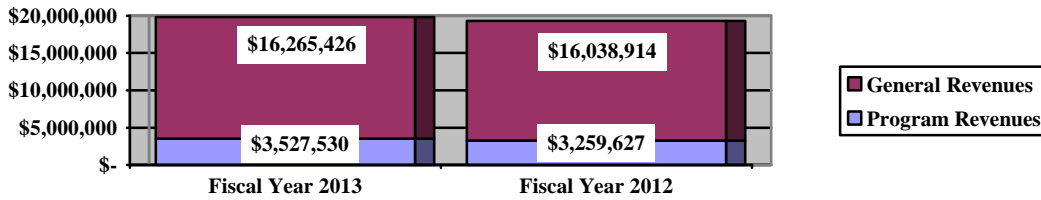
**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(UNAUDITED)

The dependence upon tax and other general revenues for governmental activities is apparent, as 77.96% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 81.07%. The District's taxpayers and grants and entitlements not restricted to specific programs are by far the primary support for the District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2013 and 2012.

**Governmental Activities - General and Program Revenues**



**The District's Funds**

The District's governmental funds reported a combined fund balance of \$3,017,568, which is more than last year's total balance of \$2,064,231. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2013 and June 30, 2012.

	Fund Balance <u>June 30, 2013</u>	Fund Balance <u>June 30, 2012</u>	<u>Increase</u>
General	\$ 2,277,179	\$ 1,393,117	\$ 884,062
Nonmajor governmental	<u>740,389</u>	<u>671,114</u>	<u>69,275</u>
Total	<u>\$ 3,017,568</u>	<u>\$ 2,064,231</u>	<u>\$ 953,337</u>

**General Fund**

The District's general fund balance increased \$884,062.

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

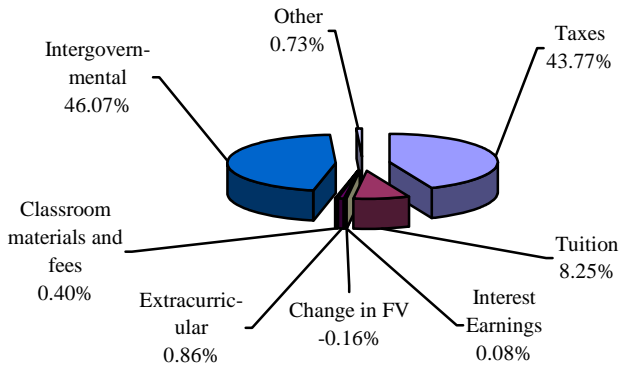
**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(UNAUDITED)**

The table that follows assists in illustrating the revenues of the general fund during fiscal years 2013 and 2012.

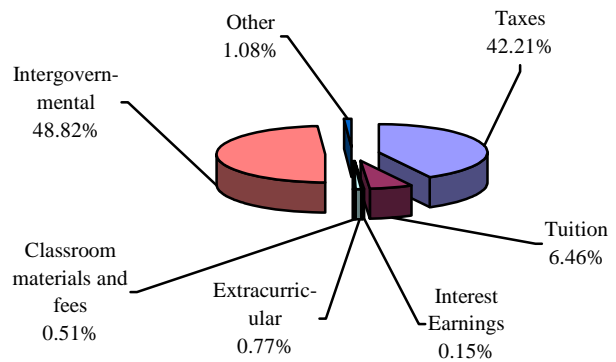
<b>Revenues</b>	<u>2013 Amount</u>	<u>2012 Amount</u>	<u>Percentage Change</u>
Taxes	\$ 7,872,090	\$ 7,275,728	8.20 %
Tuition	1,483,019	1,113,676	33.16 %
Interest earnings	15,223	26,113	(41.70) %
Decrease in fair value of investments	(29,540)	-	(100.00) %
Extracurricular	154,653	131,872	17.28 %
Classroom materials and fees	72,488	87,752	(17.39) %
Intergovernmental	8,286,016	8,413,420	(1.51) %
Other revenues	<u>131,667</u>	<u>186,505</u>	<u>(29.40) %</u>
<b>Total</b>	<u><u>\$ 17,985,616</u></u>	<u><u>\$ 17,235,066</u></u>	<u><u>4.35 %</u></u>

Overall revenues of the general fund increased \$750,550 or 4.35%. Tax revenue increased \$596,362 or 8.20% primarily due to the District receiving its first full year of taxes from an emergency tax levy passed in May of 2011. Tuition revenue increased \$369,343 or 33.16% mainly due to an increase in open enrollment receipts reported by the District during fiscal year 2013. Interest earnings and the fair value of District investments both decreased due to the poor performance of the District's investments in federal agency securities and negotiable certificates of deposit. All other revenue classifications of the District remained comparable in dollar value to fiscal year 2012 amounts.

**Revenues - Fiscal Year 2013**



**Revenues - Fiscal Year 2012**





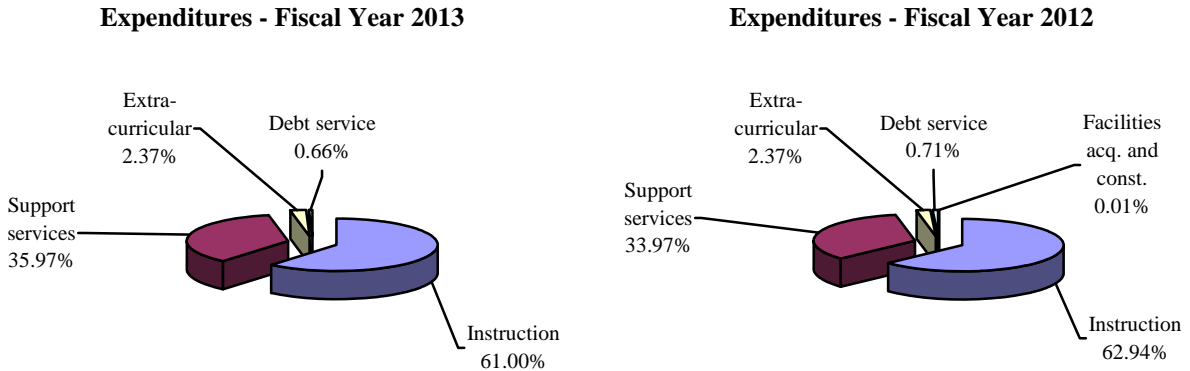
**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(UNAUDITED)**

The table that follows assists in illustrating the expenditures of the general fund during fiscal years 2013 and 2012.

<u>Expenditures</u>	<u>2013 Amount</u>	<u>2012 Amount</u>	<u>Percentage Change</u>
Instruction	\$ 10,426,548	\$ 10,317,617	1.06 %
Support services	6,148,249	5,566,673	10.45 %
Extracurricular activities	405,397	387,686	4.57 %
Facilities acquisition and construction	-	250	(100.00) %
Debt service	113,360	116,740	(2.90) %
<b>Total</b>	<b><u>\$ 17,093,554</u></b>	<b><u>\$ 16,388,966</u></b>	<b><u>4.30 %</u></b>

Overall expenditures of the general fund increased \$704,588 or 4.30%. Support services expenditures increased \$581,576 or 10.45% primarily due to costs associated with both purchased services and the acquisition of capital asset items. All other expenditure classifications of the District remained comparable in dollar value to fiscal year 2012 amounts.



