



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, 2014, 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, 2014, 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.

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 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 February 2, 2015, 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.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State
Columbus, Ohio

February 2, 2015

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(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, 2014. 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 2014 are as follows:

- In total, net position of governmental activities increased \$1,331,615, which represents an 18.91% increase from fiscal year 2013.
- General revenues accounted for \$16,233,327 in revenue or 80.59% of all revenues. Program specific revenues in the form of charges for services and sales, and operating grants and contributions accounted for \$3,910,859 in revenue or 19.41% of total revenues of \$20,144,186.
- The District had \$18,812,571 in expenses related to governmental activities; only \$3,910,859 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 \$16,233,327 were adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$18,346,057 in revenues and \$17,011,462 in expenditures and other financing uses. During fiscal year 2014, the general fund's fund balance increased \$1,334,595 from \$2,277,179 to \$3,611,774.

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, 2014
(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 2014?" The statement of net position and the statement of activities answer this question. These statements include all non-fiduciary assets, deferred outflows of resources, liabilities, deferred inflows of resources, 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, 2014
(UNAUDITED)

Reporting the District's Fiduciary Responsibilities

The District acts in a trustee capacity as an agent for individuals and/or 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 25-52 of this report.

The District as a Whole

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

The table below provides a summary of the District's net position at June 30, 2014 and June 30, 2013.

	Net Position	
	Governmental Activities 2014	Governmental Activities 2013
	<u>2014</u>	<u>2013</u>
<u>Assets</u>		
Current assets	\$ 14,214,686	\$ 12,564,274
Capital assets, net	<u>5,371,639</u>	<u>5,425,447</u>
Total assets	<u>19,586,325</u>	<u>17,989,721</u>
<u>Liabilities</u>		
Current liabilities	1,799,258	1,803,421
Long-term liabilities	<u>2,064,948</u>	<u>1,978,411</u>
Total liabilities	<u>3,864,206</u>	<u>3,781,832</u>
<u>Deferred Inflows of Resources</u>	<u>7,349,160</u>	<u>7,166,545</u>
<u>Net Position</u>		
Net investment in capital assets	4,153,595	4,414,154
Restricted	84,419	39,729
Unrestricted	<u>4,134,945</u>	<u>2,587,461</u>
Total net position	<u>\$ 8,372,959</u>	<u>\$ 7,041,344</u>

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2014, the District's assets exceeded liabilities and deferred inflows of resources by \$8,372,959.

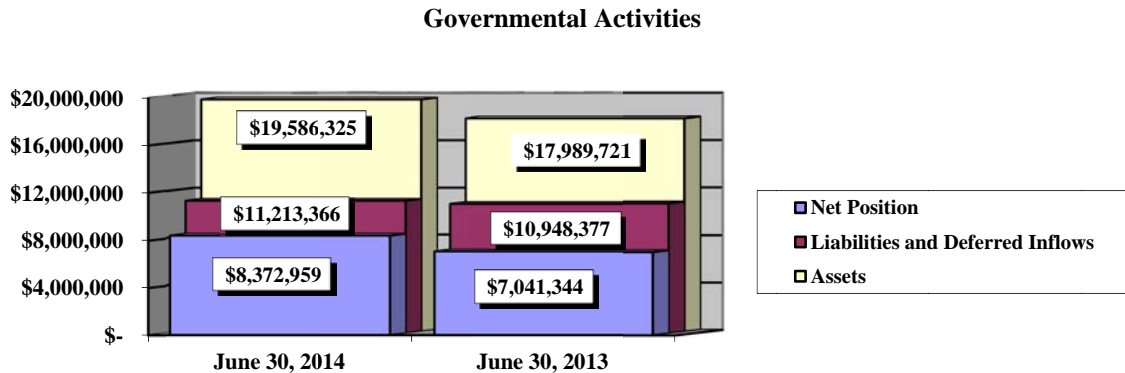
**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)**

At year end, capital assets represented 27.43% 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, 2014 was \$4,153,595. 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, \$84,419, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position of \$4,134,945 may be used to meet the District's ongoing obligations to the students and creditors.

The graph below illustrates the District's assets, liabilities, deferred inflows of resources, and net position at June 30, 2014 and June 30, 2013.



The table below shows the changes in net position for governmental activities for fiscal years 2014 and 2013.

Change in Net Position

	Governmental Activities	
	2014	2013
Revenues		
Program revenues:		
Charges for services and sales	\$ 2,488,442	\$ 2,260,038
Operating grants and contributions	1,422,417	1,267,492
General revenues:		
Property taxes	8,176,369	8,250,515
Grants and entitlements	7,986,076	7,972,972
Investment earnings	13,296	15,740
Increase (decrease) in fair value of investments	16,492	(29,540)
Miscellaneous	41,094	55,739
Total revenues	20,144,186	19,792,956

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)

<u>Expenses</u>	Governmental Activities	
	2014	2013
Program expenses:		
Instruction:		
Regular	\$ 7,042,812	\$ 7,181,967
Special	2,155,398	1,813,365
Vocational	245,764	239,901
Other	1,568,188	1,635,931
Support services:		
Pupil	1,104,664	1,132,572
Instructional staff	444,249	494,194
Board of education	23,264	24,645
Administration	1,416,082	1,395,230
Fiscal	447,095	456,154
Operations and maintenance	1,307,338	1,304,331
Pupil transportation	1,231,486	1,267,862
Central	575,925	401,655
Operation of non-instructional services:		
Other non-instructional services	34,143	28,428
Food service operations	616,573	691,171
Extracurricular activities	547,392	509,992
Interest and fiscal charges	52,198	61,381
Total expenses	18,812,571	18,638,779
Change in net position	1,331,615	1,154,177
Net position at beginning of year	7,041,344	5,887,167
Net position at end of year	\$ 8,372,959	\$ 7,041,344

Governmental Activities

Net position of the District's governmental activities increased \$1,331,615. Total governmental expenses of \$18,812,571 were offset by program revenues of \$3,910,859 and general revenues of \$16,233,327. Program revenues supported 20.79% 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 80.23% of total governmental revenue.