**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.

For the general fund, original budgeted revenues of \$17,402,294 were \$160,408 less than final budgeted revenues and other financing sources of \$17,562,702. Actual revenues and other financing sources were \$17,732,096, which was \$169,394 more than the final budget.

General fund original appropriations (appropriated expenditures plus other financing uses) of \$17,524,389 were \$506,450 less than final budgeted amounts of \$18,030,839. The actual budget basis expenditures and other financing uses for fiscal year 2013 totaled \$17,011,224, which was \$1,019,615 less than the final budget.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(UNAUDITED)

**Capital Assets and Debt Administration**

*Capital Assets*

At the end of fiscal year 2013, the District had \$5,425,447 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles.

The following table shows June 30, 2013 balances compared to those at June 30, 2012.

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

	Governmental Activities	
	2013	2012
Land	\$ 851,565	\$ 851,565
Land improvements	823,808	773,356
Buildings and improvements	2,437,307	2,546,436
Furniture and equipment	484,114	517,337
Vehicles	828,653	813,566
Total	\$ 5,425,447	\$ 5,502,260

The overall decrease in capital assets of \$76,813 is due to depreciation expense of \$418,482 and total disposals of capital assets of \$219,427 (net of accumulated depreciation) exceeding capital outlays of \$561,096.

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

*Debt Administration*

At June 30, 2013 the District had \$865,000 in energy conservation improvement bonds outstanding and \$146,293 in capital lease obligations. Of this total, \$104,156 is due within one year and \$907,137 is due in more than one year. The following table summarizes the long-term obligations outstanding at June 30, 2013 and June 30, 2012.

	Governmental Activities	
	2013	2012
Energy conservation improvement bonds	\$ 865,000	\$ 930,000
Capital lease obligations	146,293	182,448
Total	\$ 1,011,293	\$ 1,112,448

At June 30, 2013, the District's overall legal debt margin was \$25,263,536 with an unvoted debt margin of \$290,317.

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, 2013  
(UNAUDITED)

**Current Financial Related Activities**

The District continues to face a challenging future as do most districts in the State of Ohio. As the preceding information shows, the District relies heavily upon grants and entitlements and property taxes. Since future grant and entitlement revenue stability is in question, the reliance upon local property taxes is increasingly important. In May of 2006, the community approved the renewal of a 5 year emergency levy which raises \$820,000 annually. A new emergency levy was put on the ballot in November of 2010, which failed. This was followed by the passage of a new \$1,500,000 emergency levy in May of 2011. Collections from this levy were not available to the District until the second half of fiscal year 2012. The District saw a reduction of 4.3% in valuation from the calendar year 2012 reappraisal. This reduction impacted the second half of fiscal year 2013 property tax collections.

District enrollment decreased again in fiscal year 2013, but with the implementation of full open enrollment, the District was able to stabilize its enrollment and finances. Open enrollment has moved from a net negative of 28 students to a net positive of 84 students in fiscal year 2013. The District experienced a net loss of approximately \$2,500 in fiscal year 2007, which grew to a net loss of \$181,444 in fiscal year 2011 on open enrollment. The implementation of full open enrollment resulted in a net gain of \$205,798 in fiscal year 2012 and \$478,841 in fiscal year 2013. An additional increase of 50 open enrolled students is expected for fiscal year 2014. In fiscal year 2013, the District continued to act to reduce costs with the elimination of five teaching positions to offset the total loss of all federal stimulus funds and reductions in federal title funding. In fiscal year 2012 sixteen positions were eliminated through attrition and reductions-in-force (RIF). The technology department was outsourced for cost savings and performance improvement late in fiscal year 2012 with the full financial benefit experienced in fiscal year 2013. Administrators, faculty and staff agreed to a two year wage-step freeze for fiscal year 2013 and fiscal year 2014 and to increases in employee medical benefit contributions from 7%-single, 9%-family to 11% for all in fiscal year 2013 and 12% for all in fiscal year 2014. In addition, the District administrators, faculty and staff agreed to Medical Benefit Plan benefit reductions effective in fiscal year 2014 at an annual savings to the District of approximately \$200,000 per year. The District acted to further reduce costs by eliminating eight positions by RIF for fiscal year 2014 (aides, office, cleaning and food service positions), and by reducing two contract days for all bus drivers and reducing contract hours for food service staff. Staffing will continue to be reviewed for alignment with student headcount.

Another challenge facing the District is the continually growing costs of community school students leaving the District. As the State has diverted increased funding to community schools, the loss of revenue to the District has grown dramatically from \$277,631 in fiscal year 2011, to \$396,910 in fiscal year 2012, and finally to \$348,467 in fiscal year 2013. The State's new foundation formula will result in increased amounts of District funds per pupil being diverted to community schools in fiscal year 2014. The District has implemented an e-school to improve services to at-risk students and as a District option to compete with community schools. The District has also attained an "Excellent" academic rating in fiscal year 2012 and an "Excellent with Distinction" rating in fiscal year 2013.

Since the District relies on the State for approximately half 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 of 1997 to be operating an unconstitutional educational system, one that was neither adequate nor equitable. Since 1997, the State has directed its tax revenue growth toward school districts with low 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.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(UNAUDITED)

The State of Ohio has ended the "Evidence Based Funding" model and its subsequent "Bridge Formula" funding for fiscal year 2012 and fiscal year 2013. Additional reductions in State funding began in fiscal year 2012 with the elimination of taxable personal property reimbursements. The net result of the changes in State and federal funding is a decline in State and federal funding that exceeded 10% for fiscal year 2012 and was forecast to stabilize at that lower level for fiscal year 2013 and beyond. It is now assumed the District will not be granted that forecasted State funding stability. The State's new funding formula effective for fiscal year 2014 will result in funding reductions due to reduced in-District student headcount and from increases in "carve-out" payments to additional new voucher programs and increased funding to community schools. Further, the new State funding formula puts the District at risk of ultimately losing more than \$2,100,000 per year starting in fiscal year 2016, as the State has deemed those funds as "transitional." Additionally, beginning in fiscal year 2012 funding was periodically adjusted for headcount changes as measured during the fiscal year. Under the new formula it appears the funding adjustments will become a series of monthly ongoing adjustments adding complexity to the District's financial planning. At the time of this report, the District has estimated reduced funding based on the fiscal year 2014 and fiscal year 2015 State foundation estimates adjusted down for in-District student headcount projections.

In May of 2007 the community voted down a \$24.6 million bond issue to build a new high school. With the many changes occurring with the Ohio Schools Facilities Commission (OSFC) and the District's State share dropping to 37%, the District was unable to place a bond issue on the ballot. A building project is still a high priority with the Board of Education, however it is projected that the State share of any potential project has dropped to approximately 20% as the District's valuation decline is less severe than the State median and the District's headcount has dropped significantly since 2007. This fall the District's Board intends to initiate the process with OSFC (now the Ohio Facilities Construction Commission) to obtain updated enrollment projections and construction cost estimates to allow for detailed planning and discussion.

The District's system of budgeting and internal controls is well regarded, winning the Ohio Auditor of State Award for fiscal year 2012. All of the District's financial abilities will be needed to meet the financial challenges of the future.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact: Mr. Brad McCracken, Treasurer, Firelands Local School District, 112 North Lake Street, South Amherst, Ohio, 44001-2824.