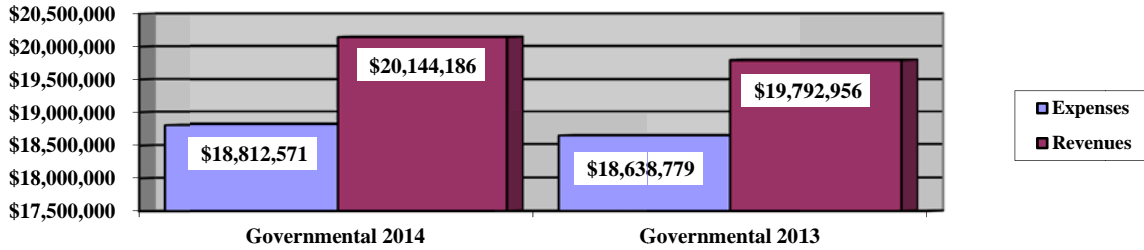
The largest expense of the District is for instructional programs. Instruction expenses totaled \$11,012,162 or 58.54% of total governmental expenses for fiscal year 2014.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)**

The graph below presents the District's governmental activities revenues and expenses for fiscal years 2014 and 2013.

Governmental Activities - Revenues and Expenses



The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services for fiscal years 2014 and 2013. That is, it identifies the cost of these services supported by tax revenues, unrestricted State grants and entitlements, and other general revenues of the District.

	Governmental Activities			
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	2014	2014	2013	2013
Program expenses:				
Instruction:				
Regular	\$ 7,042,812	\$ 5,136,561	\$ 7,181,967	\$ 5,524,966
Special	2,155,398	1,275,141	1,813,365	1,110,324
Vocational	245,764	216,632	239,901	203,799
Other	1,568,188	1,568,188	1,635,931	1,635,931
Support services:				
Pupil	1,104,664	975,962	1,132,572	981,535
Instructional staff	444,249	428,019	494,194	475,196
Board of education	23,264	23,264	24,645	24,645
Administration	1,416,082	1,416,082	1,395,230	1,395,230
Fiscal	447,095	447,095	456,154	456,154
Operations and maintenance	1,307,338	1,299,082	1,304,331	1,296,699
Pupil transportation	1,231,486	1,163,306	1,267,862	1,194,120
Central	575,925	558,247	401,655	381,561
Operation of non-instructional services:				
Other non-instructional services	34,143	(1,287)	28,428	(7,613)
Food service operations	616,573	(44,983)	691,171	7,714
Extracurricular activities	547,392	388,205	509,992	369,607
Interest and fiscal charges	52,198	52,198	61,381	61,381
Total expenses	\$ 18,812,571	\$ 14,901,712	\$ 18,638,779	\$ 15,111,249

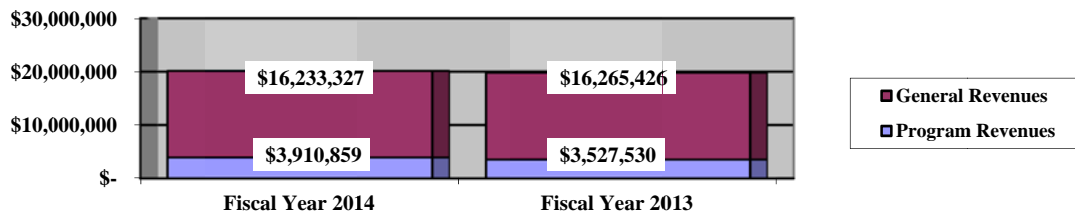
**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)**

The dependence upon taxes and other general revenues for governmental activities is apparent, as 74.43% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 79.21%. 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 revenues for fiscal years 2014 and 2013.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds reported a combined fund balance of \$4,578,033, which is more than last year's total balance of \$3,017,568. The table below indicates the fund balance and the total change in fund balance as of June 30, 2014 and June 30, 2013.

	Fund Balance <u>June 30, 2014</u>	Fund Balance <u>June 30, 2013</u>	<u>Increase</u>
General fund	\$ 3,611,774	\$ 2,277,179	\$ 1,334,595
Nonmajor governmental funds	<u>966,259</u>	<u>740,389</u>	<u>225,870</u>
Total	<u>\$ 4,578,033</u>	<u>\$ 3,017,568</u>	<u>\$ 1,560,465</u>

General Fund

The District's general fund balance increased \$1,334,595.

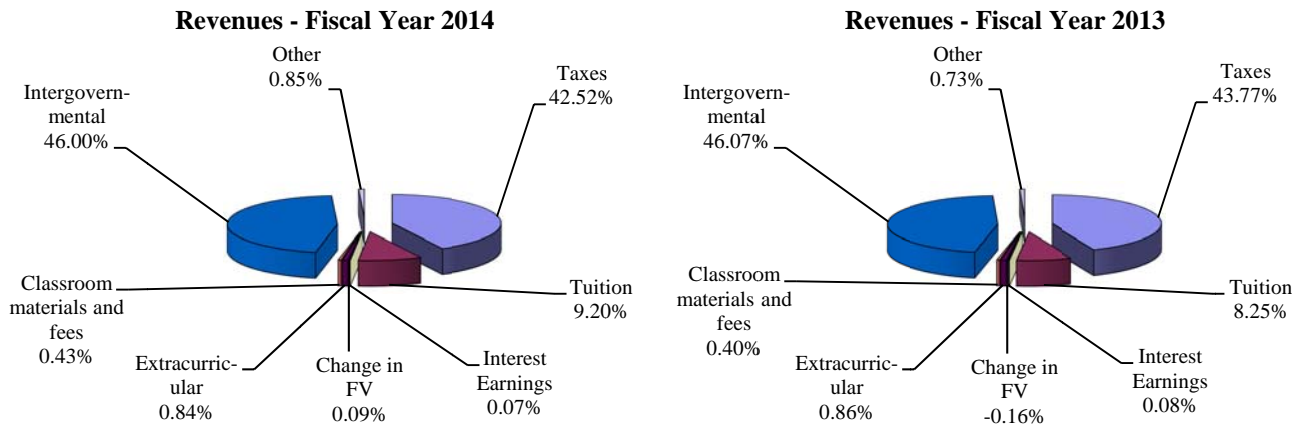
**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)**

The table that follows assists in illustrating the revenues of the general fund during fiscal years 2014 and 2013.

Revenues	2014 <u>Amount</u>	2013 <u>Amount</u>	Percentage <u>Change</u>
Taxes	\$ 7,799,598	\$ 7,872,090	(0.92) %
Tuition	1,687,921	1,483,019	13.82 %
Interest earnings	13,297	15,223	(12.65) %
Increase (decrease) in fair value of investments	16,492	(29,540)	155.83 %
Extracurricular	153,625	154,653	(0.66) %
Classroom materials and fees	78,779	72,488	8.68 %
Intergovernmental	8,439,843	8,286,016	1.86 %
Other revenues	<u>156,502</u>	<u>131,667</u>	<u>18.86 %</u>
Total	<u>\$ 18,346,057</u>	<u>\$ 17,985,616</u>	<u>2.00 %</u>

Overall revenues of the general fund increased \$360,441 or 2.00%. Tuition revenue increased \$204,902 or 13.82% primarily due to an increase in the open enrollment receipts reported by the District during fiscal year 2014. Other revenues increased \$24,835 or 18.86% mainly due to an increase in miscellaneous receipts related to the District's termination benefits activity. All other revenue classifications remained comparable to the prior fiscal year.



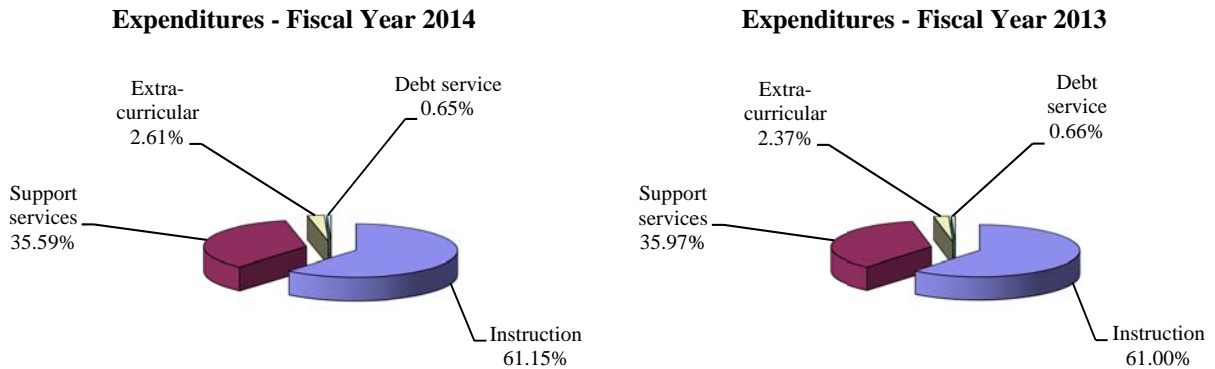
**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)**

The table that follows assists in illustrating the expenditures of the general fund during fiscal years 2014 and 2013.

<u>Expenditures</u>	<u>2014 Amount</u>	<u>2013 Amount</u>	<u>Percentage Change</u>
Instruction	\$ 10,396,064	\$ 10,426,548	(0.29) %
Support services	6,051,227	6,148,249	(1.58) %
Extracurricular activities	444,191	405,397	9.57 %
Debt service	<u>109,980</u>	<u>113,360</u>	<u>(2.98) %</u>
Total	<u>\$ 17,001,462</u>	<u>\$ 17,093,554</u>	<u>(0.54) %</u>

Overall expenditures of the general fund decreased \$92,092 or 0.54%. The minimal changes in expenditure classifications in the general fund are an indication of the District's efforts to continue fiscally responsible spending practices.



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 \$17,836,599 were \$270,533 less than final budgeted revenues and other financing sources of \$18,107,132. Actual revenues and other financing sources were \$18,108,919, which was \$1,787 more than the final budgeted amounts.

General fund original appropriations (appropriated expenditures plus other financing uses) of \$18,165,334 matched exactly to the final budgeted expenditures and other financing uses. The actual budget basis expenditures and other financing uses for fiscal year 2014 totaled \$17,249,203, which was \$916,131 less than the final budgeted amounts.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2014, the District had \$5,371,639 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles.

The following table shows June 30, 2014 balances compared to those at June 30, 2013.

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

	Governmental Activities	
	2014	2013
Land	\$ 851,565	\$ 851,565
Land improvements	829,169	823,808
Buildings and improvements	2,271,731	2,437,307
Furniture and equipment	742,256	484,114
Vehicles	676,918	828,653
Total	\$ 5,371,639	\$ 5,425,447

The overall decrease in capital assets of \$53,808 is due to depreciation expense of \$444,730 and total disposals of capital assets of \$197,743 (net of accumulated depreciation) exceeding capital outlays of \$588,665.

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

Debt Administration

At June 30, 2014, the District had \$800,000 in energy conservation improvement bonds outstanding and \$418,044 in capital lease obligations. Of this total, \$145,480 is due within one year and \$1,072,564 is due in more than one year. The following table summarizes the long-term obligations outstanding at June 30, 2014 and June 30, 2013.

	Governmental Activities	
	2014	2013
Energy conservation improvement bonds	\$ 800,000	\$ 865,000
Capital lease obligations	418,044	146,293
Total	\$ 1,218,044	\$ 1,011,293

At June 30, 2014, the District's overall legal debt margin was \$25,487,880, with an unvoted debt margin of \$292,088.

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, 2014
(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 five-year emergency levy, which raises \$820,000 annually. A new emergency levy was put on the ballot in November of 2010 and 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. The reduction impacted the second half of fiscal year 2013 property tax collections.

The District's enrollment decreased again in fiscal year 2014, 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 115 students in fiscal year 2014. 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 net gains of \$205,798 in fiscal year 2012, \$478,841 in fiscal year 2013, and \$681,965 in fiscal year 2014. An additional increase of 45 to 55 open enrollment students is expected for fiscal year 2015.

In fiscal year 2014, the District continued to act to reduce costs with the elimination of five classified positions by reductions-in-force and one by attrition. In addition, nine teacher retirements (including hiring back three as rehired retirees) and two classified retirements reduced costs. In fiscal year 2013, five teaching positions were eliminated to offset the total loss of all Federal Stimulus funds and reductions in Federal Title funding. In fiscal year 2012, 16 positions were eliminated through reductions-in-force and attrition. 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 reductions-in-force for fiscal year 2014 (aides, office, cleaning, and food service positions), by reducing two contract days for all bus drivers, and by 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, 348,467 in fiscal year 2013, and \$395,550 in fiscal year 2014. The State's new foundation formula resulted in increased amounts of the District's 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 also attained an "Excellent" academic rating in fiscal year 2012, and an "Excellent with Distinction" academic rating in fiscal year 2013 and fiscal year 2014 under the State's new rating systems:

- Performance Index: A
- Indicators Met: A
- AMO: B
- Value Added: A
- 4-Yr Graduation: A
- 5-Yr Graduation: B

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)**

Since the District relies on the State for approximately half of its 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.