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

STATEMENT OF NET POSITION  
JUNE 30, 2013

	<b>Governmental Activities</b>
<b>Assets:</b>	
Equity in pooled cash and investments. . . . .	\$ 3,942,108
Receivables:	
Property taxes . . . . .	8,520,522
Accounts. . . . .	21,653
Accrued interest . . . . .	2,335
Intergovernmental . . . . .	49,857
Prepayments . . . . .	21,592
Materials and supplies inventory. . . . .	6,207
Capital assets:	
Nondepreciable capital assets . . . . .	851,565
Depreciable capital assets, net. . . . .	4,573,882
Capital assets, net . . . . .	5,425,447
Total assets. . . . .	17,989,721
 <b>Liabilities:</b>	
Accounts payable. . . . .	57,347
Accrued wages and benefits payable . . . . .	1,337,828
Pension obligation payable. . . . .	334,046
Intergovernmental payable . . . . .	53,328
Unearned revenue . . . . .	17,308
Accrued interest payable . . . . .	3,564
Long-term liabilities:	
Due within one year. . . . .	424,029
Due in more than one year. . . . .	1,554,382
Total liabilities . . . . .	3,781,832
 <b>Deferred inflows of resources:</b>	
Property taxes levied for the next fiscal year. . . . .	7,166,545
Total deferred inflows of resources . . . . .	7,166,545
 <b>Net position:</b>	
Net investment in capital assets . . . . .	4,414,154
Restricted for:	
Student activities . . . . .	7,115
Other purposes . . . . .	32,614
Unrestricted . . . . .	2,587,461
Total net position. . . . .	\$ 7,041,344

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, 2013

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position Governmental Activities
		Charges for Services and Sales	Operating Grants and Contributions	
<b>Governmental activities:</b>				
Instruction:				
Regular . . . . .	\$ 7,181,967	\$ 1,601,064	\$ 55,937	\$ (5,524,966)
Special . . . . .	1,813,365	9,340	693,701	(1,110,324)
Vocational . . . . .	239,901	-	36,102	(203,799)
Other . . . . .	1,635,931	-	-	(1,635,931)
Support services:				
Pupil . . . . .	1,132,572	80,012	71,025	(981,535)
Instructional staff . . . . .	494,194	261	18,737	(475,196)
Board of education . . . . .	24,645	-	-	(24,645)
Administration . . . . .	1,395,230	-	-	(1,395,230)
Fiscal . . . . .	456,154	-	-	(456,154)
Operations and maintenance . . . . .	1,304,331	7,632	-	(1,296,699)
Pupil transportation . . . . .	1,267,862	11,067	62,675	(1,194,120)
Central . . . . .	401,655	14,694	5,400	(381,561)
Operation of non-instructional services:				
Other non-instructional services . . . . .	28,428	36,041	-	7,613
Food service operations . . . . .	691,171	359,542	323,915	(7,714)
Extracurricular activities . . . . .	509,992	140,385	-	(369,607)
Interest and fiscal charges . . . . .	61,381	-	-	(61,381)
<b>Total governmental activities . . . . .</b>	<b>\$ 18,638,779</b>	<b>\$ 2,260,038</b>	<b>\$ 1,267,492</b>	<b>(15,111,249)</b>

<b>General revenues:</b>	
Property taxes levied for:	
General purposes . . . . .	7,891,204
Capital outlay . . . . .	359,311
Grants and entitlements not restricted	
to specific programs . . . . .	7,972,972
Investment earnings . . . . .	15,740
Decrease in fair value of investments . . . . .	(29,540)
Miscellaneous . . . . .	55,739
<b>Total general revenues . . . . .</b>	<b>16,265,426</b>
Change in net position . . . . .	1,154,177
<b>Net position at beginning of year (restated) . . . . .</b>	<b>5,887,167</b>
<b>Net position at end of year . . . . .</b>	<b>\$ 7,041,344</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2013

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>			
Equity in pooled cash and investments. . . . .	\$ 3,173,138	\$ 768,970	\$ 3,942,108
Receivables:			
Property taxes. . . . .	8,157,632	362,890	8,520,522
Accounts . . . . .	21,653	-	21,653
Accrued interest . . . . .	2,335	-	2,335
Intergovernmental. . . . .	31,835	18,022	49,857
Prepayments. . . . .	20,759	833	21,592
Materials and supplies inventory. . . . .	-	6,207	6,207
Total assets . . . . .	<u>\$ 11,407,352</u>	<u>\$ 1,156,922</u>	<u>\$ 12,564,274</u>
<b>Liabilities:</b>			
Accounts payable . . . . .	\$ 53,283	\$ 4,064	\$ 57,347
Accrued wages and benefits payable . . . . .	1,275,113	62,715	1,337,828
Compensated absences payable . . . . .	252,245	494	252,739
Pension obligation payable . . . . .	311,898	22,148	334,046
Intergovernmental payable . . . . .	43,696	9,632	53,328
Unearned revenue. . . . .	17,308	-	17,308
Total liabilities. . . . .	<u>1,953,543</u>	<u>99,053</u>	<u>2,052,596</u>
<b>Deferred inflows of resources:</b>			
Property taxes levied for the next fiscal year. . .	6,863,410	303,135	7,166,545
Delinquent property tax revenue not available. . .	309,643	14,345	323,988
Accrued interest not available. . . . .	785	-	785
Rental income not available . . . . .	2,792	-	2,792
Total deferred inflows of resources . . . . .	<u>7,176,630</u>	<u>317,480</u>	<u>7,494,110</u>
<b>Fund balances:</b>			
Nonspendable:			
Materials and supplies inventory. . . . .	-	6,207	6,207
Prepayments . . . . .	20,759	833	21,592
Restricted:			
Food service operations . . . . .	-	36,355	36,355
Extracurricular. . . . .	-	7,115	7,115
Committed:			
Capital improvements . . . . .	-	645,078	645,078
Student and staff support . . . . .	3,925	-	3,925
Termination benefits. . . . .	91,649	-	91,649
Latchkey program . . . . .	-	24,588	24,588
Other purposes. . . . .	-	29,624	29,624
Assigned:			
Student instruction . . . . .	10,277	-	10,277
Student and staff support. . . . .	123,369	-	123,369
Subsequent year appropriations . . . . .	172,337	-	172,337
Unassigned (deficit) . . . . .	1,854,863	(9,411)	1,845,452
Total fund balances . . . . .	<u>2,277,179</u>	<u>740,389</u>	<u>3,017,568</u>
Total liabilities, deferred inflows of resources and fund balances. . . . .	<u>\$ 11,407,352</u>	<u>\$ 1,156,922</u>	<u>\$ 12,564,274</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET POSITION OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2013

<b>Total governmental fund balances</b>		\$	3,017,568
<i>Amounts reported for governmental activities on the statement of net position are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			5,425,447
Other long-term assets are not available to pay for current period expenditures and therefore are deferred inflows in the funds.			
Taxes receivable	\$	323,988	
Accounts receivable		2,792	
Accrued interest receivable		<u>785</u>	
Total			327,565
On the statement of net position interest is accrued on outstanding bonds, whereas in governmental funds, interest is reported when due.			(3,564)
Long-term liabilities, including compensated absences payable, are not due and payable in the current period and therefore are not reported in the funds.			
Energy conservation improvement bonds payable		(865,000)	
Capital lease obligations payable		(146,293)	
Compensated absences payable		<u>(714,379)</u>	
Total			<u>(1,725,672)</u>
<b>Net position of governmental activities</b>		<b>\$</b>	<b><u>7,041,344</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 BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>			
From local sources:			
Property taxes . . . . .	\$ 7,872,090	\$ 359,190	\$ 8,231,280
Tuition . . . . .	1,483,019	-	1,483,019
Transportation fees . . . . .	11,067	-	11,067
Earnings on investments . . . . .	15,223	-	15,223
Decrease in fair value of investments . . . . .	(29,540)	-	(29,540)
Charges for services . . . . .	-	359,542	359,542
Extracurricular . . . . .	154,653	76,049	230,702
Classroom materials and fees . . . . .	72,488	-	72,488
Rental income . . . . .	7,632	-	7,632
Contributions and donations . . . . .	3,493	1,000	4,493
Contract services . . . . .	4,650	-	4,650
Other local revenues . . . . .	104,825	38,359	143,184
Intergovernmental - state . . . . .	8,232,304	79,907	8,312,211
Intergovernmental - federal . . . . .	53,712	873,541	927,253
Total revenues . . . . .	<u>17,985,616</u>	<u>1,787,588</u>	<u>19,773,204</u>
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular . . . . .	7,091,278	62,131	7,153,409
Special . . . . .	1,446,306	402,683	1,848,989
Vocational . . . . .	254,055	-	254,055
Other . . . . .	1,634,909	-	1,634,909
Support services:			
Pupil . . . . .	1,079,391	29,838	1,109,229
Instructional staff . . . . .	467,937	18,922	486,859
Board of education . . . . .	24,645	-	24,645
Administration . . . . .	1,421,376	3	1,421,379
Fiscal . . . . .	449,409	6,403	455,812
Operations and maintenance . . . . .	1,065,613	129,767	1,195,380
Pupil transportation . . . . .	1,288,282	-	1,288,282
Central . . . . .	351,596	5,400	356,996
Operation of non-instructional services:			
Other non-instructional services . . . . .	-	28,428	28,428
Food service operations . . . . .	-	689,167	689,167
Extracurricular activities . . . . .	405,397	93,965	499,362
Facilities acquisition and construction . . . . .	-	209,722	209,722
Debt service:			
Principal retirement . . . . .	65,000	36,155	101,155
Interest and fiscal charges . . . . .	48,360	13,289	61,649
Total expenditures . . . . .	<u>17,093,554</u>	<u>1,725,873</u>	<u>18,819,427</u>
Excess of revenues over expenditures . . . . .	<u>892,062</u>	<u>61,715</u>	<u>953,777</u>
<b>Other financing sources (uses):</b>			
Transfers in . . . . .	-	8,000	8,000
Transfers (out) . . . . .	(8,000)	-	(8,000)
Total other financing sources (uses) . . . . .	<u>(8,000)</u>	<u>8,000</u>	<u>-</u>
Net change in fund balances . . . . .	884,062	69,715	953,777
<b>Fund balances at beginning of year . . . . .</b>	1,393,117	671,114	2,064,231
<b>Decrease in reserve for inventory . . . . .</b>	-	(440)	(440)
<b>Fund balances at end of year . . . . .</b>	<u>\$ 2,277,179</u>	<u>\$ 740,389</u>	<u>\$ 3,017,568</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, 2013

<b>Net change in fund balances - total governmental funds</b>	\$	953,777
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceed depreciation expense in the current period.</p>		
Capital asset additions	\$ 561,096	
Current year depreciation	<u>(418,482)</u>	
Total		142,614
<p>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.</p>		
		(219,427)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Taxes	19,235	
Earnings on investments	<u>517</u>	
Total		19,752
<p>Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as an expense when consumed.</p>		
		(440)
<p>Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net position.</p>		
		101,155
<p>In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.</p>		
		268
<p>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.</p>		
		<u>156,478</u>
<b>Change in net position of governmental activities</b>	<b>\$</b>	<b><u>1,154,177</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, 2013

	<u>Budgeted Amounts</u>			<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues:</b>				
From local sources:				
Property taxes . . . . .	\$ 7,835,276	\$ 7,809,780	\$ 7,809,782	\$ 2
Tuition . . . . .	1,300,899	1,343,201	1,483,019	139,818
Transportation fees . . . . .	4,000	4,534	10,896	6,362
Earnings on investments . . . . .	10,260	10,943	14,464	3,521
Extracurricular . . . . .	61,883	62,665	63,765	1,100
Classroom materials and fees . . . . .	47,350	42,826	47,511	4,685
Rental income . . . . .	11,000	7,102	7,132	30
Contributions and donations . . . . .	-	263	263	-
Other local revenues . . . . .	86,316	34,482	41,935	7,453
Intergovernmental - state . . . . .	8,021,310	8,227,428	8,232,304	4,876
Intergovernmental - federal . . . . .	24,000	8,133	9,680	1,547
<b>Total revenues . . . . .</b>	<b>17,402,294</b>	<b>17,551,357</b>	<b>17,720,751</b>	<b>169,394</b>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	7,033,539	7,065,181	6,862,805	202,376
Special . . . . .	1,563,105	1,626,995	1,454,411	172,584
Vocational . . . . .	256,420	279,797	261,530	18,267
Other . . . . .	1,729,382	1,735,700	1,664,977	70,723
Support services:				
Pupil . . . . .	1,054,760	1,076,660	956,518	120,142
Instructional staff . . . . .	395,825	585,795	509,811	75,984
Board of education . . . . .	26,023	26,955	24,454	2,501
Administration . . . . .	1,500,384	1,516,046	1,467,308	48,738
Fiscal . . . . .	449,854	484,533	460,669	23,864
Operations and maintenance . . . . .	1,191,701	1,216,488	1,113,063	103,425
Pupil transportation . . . . .	1,249,252	1,373,042	1,326,769	46,273
Central . . . . .	372,626	487,314	399,463	87,851
Extracurricular activities . . . . .	447,136	455,777	410,890	44,887
Facilities acquisition and construction . . . . .	166,625	2,000	-	2,000
Debt service:				
Principal retirement . . . . .	65,285	65,000	65,000	-
Interest and fiscal charges . . . . .	2,344	4,328	4,328	-
<b>Total expenditures . . . . .</b>	<b>17,504,261</b>	<b>18,001,611</b>	<b>16,981,996</b>	<b>1,019,615</b>
Excess (deficiency) of revenues over (under) expenditures . . . . .	(101,967)	(450,254)	738,755	1,189,009
<b>Other financing sources (uses):</b>				
Refund of prior year expenditures . . . . .	-	3,674	3,674	-
Transfers (out) . . . . .	(20,128)	(29,228)	(29,228)	-
Sale of capital assets . . . . .	-	7,671	7,671	-
<b>Total other financing sources (uses) . . . . .</b>	<b>(20,128)</b>	<b>(17,883)</b>	<b>(17,883)</b>	<b>-</b>
Net change in fund balance . . . . .	(122,095)	(468,137)	720,872	1,189,009
<b>Fund balance at beginning of year . . . . .</b>	<b>2,072,680</b>	<b>2,072,680</b>	<b>2,072,680</b>	<b>-</b>
<b>Prior year encumbrances appropriated . . . . .</b>	<b>116,834</b>	<b>116,834</b>	<b>116,834</b>	<b>-</b>
<b>Fund balance at end of year . . . . .</b>	<b>\$ 2,067,419</b>	<b>\$ 1,721,377</b>	<b>\$ 2,910,386</b>	<b>\$ 1,189,009</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
AGENCY FUND  
JUNE 30, 2013

	<b>Agency</b>
<b>Assets:</b>	
Equity in pooled cash and investments . . . . .	\$ 54,525
Receivables:	
Accounts . . . . .	441
Total assets. . . . .	\$ 54,966
<b>Liabilities:</b>	
Accounts payable. . . . .	\$ 1,080
Due to students. . . . .	53,886
Total liabilities . . . . .	\$ 54,966

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, 2013**

**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 staffed by 86 non-certified and 110 certified personnel to provide services to approximately 1,832 students and other community members.