The State of Ohio 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 was 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. The State's new funding formula effective for fiscal year 2014 resulted in funding reductions due to a reduced in-District student headcount, 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 \$2,400,000 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 writing, the District has estimated flat funding based on the fiscal year 2015 State foundation estimates.

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 Facilities Construction Commission (OFCC) 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, the District projects 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 fiscal year 2007. The District Board of Education has initiated the process with the OFCC 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 and fiscal year 2013. 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, 2014

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and investments.	\$ 5,346,291
Receivables:	
Property taxes	8,635,070
Accounts	18,056
Accrued interest	791
Intergovernmental	112,308
Prepayments	94,908
Materials and supplies inventory.	7,262
Capital assets:	
Nondepreciable capital assets	851,565
Depreciable capital assets, net.	4,520,074
Capital assets, net	<u>5,371,639</u>
Total assets.	<u>19,586,325</u>
Liabilities:	
Accounts payable.	41,631
Accrued wages and benefits payable	1,331,427
Pension obligation payable.	322,605
Intergovernmental payable	89,691
Unearned revenue	10,608
Accrued interest payable	3,296
Long-term liabilities:	
Due within one year.	362,200
Due in more than one year.	1,702,748
Total liabilities	<u>3,864,206</u>
Deferred inflows of resources:	
Property taxes levied for the next fiscal year.	7,349,160
Total deferred inflows of resources	<u>7,349,160</u>
Net position:	
Net investment in capital assets	4,153,595
Restricted for:	
Student activities	3,924
Other purposes	80,495
Unrestricted	4,134,945
Total net position.	<u>\$ 8,372,959</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position Governmental Activities
		Charges for Services and Sales	Operating Grants and Contributions	
Governmental activities:				
Instruction:				
Regular	\$ 7,042,812	\$ 1,850,091	\$ 56,160	\$ (5,136,561)
Special	2,155,398	13,823	866,434	(1,275,141)
Vocational	245,764	-	29,132	(216,632)
Other	1,568,188	-	-	(1,568,188)
Support services:				
Pupil.	1,104,664	66,486	62,216	(975,962)
Instructional staff	444,249	343	15,887	(428,019)
Board of education	23,264	-	-	(23,264)
Administration.	1,416,082	-	-	(1,416,082)
Fiscal.	447,095	-	-	(447,095)
Operations and maintenance	1,307,338	8,256	-	(1,299,082)
Pupil transportation.	1,231,486	5,746	62,434	(1,163,306)
Central	575,925	12,278	5,400	(558,247)
Operation of non-instructional services:				
Other non-instructional services	34,143	35,430	-	1,287
Food service operations	616,573	336,802	324,754	44,983
Extracurricular activities.	547,392	159,187	-	(388,205)
Interest and fiscal charges	52,198	-	-	(52,198)
Total governmental activities	\$ 18,812,571	\$ 2,488,442	\$ 1,422,417	(14,901,712)
General revenues:				
Property taxes levied for:				
General purposes				7,826,317
Capital outlay.				350,052
Grants and entitlements not restricted to specific programs				7,986,076
Investment earnings				13,296
Increase in fair value of investments				16,492
Miscellaneous				41,094
Total general revenues				16,233,327
Change in net position				1,331,615
Net position at beginning of year				7,041,344
Net position at end of year				\$ 8,372,959

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014

	General	Nonmajor Governmental Funds	Total Governmental Funds
Assets:			
Equity in pooled cash and investments.	\$ 4,365,592	\$ 980,699	\$ 5,346,291
Receivables:			
Property taxes.	8,266,074	368,996	8,635,070
Accounts	18,056	-	18,056
Accrued interest	791	-	791
Intergovernmental.	97,481	14,827	112,308
Due from other funds	3,984	-	3,984
Prepayments.	94,908	-	94,908
Materials and supplies inventory.	-	7,262	7,262
Total assets	<u>\$ 12,846,886</u>	<u>\$ 1,371,784</u>	<u>\$ 14,218,670</u>
Liabilities:			
Accounts payable	\$ 41,254	\$ 377	\$ 41,631
Accrued wages and benefits payable	1,279,230	52,197	1,331,427
Compensated absences payable	136,029	-	136,029
Pension obligation payable	303,114	19,491	322,605
Intergovernmental payable	87,853	1,838	89,691
Due to other funds	-	3,984	3,984
Unearned revenue.	10,608	-	10,608
Total liabilities.	<u>1,858,088</u>	<u>77,887</u>	<u>1,935,975</u>
Deferred inflows of resources:			
Property taxes levied for the next fiscal year. . .	7,037,086	312,074	7,349,160
Delinquent property tax revenue not available. . .	336,362	15,564	351,926
Accrued interest not available.	784	-	784
Rental income not available	2,792	-	2,792
Total deferred inflows of resources	<u>7,377,024</u>	<u>327,638</u>	<u>7,704,662</u>
Fund balances:			
Nonspendable:			
Materials and supplies inventory.	-	7,262	7,262
Prepayments	94,908	-	94,908
Restricted:			
Food service operations	-	87,504	87,504
Extracurricular.	-	3,924	3,924
Committed:			
Capital improvements	-	818,300	818,300
Student instruction	2,296	-	2,296
Student and staff support	4,786	-	4,786
Termination benefits.	119,628	-	119,628
Latchkey program	-	25,875	25,875
Other purposes.	-	29,624	29,624
Assigned:			
Student instruction	6,543	-	6,543
Student and staff support.	268,430	-	268,430
School supplies	3,845	-	3,845
Unassigned (deficit)	3,111,338	(6,230)	3,105,108
Total fund balances	<u>3,611,774</u>	<u>966,259</u>	<u>4,578,033</u>
Total liabilities, deferred inflows of resources and fund balances.	<u>\$ 12,846,886</u>	<u>\$ 1,371,784</u>	<u>\$ 14,218,670</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, 2014