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

The basic financial statements (BFS) 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'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" and GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34". The reporting entity is composed of the primary government and component units. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's Governing Board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary government's financial statements incomplete or misleading. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government).

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

The following organizations are described due to their relationship to the District:

*JOINTLY GOVERNED ORGANIZATIONS*

Lorain County Joint Vocational School District (JVS)

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

North Coast Council (NCC)

On August 1, 2011, the Lake Erie Education Computer Association (LEECA) merged with the Lakeshore Northeast Ohio Computer Association (LNOCA) to form the North Coast Council (NCC). The merger resulted in Ohio's largest information technology center, with the NCC providing services to a six-county region in northeast Ohio, including two educational service centers, forty-five public school districts, ninety-nine non-public school districts, approximately twenty charter schools and six other educational entities. The NCC was formed to provide internet services, web hosting, and software support for payroll, human resources, libraries, and student information systems that include parent access. The NCC is wholly owned by its member districts and is governed by a Board of Directors that consists of a chairperson, vice-chairperson, recording secretary and six members from various NCC districts. Financial information can be obtained by contacting the Treasurer at the Educational Service Center of Lorain County, who serves as the fiscal agent, at 5700 West Canal Road, Valley View, Ohio, 44125.

Lake Erie Regional Council (LERC)

The Lake Erie Regional Council (LERC) is a jointly governed organization comprised of 14 school districts. The jointly governed organization was formed for the purpose of promoting cooperative agreements and activities among its members in dealing with problems of mutual concern such as media center, gas consumption, driver education, food service and insurance. Each member provides operating resources to the 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. The 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 at fiscal agent, at 1885 Lake Avenue, Elyria, Ohio 44035.

*PUBLIC ENTITY RISK POOL*

Workers' Compensation Group Rating Program

The District participates in a Workers' Compensation Group Rating Program (GRP) administered by Sheakley Uniservice, Inc. The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The District pays a fee to the GRP to cover the costs of administering the program.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

**B. Fund Accounting**

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

*GOVERNMENTAL FUNDS*

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses 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 plus deferred outflows and liabilities plus deferred inflows is reported as fund balance. The following is the District's major governmental fund:

General fund -The general fund is used to account for and report all financial resources not accounted for and reported 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 that are restricted, committed, or assigned to expenditures for capital outlays including the acquisition or construction of capital facilities and other capital assets and (b) specific revenue sources that are restricted or committed to an expenditure for specified purposes other than debt service or capital projects.

*FIDUCIARY FUNDS*

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

**C. Basis of Presentation and Measurement Focus**

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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

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

The government-wide financial statements are prepared using the economic resources measurement focus. All assets, deferred outflows, liabilities, and deferred inflows associated with the operation of the District are included on the statement of net position.

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

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

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

**D. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting on the fund financial statements. Fiduciary funds also use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred inflows and deferred outflows, and in the presentation of expenses versus expenditures.

Revenues - Exchange and Nonexchange 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.



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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

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 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 Inflows of Resources and Deferred Outflows of Resources - A deferred inflow of resources is an acquisition of net position by the District that is applicable to a future reporting period. A deferred outflow of resources is a consumption of net position by the District that is applicable to a future reporting period.

Property taxes for which there is an enforceable legal claim as of June 30, 2013, but which were levied to finance fiscal year 2014 operations, and other revenues received in advance of the fiscal year for which they were intended to finance, have been recorded as deferred inflows. Income taxes, payment in lieu of taxes and grants not received within the available period, grants and entitlements received before the eligibility requirements are met, and delinquent property taxes due at June 30, 2013, are recorded as deferred inflows on the governmental fund financial statements.

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

Unearned Revenues - Revenues received during fiscal year 2013 resulting from exchange transactions for which the District has yet to provide the requisite services as of June 30, 2013 have been recorded as unearned revenue on both the government-wide and fund financial statements.

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

**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 purpose of this budget document is to reflect the need for existing (or increased) tax rates. By no later than January 20, the Board-adopted budget is filed with Lorain County Budget Commission for rate determination.

Estimated Resources:

By April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's certificate of estimated resources, which states the projected revenue of each fund. Prior to July 1, 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 statement reflect the amounts in the original and final amended certificates of estimated resources issued during the fiscal year.

Appropriations:

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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

**F. Cash and Investments**

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

During fiscal year 2013, investments were limited to negotiable certificates of deposit, federal agency securities, 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.

The District has invested funds in STAR Ohio during fiscal year 2013. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price which is the price the investment could be sold for on June 30, 2013.

Under existing Ohio statute, interest earnings are assigned to the general fund unless the Board of Education has, by resolution, specified funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2013 amounted to \$15,223 which includes \$3,573 assigned from other District funds.

For presentation on the basic financial statements, 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 fiscal year end is provided in Note 4.

**G. Inventory**

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

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

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

**H. Capital Assets**

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

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

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

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

**I. Compensated Absences**

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

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

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2013 and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

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

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

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

**K. Fund Balance**

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

*Nonspendable* - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

*Restricted* - Fund balance is reported as restricted when constraints are placed on the use of resources that are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

*Committed* - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the District Board of Education (the highest level of decision making authority). Those committed amounts cannot be used for any other purpose unless the District Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

*Assigned* - Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes, but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the District Board of Education, which includes giving the Treasurer the authority to constrain monies for intended purposes.

*Unassigned* - Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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

The District applies restricted resources first when expenditures are incurred for purposes for which restricted and unrestricted (committed, assigned, and unassigned) fund balance is available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

**L. Net Position**

Net position represents the difference between assets plus deferred outflows and liabilities plus deferred inflows. The net position component "net investment in capital assets," consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing or liabilities used for the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The District had no net position restricted for enabling legislation. The amount restricted for other purposes represents amounts restricted for food service operations.

The District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is 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 considered nonspendable in 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. Restricted Assets**

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. The District has no restricted assets as of June 30, 2013.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

**P. Interfund Activity**

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

**Q. Bond Issuance Costs**

On the government-wide financial statements, bond issuance costs are expensed during the fiscal year in which they are incurred. The District did not incur any bond issuance costs during fiscal year 2013, but the District did restate net position at June 30, 2012 due to the elimination of unamortized bond issuance costs as described in Note 3.A.

**R. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2013.

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Change in Accounting Principles**

For fiscal year 2013, the District has implemented GASB Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements", GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34", GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA pronouncements", GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position", GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities", and GASB Statement No. 66, "Technical Corrections-2012".

GASB Statement No. 60 addresses issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. An SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The implementation of GASB Statement No. 60 did not have an effect on the financial statements of the District.

GASB Statement No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity. The Statement amends the criteria for reporting component units as if they were part of the primary government in certain circumstances. Finally, the Statement also clarifies the reporting of equity interests in legally separate organizations. The implementation of GASB Statement No. 61 did not have an effect on the financial statements of the District.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

GASB Statement No. 62 codifies accounting and financial reporting guidance contained in pre-November 30, 1989 FASB and AICPA pronouncements in an effort to codify all sources of GAAP for State and local governments so that they derive from a single source. The implementation of GASB Statement No. 62 did not have an effect on the financial statements of the District.

GASB Statement No. 63 provides financial and reporting guidance for *deferred outflows of resources* and *deferred inflows of resources* which are financial statement elements that are distinct from assets and liabilities. GASB Statement No. 63 standardizes the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's *net position*. The implementation of GASB Statement No. 63 has changed the presentation of the District's financial statements to incorporate the concepts of net position, deferred outflows of resources and deferred inflows of resources.

GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as *deferred outflows of resources* or *deferred inflows of resources*, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB Statement No. 65 also provides other financial reporting guidance related to the impact of the financial statement elements *deferred outflows of resources* and *deferred inflows of resources*, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations. The implementation of GASB Statement No. 65 had the following effect on the financial statements of the District:

	Governmental Activities
Net assets as previously reported	\$ 5,905,732
Removal of unamortized bond issuance costs	<u>(18,565)</u>
Net position at July 1, 2012	<u>\$ 5,887,167</u>

GASB Statement No. 66 enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The implementation of GASB Statement No. 66 did not have an effect on the financial statements of the District.



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

**B. Deficit Fund Balances**

Fund balances at June 30, 2013 included the following individual fund deficits:

<u>Nonmajor governmental funds</u>	<u>Deficit</u>
Vocational education enhancement	\$ 8
Race to the top	2
Title VI-B	7,649
Title I	313
Improving teacher quality	1,384

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

**NOTE 4 - DEPOSITS AND INVESTMENTS**

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

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

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

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use, but which will be needed before the end of the current period of designation of depositories.

Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

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

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

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

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

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

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

**A. Deposits with Financial Institutions**

At June 30, 2013, the carrying amount of all District deposits was \$1,521,372. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2013, \$1,443,172 of the District's bank balance of \$1,693,172 was exposed to custodial risk as discussed below, while \$250,000 was covered by the FDIC.

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

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

**B. Investments**

As of June 30, 2013, 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>13 to 18 months</u>	<u>19 to 24 months</u>	<u>24 to 60 months</u>
Negotiable CD's	\$ 498,640	\$ 395,236	\$ -	\$ -	\$ -	\$ 103,404
FHLB	1,010,763	-	-	-	-	1,010,763
FFCB	965,853	-	-	-	-	965,853
STAR Ohio	5	5	-	-	-	-
Total	<u>\$ 2,475,261</u>	<u>\$ 395,241</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,080,020</u>

The weighted average maturity of investments is 2.53 years.

*Interest Rate Risk:* Interest rate risk arises as potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the District's investment policy limits investment portfolio maturities to five years or less.

*Credit Risk:* The District's investments in federal agency securities were rated Aaa and AA+ by Moody's Investor Services and Standard & Poor's, respectively. Standard & Poor's has assigned STAR Ohio an AAAM money market rating. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The negotiable certificates of deposit are not rated. The District has no investment policy dealing with investment credit risk beyond the requirements in State statutes.

*Custodial Credit Risk:* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The federal agency securities are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent, but not in the District's name. The District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

*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, 2013:

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
Negotiable CD's	\$ 498,640	20.14
FHLB	1,010,763	40.83
FFCB	965,853	39.02
STAR Ohio	5	0.01
Total	<u>\$ 2,475,261</u>	<u>100.00</u>

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

**C. Reconciliation of Cash and Investments to the Statement of Net Position**

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net position as of June 30, 2013:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 1,521,372
Investments	<u>2,475,261</u>
Total	<u>\$ 3,996,633</u>
 <u>Cash and investments per statement of net position</u>	
Governmental activities	\$ 3,942,108
Agency fund	<u>54,525</u>
Total	<u>\$ 3,996,633</u>

**NOTE 5 - INTERFUND TRANSACTIONS**

Interfund transfers for the year ended June 30, 2013, consisted of the following, as reported on the fund financial statements:

<u>Transfer to nonmajor governmental fund from:</u>	<u>Amount</u>
General fund	<u>\$ 8,000</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and (2) 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 in the statement of activities.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**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 property and public utility property. Real property tax revenues received in calendar year 2013 represent the collection of calendar year 2012 taxes. Real property taxes received in calendar year 2013 were levied after April 1, 2012, on the assessed values as of January 1, 2012, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, 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 revenues received in calendar year 2013 represent the collection of calendar year 2012 taxes. Public utility real and personal property taxes received in calendar year 2013 became a lien on December 31, 2011, were levied after April 1, 2012, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

The District receives property taxes from Lorain and Erie Counties. The County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the Counties by June 30, 2013, are available to finance fiscal year 2013 operations. The amount available as an advance at June 30, 2013 was \$984,579 in the general fund and \$45,410 in the permanent improvement fund (a nonmajor governmental fund). This amount is recorded as revenue. The amount available for advance at June 30, 2012 was \$922,271 in the general fund and \$45,148 in the permanent improvement fund (a nonmajor governmental fund). The amount of second-half real property taxes available for advance at fiscal year end can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and delinquent tangible personal property taxes which are measurable as of June 30, 2013 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 inflows.

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

**FIRELANDS LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

The assessed values upon which the fiscal year 2013 taxes were collected are:

	2012 Second Half Collections		2013 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 291,965,060	96.24	\$ 277,752,000	95.67
Public utility personal	<u>11,414,770</u>	<u>3.76</u>	<u>12,565,070</u>	<u>4.33</u>
Total	<u>\$ 303,379,830</u>	<u>100.00</u>	<u>\$ 290,317,070</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$ 51.98		\$ 52.48	

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2013 consisted of property 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 position follows:

**Governmental activities:**

Property taxes	\$ 8,520,522
Accounts	21,653
Accrued interest	2,335
Intergovernmental	<u>49,857</u>
Total receivables	<u>\$ 8,594,367</u>

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

**FIRELANDS LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 8 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

	Balance <u>July 1, 2012</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2013</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	1,512,327	135,787	(30,875)	1,617,239
Buildings and improvements	9,803,599	83,379	(92,730)	9,794,248
Furniture and equipment	1,893,209	172,580	(124,687)	1,941,102
Vehicles	<u>1,775,854</u>	<u>169,350</u>	<u>(108,853)</u>	<u>1,836,351</u>
Total capital assets, being depreciated	<u>14,984,989</u>	<u>561,096</u>	<u>(357,145)</u>	<u>15,188,940</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(738,971)	(55,490)	1,030	(793,431)
Buildings and improvements	(7,257,163)	(102,644)	2,866	(7,356,941)
Furniture and equipment	(1,375,872)	(106,085)	24,969	(1,456,988)
Vehicles	<u>(962,288)</u>	<u>(154,263)</u>	<u>108,853</u>	<u>(1,007,698)</u>
Total accumulated depreciation	<u>(10,334,294)</u>	<u>(418,482)</u>	<u>137,718</u>	<u>(10,615,058)</u>
Governmental activities capital assets, net	<u>\$ 5,502,260</u>	<u>\$ 142,614</u>	<u>\$ (219,427)</u>	<u>\$ 5,425,447</u>