Total governmental fund balances		\$	4,578,033
<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.			5,371,639
Other long-term assets are not available to pay for current period expenditures and therefore are deferred inflows of resources in the funds.			
Property taxes receivable	\$	351,926	
Accounts receivable		2,792	
Accrued interest receivable		<u>784</u>	
Total			355,502
On the statement of net position interest is accrued on outstanding bonds, whereas in governmental funds, interest is reported when due.			(3,296)
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		(800,000)	
Capital lease obligations payable		(418,044)	
Compensated absences payable		<u>(710,875)</u>	
Total			<u>(1,928,919)</u>
Net position of governmental activities		<u>\$</u>	<u>8,372,959</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Property taxes	\$ 7,799,598	\$ 348,833	\$ 8,148,431
Tuition	1,687,921	-	1,687,921
Transportation fees	5,746	-	5,746
Earnings on investments	13,297	-	13,297
Increase in fair value of investments	16,492	-	16,492
Charges for services	-	336,802	336,802
Extracurricular	153,625	79,844	233,469
Classroom materials and fees	78,779	-	78,779
Rental income	8,256	-	8,256
Contributions and donations	1,577	500	2,077
Contract services	4,825	-	4,825
Other local revenues	136,098	36,063	172,161
Intergovernmental - state	8,388,086	79,303	8,467,389
Intergovernmental - federal	51,757	888,847	940,604
Total revenues	<u>18,346,057</u>	<u>1,770,192</u>	<u>20,116,249</u>
Expenditures:			
Current:			
Instruction:			
Regular	6,872,923	65,150	6,938,073
Special	1,716,515	435,166	2,151,681
Vocational	239,843	-	239,843
Other	1,566,783	-	1,566,783
Support services:			
Pupil	1,066,539	60,992	1,127,531
Instructional staff	423,546	15,838	439,384
Board of education	23,264	-	23,264
Administration	1,432,243	4	1,432,247
Fiscal	435,741	6,851	442,592
Operations and maintenance	1,080,456	29,732	1,110,188
Pupil transportation	1,082,161	-	1,082,161
Central	507,277	40,639	547,916
Operation of non-instructional services:			
Other non-instructional services	-	34,143	34,143
Food service operations	-	610,921	610,921
Extracurricular activities	444,191	93,035	537,226
Facilities acquisition and construction	-	139,239	139,239
Capital outlay	-	434,225	434,225
Debt service:			
Principal retirement	65,000	16,181	81,181
Interest and fiscal charges	44,980	7,486	52,466
Total expenditures	<u>17,001,462</u>	<u>1,989,602</u>	<u>18,991,064</u>
Excess (deficiency) of revenues over (under) expenditures	1,344,595	(219,410)	1,125,185
Other financing sources (uses):			
Transfers in	-	10,000	10,000
Transfers (out)	(10,000)	-	(10,000)
Capital lease transaction	-	434,225	434,225
Total other financing sources (uses)	<u>(10,000)</u>	<u>444,225</u>	<u>434,225</u>
Net change in fund balances	1,334,595	224,815	1,559,410
Fund balances at beginning of year	2,277,179	740,389	3,017,568
Increase in nonspendable inventory	-	1,055	1,055
Fund balances at end of year	\$ 3,611,774	\$ 966,259	\$ 4,578,033

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, 2014

Net change in fund balances - total governmental funds	\$	1,559,410
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the 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.		
Capital asset additions	\$ 588,665	
Current year depreciation	<u>(444,730)</u>	
Total		143,935
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net position.		
		(197,743)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Property taxes	27,938	
Earnings on investments	<u>(1)</u>	
Total		27,937
Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as an expense when consumed.		
		1,055
Proceeds of capital lease transactions are recorded as other financing sources in the funds; however, in the statement of activities, they are not reported as revenues as they increase the liabilities on the statement of net position.		
		(434,225)
Capital lease obligations payable balance forgiven as part of a lease trade-in agreement. This reduces the long-term liabilities on the statement of net position.		
		146,293
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.		
		81,181
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		
		268
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.		
		<u>3,504</u>
Change in net position of governmental activities	\$	<u>1,331,615</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Property taxes	\$ 7,847,989	\$ 7,891,551	\$ 7,891,551	\$ -
Tuition	1,608,540	1,687,921	1,687,921	-
Transportation fees	8,750	6,142	6,142	-
Earnings on investments	10,000	14,627	14,840	213
Extracurricular	72,000	79,343	79,343	-
Classroom materials and fees	43,750	44,983	46,539	1,556
Rental income	7,000	8,756	8,756	-
Other local revenues	51,750	32,782	32,800	18
Intergovernmental - state	8,177,320	8,290,605	8,290,605	-
Intergovernmental - federal	9,500	12,022	12,022	-
Total revenues	<u>17,836,599</u>	<u>18,068,732</u>	<u>18,070,519</u>	<u>1,787</u>
Expenditures:				
Current:				
Instruction:				
Regular	7,126,813	7,126,813	6,967,598	159,215
Special	1,713,999	1,713,999	1,650,902	63,097
Vocational	270,581	270,581	242,013	28,568
Other	1,604,200	1,604,200	1,566,647	37,553
Support services:				
Pupil	1,059,995	1,059,995	967,507	92,488
Instructional staff	490,272	490,272	425,281	64,991
Board of education	31,050	31,050	24,262	6,788
Administration	1,564,365	1,564,365	1,415,886	148,479
Fiscal	490,414	490,414	432,330	58,084
Operations and maintenance	1,271,423	1,271,423	1,176,665	94,758
Pupil transportation	1,357,489	1,357,489	1,284,712	72,777
Central	609,914	609,914	563,696	46,218
Extracurricular activities	442,825	442,825	437,459	5,366
Facilities acquisition and construction	27,406	27,406	-	27,406
Debt service:				
Principal retirement	65,000	65,000	65,000	-
Interest and fiscal charges	5,588	5,588	5,245	343
Total expenditures	<u>18,131,334</u>	<u>18,131,334</u>	<u>17,225,203</u>	<u>906,131</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(294,735)</u>	<u>(62,602)</u>	<u>845,316</u>	<u>907,918</u>
Other financing sources (uses):				
Refund of prior year expenditures	-	32,694	32,694	-
Transfers (out)	(34,000)	(34,000)	(24,000)	10,000
Sale of capital assets	-	5,706	5,706	-
Total other financing sources (uses)	<u>(34,000)</u>	<u>4,400</u>	<u>14,400</u>	<u>10,000</u>
Net change in fund balance	(328,735)	(58,202)	859,716	917,918
Fund balance at beginning of year	2,910,386	2,910,386	2,910,386	-
Prior year encumbrances appropriated	156,398	156,398	156,398	-
Fund balance at end of year	<u>\$ 2,738,049</u>	<u>\$ 3,008,582</u>	<u>\$ 3,926,500</u>	<u>\$ 917,918</u>

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, 2014

	<u>Agency</u>
Assets:	
Equity in pooled cash and investments	\$ 51,659
Total assets.	<u>\$ 51,659</u>
Liabilities:	
Accounts payable.	\$ 492
Due to students.	<u>51,167</u>
Total liabilities	<u>\$ 51,659</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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 82 non-certified and 111 certified personnel that provide services to approximately 1,773 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, 2014

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)

Prior to May 5, 2014, the District was a participant in the North Coast Council (NCC). The NCC is Ohio's largest information technology center, 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.