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 8 - CAPITAL ASSETS - (Continued)**

Depreciation expense was charged to governmental activities as follows:

Instruction:	
Regular	\$ 82,254
Special	3,862
Vocational	6,129
Support services:	
Pupil	2,779
Instructional staff	3,376
Administration	4,869
Operations and maintenance	109,205
Pupil transportation	147,428
Central	44,904
Extracurricular activities	10,630
Food service operations	<u>3,046</u>
Total depreciation expense	<u>\$ 418,482</u>

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

In prior fiscal years, the District entered into capitalized leases for copier equipment. These lease agreements meet the criteria of a capital lease as defined by generally accepted accounting principles, 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 copier equipment have been capitalized in the amount of \$203,900. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2013 for this equipment was \$77,974, leaving a current book value of \$125,926. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2013 totaled \$36,155 paid by the permanent improvement fund (a nonmajor governmental fund).



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**NOTE 9 - CAPITALIZED LEASES - LESSEE DISCLOSURE - (Continued)**

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the future minimum lease payments as of June 30, 2013:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2014	\$ 49,444
2015	49,444
2016	49,443
2017	<u>19,376</u>
Total minimum lease payments	167,707
Less amount representing interest	<u>(21,414)</u>
Total	<u>\$ 146,293</u>

**NOTE 10 - LONG-TERM OBLIGATIONS**

A. During fiscal year 2013, the following changes occurred in governmental activities long-term obligations:

	<u>Balance</u>			<u>Balance</u>	<u>Amounts</u>
	<u>July 1, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2013</u>	<u>Due in</u>
					<u>One Year</u>
<b>Governmental activities:</b>					
Compensated absences	\$ 1,012,974	\$ 158,402	\$ (204,258)	\$ 967,118	\$ 319,873
Energy conservation improvement bonds	930,000	-	(65,000)	865,000	65,000
Capital lease obligations	<u>182,448</u>	<u>-</u>	<u>(36,155)</u>	<u>146,293</u>	<u>39,156</u>
Total governmental activities long-term liabilities	<u>\$ 2,125,422</u>	<u>\$ 158,402</u>	<u>\$ (305,413)</u>	<u>\$ 1,978,411</u>	<u>\$ 424,029</u>

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

Energy Conservation Improvement Bonds - Series 2010: On September 1, 2010, the District issued \$1,060,000 in energy conservation improvement bonds. The proceeds of these bonds were used for building improvements intended to increase the energy efficiency of the District's buildings. These bonds bear an annual interest rate of 5.2% and are scheduled to mature in fiscal year 2025. Payments of principal and interest relating to these bonds are recorded as expenditures in the general fund.

These bonds are considered Qualified School Construction Bonds (QSCBs), which makes them a taxable direct payment special obligation. For the QSCBs, the District receives a direct payment subsidy from the United States Treasury equal to 100% of the lesser of the interest payments on the bonds or the federal tax credits that would otherwise have been available to the holders of the bonds. The District recorded this subsidy from the federal government in the amount of \$44,032 in the general fund. The balance of these bonds at June 30, 2013 in the amount of \$865,000 has been included on the statement of net position.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)**

*Capital Lease Obligations:* The capital lease obligations will be paid from the permanent improvement fund (a nonmajor governmental 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 improvement bonds:

Year Ending June 30,	Energy Conservation Improvement Bonds - Series 2010		
	Principal	Interest	Total
2014	\$ 65,000	\$ 44,980	\$ 109,980
2015	70,000	41,600	111,600
2016	70,000	37,960	107,960
2017	70,000	34,320	104,320
2018	70,000	30,680	100,680
2019 - 2023	350,000	98,800	448,800
2024 - 2025	170,000	14,040	184,040
Total	<u>\$ 865,000</u>	<u>\$ 302,380</u>	<u>\$ 1,167,380</u>

**C. Legal Debt Margin**

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The Code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The Code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2013, are a voted debt margin of \$25,263,536 and an unvoted debt margin of \$290,317.

**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 five to twenty 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 67 days for classified employees depending on the amount of years the employee has been with the District.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 11 - COMPENSATED ABSENCES - (Continued)**

The District provides a retirement incentive plan for State Teacher's Retirement System of Ohio (STRS Ohio). In fiscal year 2013, employees who enrolled in the retirement incentive plan will receive an \$18,000 cash payment payable in January 2014. Only employees with 30 years of STRS Ohio service, but less than 31 years of STRS Ohio service were eligible for the incentive. Three employees took advantage of the retirement incentive in fiscal year 2013.

**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 2013, the District contracted with Ohio Casualty Insurance Company through Fitzgibbons, Arnold & Co. for professional liability insurance, fleet insurance, and insurance coverage for property, inland marine and employee theft. Coverages provided and deductibles are as follows:

Building and Contents - replacement cost (\$2,500 deductible)	\$40,493,546 value
Inland marine coverage (\$250 deductible)	1,113,775 value
Automobile liability (\$100 deductible for comprehensive)	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 2012.

**B. Employee Health and Dental**

The District has contracted with the Lake Erie Regional Council of Governments (LERC) to provide employee health and medical benefits since December 1988. The LERC is a fully insured consortium. The District provides medical and dental benefits to most employees. The premium and coverages vary with employee depending on marital status.

**C. Workers' Compensation Rating Program**

For fiscal year 2013, the District participated in a Workers' Compensation Group Rating Program (GRP). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is tiered into groups based upon past workers' compensation experience. Within each tiered group, a common premium rate is applied to all school districts within that group. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of their tiered group. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Sheakley Uniservice, Inc. provides administrative, cost control and actuarial services to the GRP.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 13 - PENSION PLANS**

**A. School Employees Retirement System**

Plan Description - The District contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, survivor 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. It is also posted on the SERS' Ohio website, [www.ohsers.org](http://www.ohsers.org), under "*Employers/Audit Resources*".

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2013, 13.05 percent and 0.05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2013, 2012 and 2011 were \$291,838, \$298,224 and \$279,408, respectively; 68.47 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011.

**B. State Teachers Retirement System of Ohio**

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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

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

Funding Policy - For fiscal year 2013, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2013, 2012 and 2011 were \$1,004,593, \$1,074,584 and \$1,100,019, respectively; 84.43 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011. Contributions to the DC and Combined Plans for fiscal year 2013 were \$26,581 made by the District and \$18,987 made by the plan members.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2013, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

**NOTE 14 - POSTEMPLOYMENT BENEFITS**

**A. School Employees Retirement System**

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2013 was \$104.90 for most participants, but could be as high as \$335.70 per month depending on their income and the SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, [www.ohsers.org](http://www.ohsers.org), under "Employers/Audit Resources".

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2013, 0.16 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2013, the actuarially determined amount was \$20,525.

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2013, 2012 and 2011 were \$39,567, \$49,577 and \$69,569, respectively; 68.47 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2013, this actuarially required allocation was 0.74 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2013, 2012 and 2011 were \$16,486, \$17,612 and \$17,981, respectively; 68.47 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011.

**B. State Teachers Retirement System of Ohio**

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2013, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2013, 2012 and 2011 were \$77,276, \$82,660 and \$84,617, respectively; 84.43 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**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 revenues, expenditures and changes in fund balance - budget and actual (non-GAAP budgetary basis) 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 assigned or committed fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);
- (d) Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis);
- (e) Investments are reported at fair value (GAAP basis) rather than cost (budget basis); and,
- (f) Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget basis).

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

**Net Change in Fund Balance**

	<u>General fund</u>
Budget basis	\$ 720,872
Net adjustment for revenue accruals	85,882
Net adjustment for expenditure accruals	(74,068)
Net adjustment for other sources/uses	9,883
Funds budgeted elsewhere	(14,905)
Adjustment for encumbrances	156,398
GAAP basis	<u>\$ 884,062</u>

Certain funds that are legally budgeted in separate fund classifications are considered part of the general fund on a GAAP basis. This includes the uniform school supplies fund, public school support fund and termination benefits fund.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**NOTE 16 - CONTINGENCIES**

**A. Grants**

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

**B. Litigation**

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

**NOTE 17 - SET-ASIDES**

The District is required by State law to annually set-aside certain general fund revenue amounts, as defined by statutory formula, for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at fiscal year end. This amount must be carried forward to be used for the same purpose in future years. Expenditures and other applicable offsets exceeding the set-aside requirement may not be carried forward to the next fiscal year.

The following cash-basis information describes the change in the fiscal year end set-aside amount for capital improvements. Disclosure of this information is required by State statute.

	Capital <u>Improvements</u>
Set-aside balance June 30, 2012	\$ -
Current year set-aside requirement	317,876
Current year qualifying expenditures	(385,771)
Current year offsets	<u>(422,683)</u>
Total	<u>\$ (490,578)</u>
Balance carried forward to fiscal year 2014	<u>\$ -</u>
Set-aside balance June 30, 2013	<u>\$ -</u>



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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**NOTE 18 - COMMITMENTS**

The District utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year end may be reported as part of restricted, committed, or assigned classifications of fund balance. At year end, the District's commitments for encumbrances in the governmental funds were as follows:

<u>Fund</u>	<u>Year End Encumbrances</u>
General fund	\$ 107,112
Nonmajor governmental fund	<u>2,616</u>
Total	<u>\$ 109,728</u>

**NOTE 19 - OPERATING LEASE DISCLOSURE**

During fiscal year 2013, the District made payments on an operating lease, which requires monthly payments of \$236. Total rental payments made during the fiscal year amounted to \$2,832.

The following is a summary of the future operating lease payment requirements to maturity for the operating lease agreement:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2014	\$ 2,832
2015	2,832
2016	<u>2,832</u>
Total	<u>\$ 8,496</u>

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FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY

FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2013

<u>Federal Grantor/ Pass Through Grantor/ Program Title</u>	Federal CFDA Number	Receipts	Expenditures
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>			
<i>Passed Through the Ohio Department of Education:</i>			
Special Education - Grants to States	84.027	(\$1,135)	
		336,389	\$336,389
Total Special Education -Grants to States		335,254	336,389
Title I Grants to Local Educational Agencies	84.010	12,716	12,716
		160,097	157,776
Total Title I Grants to Local Educational Agencies		172,813	170,492
Improving Teacher Quality State Grants	84.367	4,309	8,057
		45,550	45,128
Total Improving Teacher Quality State Grants		49,859	53,185
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395	2,905	2,905
Total U.S. Department of Education		<b>560,831</b>	<b>562,971</b>
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>			
<i>Passed Through the Ohio Department of Education:</i>			
Child Nutrition Cluster: School Breakfast Program	10.553	51,169	51,169
National School Lunch Program Non-Cash Assistance	10.555	230,912	230,912
		36,082	36,082
Total Child Nutrition Cluster		318,163	318,163
Total U.S. Department of Agriculture		<b>318,163</b>	<b>318,163</b>
<b>Totals</b>		<b>\$878,994</b>	<b>\$881,134</b>

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

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

**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FISCAL YEAR ENDED JUNE 30, 2013**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Federal Awards Receipts and Expenditures Schedule (the Schedule) reports the Firelands Local School District, Lorain County, Ohio, (the District's) federal award programs' receipts and disbursements. The schedule has been prepared on the cash basis of accounting.

**NOTE B - CHILD NUTRITION CLUSTER**

The District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the District assumes it expends federal monies first.

**NOTE C – FOOD DONATION PROGRAM**

The District reports commodities consumed on the Schedule at the fair value. The District allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.

**NOTE D - TRANSFERS BETWEEN PROGRAM YEARS**

Federal regulations require schools to obligate certain federal awards by June 30. However, with ODE's consent, schools can transfer unobligated amounts to the subsequent fiscal year's program. These transfers resulted in the Schedule reporting negative receipts. The District transferred the following amounts from 2012 to 2013 program:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount Transferred from 2012 to 2013</u>
Special Education – Grants to States	84.027	\$ 1,135



# Dave Yost • Auditor of State

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

Firelands Local School District  
Lorain County  
112 North Lake Street  
South Amherst, Ohio 44001

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental 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, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 30, 2013, wherein we noted the District adopted provisions of Governmental Accounting Standard No. 63 and 65.

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

As part of our financial statement audit, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the District's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the District's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

***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, opining 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*.

***Purpose of this Report***

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**Dave Yost**  
Auditor of State  
Columbus, Ohio

December 30, 2013



# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Firelands Local School District  
Lorain County  
112 North Lake Street  
South Amherst, Ohio 44001

To the Board of Education:

### ***Report on Compliance for Each Major Federal Program***

We have audited the Firelands Local School District's (the District) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the District's major federal programs for the year ended June 30, 2013. The *Summary of Audit Results* in the accompanying schedule of findings identifies the District's major federal programs.

### ***Management's Responsibility***

The District's Management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

### ***Auditor's Responsibility***

Our responsibility is to opine on the District's compliance for each of the District's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the District's major programs. However, our audit does not provide a legal determination of the District's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, the Firelands Local School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2013.

***Report on Internal Control Over Compliance***

The District's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the District's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

This report only describes the scope of our internal control compliance tests and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.

**Dave Yost**  
Auditor of State  
Columbus, Ohio

December 30, 2013



**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2013**

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

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unmodified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unmodified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Special Education – Grants to States, CFDA 84.027 Title I Grants to Local Educational Agencies, CFDA 84.010
<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

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT ON APPLYING AGREED-UPON PROCEDURE

Firelands Local School District  
Lorain County  
112 North Lake Street  
South Amherst, Ohio 44001

To the Board of Education:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether Firelands Local School District (the District) has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board amended its anti-harassment policy at its meeting on June 11, 2012 to include prohibiting harassment, intimidation, or bullying of any student "on a school bus" or by an "electronic act".

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board and is not intended to be and should not be used by anyone other than these specified parties.

**Dave Yost**  
Auditor of State

December 30, 2013