Tri-Rivers Educational Computer Association (TRECA)

Effective May 5, 2014, the District became a participant in the Tri-Rivers Educational Computer Association (TRECA), which is a computer consortium. TRECA is an association of public school districts within the boundaries of Delaware, Knox, Marion, Morrow, Muskingum, Lorain and Wyandot Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The Governing Board of TRECA consists of representatives from the various counties, elected by majority vote of all charter member school districts within the counties, one representative from the city school districts, and the Superintendent from Tri-Rivers Joint Vocational School District. Financial information can be obtained from Mike Carder, Director, at 100 Executive Drive, Marion, Ohio, 43302.

Lake Erie Regional Council (LERC)

The Lake Erie Regional Council (LERC) is a jointly governed organization comprised of fourteen school districts. The jointly governed organization was formed for the purpose of promoting cooperative agreements and activities among its members in dealing with problems of mutual concern such as 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 of Directors. Financial information can be obtained by contacting the Treasurer at the Educational Service Center of Lorain County, who serves as fiscal agent, at 1885 Lake Avenue, Elyria, Ohio, 44035.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

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.

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 of resources and liabilities plus deferred inflows of resources 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 funds account for Ohio High School Athletic Association (OHSAA) events and student activities.

**FIRELANDS LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

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.

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 of resources, liabilities, and deferred inflows of resources 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 of resources and current liabilities and deferred inflows of resources 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 of resources and deferred outflows of resources, and in the presentation of expenses versus expenditures.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

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.

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, 2014, but which were levied to finance fiscal year 2015 operations, and other revenues received in advance of the fiscal year for which they were intended to finance, have been recorded as deferred inflows of resources. Grants not received within the available period, grants and entitlements received before the timing requirements are met, and delinquent property taxes due at June 30, 2014, are recorded as deferred inflows of resources 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 Revenue - Revenues received during fiscal year 2014 resulting from exchange transactions for which the District has yet to provide the requisite services as of June 30, 2014 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.

**FIRELANDS LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

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

E. Budgets

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations 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 the 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 appropriations 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 appropriations resolution must be within the estimated resources as certified by the County Budget Commission and the total of expenditures may not exceed the appropriation totals at any level of control. Any revisions that alter the fund level must be approved by the Board of Education.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

The appropriations 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 appropriations 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 of Education during the year.

F. Cash and Investments

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

During fiscal year 2014, 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 2014. 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, 2014.

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 2014 amounted to \$13,297, which includes \$2,615 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/expended 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

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.

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 leave and sick leave payments has been calculated using pay rates in effect at June 30, 2014 and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

The entire compensated absences 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.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

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.

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 of resources and liabilities plus deferred inflows of resources. 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 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 statement of net position/balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expense/expenditure 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 basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the basic 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, 2014.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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 expenses/expenditures 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 expenses/expenditures to the funds that initially paid for them are not presented on the financial statements.

Q. Interfund Balances

On the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "due to/from other funds". These amounts are eliminated in the governmental activities column of the statement of net position.

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 2014.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2014, the District has implemented GASB Statement No. 70, "Accounting and Financial Reporting for Nonexchange Financial Guarantees".

GASB Statement No. 70 improves the recognition, measurement, and disclosures for state and local governments that have extended or received financial guarantees that are nonexchange transactions. The implementation of GASB Statement No. 70 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, 2014

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

B. Deficit Fund Balances

Fund balances at June 30, 2014 included the following individual fund deficits:

<u>Nonmajor governmental funds</u>	<u>Deficit</u>
Vocational education enhancement	\$ 6
Race to the top	4
Title VI-B	377
Title I	172
Improving teacher quality	5,671

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

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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, 2014, the carrying amount of all District deposits was \$3,402,200. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2014, \$3,237,399 of the District's bank balance of \$3,487,399 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.

**FIRELANDS LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

B. Investments

As of June 30, 2014, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>				
		6 months or <u>less</u>	7 to 12 <u>months</u>	13 to 18 <u>months</u>	19 to 24 <u>months</u>	24 to 60 <u>months</u>
Negotiable CD's	\$ 350,045	\$ -	\$ -	\$ 102,056	\$ 247,989	\$ -
FHLB	672,388	-	-	-	-	672,388
FFCB	973,315	-	-	-	973,315	-
STAR Ohio	<u>2</u>	<u>2</u>	-	-	-	-
Total	<u>\$ 1,995,750</u>	<u>\$ 2</u>	<u>\$ -</u>	<u>\$ 102,056</u>	<u>\$ 1,221,304</u>	<u>\$ 672,388</u>

The weighted average maturity of investments is 2.05 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 and negotiable certificates of deposit 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, 2014:

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
Negotiable CD's	\$ 350,045	17.54
FHLB	672,388	33.69
FFCB	973,315	48.77
STAR Ohio	<u>2</u>	-
Total	<u>\$ 1,995,750</u>	<u>100.00</u>

**FIRELANDS LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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, 2014:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 3,402,200
Investments	<u>1,995,750</u>
Total	<u>\$ 5,397,950</u>
 <u>Cash and investments per statement of net position</u>	
Governmental activities	\$ 5,346,291
Agency fund	<u>51,659</u>
Total	<u>\$ 5,397,950</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A.** Interfund transfers for the year ended June 30, 2014 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>\$ 10,000</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.

- B.** Interfund balances for the year ended June 30, 2014 consisted of the following amounts due to/from other funds, as reported on the fund financial statements:

<u>Due to:</u>	<u>Due from:</u>	<u>Amount</u>
General fund	Nonmajor governmental fund	<u>\$ 3,984</u>

The purpose of the amount reported as due to/from other funds is to cover a negative cash balance in the nonmajor governmental fund. This interfund balance will be repaid once the anticipated revenues are received, which is expected to occur within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no interfund balances are reported on the statement of net position.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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 2014 represent the collection of calendar year 2013 taxes. Real property taxes received in calendar year 2014 were levied after April 1, 2013, on the assessed values as of January 1, 2013, 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 2014 represent the collection of calendar year 2013 taxes. Public utility real and personal property taxes received in calendar year 2014 became a lien on December 31, 2012, were levied after April 1, 2013, 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, 2014, are available to finance fiscal year 2014 operations. The amount available as an advance at June 30, 2014 was \$892,626 in the general fund and \$41,358 in the permanent improvement fund (a nonmajor governmental fund). This amount is recorded as revenue. The amount available for advance at June 30, 2013 was \$984,579 in the general fund and \$45,410 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, 2014 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 of resources.

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 of resources.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 6 - PROPERTY TAXES - (Continued)

The assessed values upon which the fiscal year 2014 taxes were collected are:

	2013 Second Half Collections		2014 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 277,752,000	95.67	\$ 278,379,930	95.31
Public utility personal	<u>12,565,070</u>	<u>4.33</u>	<u>13,707,630</u>	<u>4.69</u>
Total	<u>\$ 290,317,070</u>	<u>100.00</u>	<u>\$ 292,087,560</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$ 52.48		\$ 52.42	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2014 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 list of the principal items of receivables reported on the statement of net position follows:

Governmental activities:

Property taxes	\$ 8,635,070
Accounts	18,056
Accrued interest	791
Intergovernmental	<u>112,308</u>
Total receivables	<u>\$ 8,766,225</u>

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2014, was as follows:

	Balance <u>July 1, 2013</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2014</u>
Governmental activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 851,565	\$ -	\$ -	\$ 851,565
Total capital assets, not being depreciated	<u>851,565</u>	<u>-</u>	<u>-</u>	<u>851,565</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,617,239	63,262	-	1,680,501
Buildings and improvements	9,794,248	-	(68,175)	9,726,073
Furniture and equipment	1,941,102	525,403	(210,664)	2,255,841
Vehicles	<u>1,836,351</u>	<u>-</u>	<u>-</u>	<u>1,836,351</u>
Total capital assets, being depreciated	<u>15,188,940</u>	<u>588,665</u>	<u>(278,839)</u>	<u>15,498,766</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(793,431)	(57,901)	-	(851,332)
Buildings and improvements	(7,356,941)	(100,128)	2,727	(7,454,342)
Furniture and equipment	(1,456,988)	(134,966)	78,369	(1,513,585)
Vehicles	<u>(1,007,698)</u>	<u>(151,735)</u>	<u>-</u>	<u>(1,159,433)</u>
Total accumulated depreciation	<u>(10,615,058)</u>	<u>(444,730)</u>	<u>81,096</u>	<u>(10,978,692)</u>
Governmental activities capital assets, net	<u>\$ 5,425,447</u>	<u>\$ 143,935</u>	<u>\$ (197,743)</u>	<u>\$ 5,371,639</u>

**FIRELANDS LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 8 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental activities as follows:

Instruction:	
Regular	\$ 79,369
Special	3,777
Vocational	5,921
Support services:	
Pupil	2,749
Instructional staff	3,254
Administration	5,961
Operations and maintenance	123,091
Pupil transportation	144,900
Central	62,644
Extracurricular activities	10,166
Food service operations	<u>2,898</u>
Total depreciation expense	<u>\$ 444,730</u>

NOTE 9 - CAPITALIZED LEASES - LESSEE DISCLOSURE

In the current fiscal year and 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 \$434,225. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2014 for this equipment was \$43,423, leaving a current book value of \$390,802. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2014 totaled \$16,181 paid by the permanent improvement fund (a nonmajor governmental fund). The District also disposed of capital leases in the amount of \$146,293 during fiscal year 2014.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

The following is a schedule of the future long-term minimum lease payments required under the capital lease obligations and the present value of the future minimum lease payments as of June 30, 2014:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2015	\$ 94,668
2016	94,668
2017	94,668
2018	94,668
2019	<u>94,668</u>
Total minimum lease payments	473,340
Less: amount representing interest	<u>(55,296)</u>
Total	<u>\$ 418,044</u>

NOTE 10 - LONG-TERM OBLIGATIONS

A. During fiscal year 2014, the following changes occurred in governmental activities long-term obligations:

	<u>Balance</u>			<u>Balance</u>	<u>Amounts</u>
	<u>July 1, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2014</u>	<u>Due in</u>
					<u>One Year</u>
Governmental activities:					
Compensated absences	\$ 967,118	\$ 219,556	\$ (339,770)	\$ 846,904	\$ 216,720
Energy conservation improvement bonds	865,000	-	(65,000)	800,000	70,000
Capital lease obligations	<u>146,293</u>	<u>434,225</u>	<u>(162,474)</u>	<u>418,044</u>	<u>75,480</u>
Total governmental activities long-term liabilities	<u>\$ 1,978,411</u>	<u>\$ 653,781</u>	<u>\$ (567,244)</u>	<u>\$ 2,064,948</u>	<u>\$ 362,200</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 \$39,735 in the general fund. The balance of these bonds at June 30, 2014 in the amount of \$800,000 has been included on the statement of net position.

**FIRELANDS LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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
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	70,000	27,040	97,040
2020 - 2024	350,000	80,600	430,600
2025	<u>100,000</u>	<u>5,200</u>	<u>105,200</u>
Total	<u>\$ 800,000</u>	<u>\$ 257,400</u>	<u>\$ 1,057,400</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, 2014, are a voted debt margin of \$25,487,880 and an unvoted debt margin of \$292,088.

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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NOTE 11 - COMPENSATED ABSENCES - (Continued)

The District provides a retirement incentive plan for State Teachers Retirement System of Ohio (STRS Ohio). In fiscal year 2014, employees who enrolled in the retirement incentive plan will receive an \$18,000 cash payment payable in January 2015. Only employees with 30 years of STRS Ohio service, but less than 31 years of STRS Ohio service, were eligible for the retirement incentive plan. Two employees took advantage of the retirement incentive plan in fiscal year 2014.

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 2014, 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 2013.

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 premiums and coverages vary by employee depending on marital status.

C. Workers' Compensation Group Rating Program

For fiscal year 2014, 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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, 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 2014, 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 14 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, 2014, 2013 and 2012 were \$287,221, \$291,838 and \$298,224, respectively; 74.10 percent has been contributed for fiscal year 2014 and 100 percent for fiscal years 2013 and 2012.

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, 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
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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 2014, plan members were required to contribute 11 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 14 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, 2014, 2013 and 2012 were \$999,672, \$1,004,593 and \$1,074,584, respectively; 84.28 percent has been contributed for fiscal year 2014 and 100 percent for fiscal years 2013 and 2012. Contributions to the DC and Combined Plans for fiscal year 2014 were \$26,211 made by the District and \$20,595 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, 2014 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 2014 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, under "Employers/Audit Resources".

**FIRELANDS LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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 2014, 0.14 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 2014, the actuarially determined amount was \$20,250.

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, 2014, 2013 and 2012 were \$43,166, \$39,567 and \$49,577, respectively; 74.10 percent has been contributed for fiscal year 2014 and 100 percent for fiscal years 2013 and 2012.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2014, this actuarially required allocation was 0.76 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2014, 2013 and 2012 were \$16,663, \$16,486 and \$17,612, respectively; 74.10 percent has been contributed for fiscal year 2014 and 100 percent for fiscal years 2013 and 2012.

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, 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 2014, 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, 2014, 2013 and 2012 were \$76,898, \$77,276 and \$82,660, respectively; 84.28 percent has been contributed for fiscal year 2014 and 100 percent for fiscal years 2013 and 2012.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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	\$ 859,716
Net adjustment for revenue accruals	65,022
Net adjustment for expenditure accruals	114,096
Net adjustment for other sources/uses	(24,400)
Funds budgeted elsewhere	21,988
Adjustment for encumbrances	298,173
GAAP basis	<u>\$ 1,334,595</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, 2014

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 Improvements
Set-aside balance June 30, 2013	\$ -
Current year set-aside requirement	305,362
Current year qualifying expenditures	(277,243)
Current year offsets	<u>(415,810)</u>
Total	<u>\$ (387,691)</u>
Balance carried forward to fiscal year 2015	<u>\$ -</u>
Set-aside balance June 30, 2014	<u>\$ -</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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	\$ 262,116
Nonmajor governmental funds	<u>91,629</u>
 Total	 <u>\$ 353,745</u>

NOTE 19 - OPERATING LEASE DISCLOSURE

During fiscal year 2014, 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>
2015	\$ 2,832
2016	<u>2,832</u>
Total	<u>\$ 5,664</u>

FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY

FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2014

<u>Federal Grantor/ Pass Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Receipts</u>	<u>Expenditures</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
<i>Passed Through the Ohio Department of Education:</i>			
Special Education - Grants to States	84.027	\$340,497	\$340,497
Title I Grants to Local Educational Agencies	84.010	10,561	12,882
Total Title I Grants to Local Educational Agencies		<u>162,230</u>	<u>166,214</u>
Improving Teacher Quality State Grants	84.367	6,631	7,053
Total Improving Teacher Quality State Grants		<u>46,967</u>	<u>46,967</u>
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395	5,550	5,550
Total U.S. Department of Education		<u>572,436</u>	<u>579,163</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
<i>Passed Through the Ohio Department of Education:</i>			
Child Nutrition Cluster: School Breakfast Program	10.553	52,885	52,885
National School Lunch Program Non-Cash Assistance	10.555	224,441	224,441
Total Child Nutrition Cluster		<u>41,450</u>	<u>41,450</u>
Total U.S. Department of Agriculture		<u>318,776</u>	<u>318,776</u>
Totals		<u><u>\$891,212</u></u>	<u><u>\$897,939</u></u>

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, 2014**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Receipts and Expenditures Schedule (the Schedule) reports the Firelands Local School District's (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 entitlement value. The District allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.



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 the Firelands Local School District, Lorain County, Ohio, (the District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 2, 2015.

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. Therefore, unidentified material weaknesses or significant deficiencies may exist. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a significant deficiency in internal control. We consider finding 2014-001 to be a significant deficiency.

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 an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2014-001.

District's Response to Findings

The District's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the District's response and, accordingly, we express no opinion on it.

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

February 2, 2015



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE 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 the 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 the Firelands Local School District's major federal program for the year ended June 30, 2014. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the District's major federal program.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to opine on the District's compliance for the District's major federal program 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 program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on the Major Federal Program

In our opinion, the Firelands Local School District, Lorain County, Ohio, complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2014.

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

February 2, 2015

**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2014**

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)?	Yes
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
<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):	Child Nutrition Cluster, CFDA 10.553 and 10.555
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

FINDING NUMBER 2014-001

School Calendar - Significant Deficiency/Noncompliance Finding:

Ohio Rev. Code § 3317.01 requires a school district to meet the minimum number of days or hours for a school to be open for instruction in order to be eligible for foundation payments. **Ohio Rev. Code § 3313.48** provides that each school shall be open for instruction with pupils in attendance, for not less than one hundred eighty-two (182) days in each school year, which may include the following:

- Up to four school days per year in which classes are dismissed one-half day early or the equivalent amount of time during a different number of days (i.e., 2 full school days) for the purpose of individualized parent-teacher conferences and reporting periods;
- Up to two days for professional meetings of teachers when such days occur during a regular school week and schools are not in session;
- The number of days the school is closed as a result of public calamity, as provided in Ohio Rev. Code §3317.01.

The District's school calendar indicated the school was open for instruction 181 days for the 2013-2014 school year instead of the 182 school days as required. Failure to meet the required minimum number of days to be open for instruction may result in the District becoming ineligible for future foundation payments.

The District should ensure the school calendar includes the required minimum number of days for schools to be open for instruction. We do not know the impact, if any, this noncompliance will have on the District's future foundation funding; however, we do not expect it have a significant impact on the District's financial statements. This matter will be referred to the Ohio Department of Education.

Officials' Response: The District' acknowledges the finding and is working to resolve the issue.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



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FIRELANDS LOCAL SCHOOL DISTRICT

LORAIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 24, 2015**