



Dave Yost • Auditor of State

**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Firelands Local School District, Lorain County, Ohio (the District), as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Firelands Local School District, Lorain County, Ohio, as of June 30, 2012, and the respective changes in financial position, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2012, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* as 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 have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements taken as a whole. The schedule of federal awards receipts and expenditures provides additional information 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 basic financial statements. The schedule of federal awards receipts and expenditures is management's responsibility, and was derived from and directly relates to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information 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 information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Dave Yost
Auditor of State

December 28, 2012

**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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, 2012. 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 2012 are as follows:

- In total, net assets increased \$535,497, a 9.97% increase from fiscal year 2011.
- General revenues accounted for \$16,038,914 in revenue or 83.11% of all revenues. Program specific revenues in the form of charges for services and sales, and operating grants and contributions accounted for \$3,259,627, or 16.89% of total revenues of \$19,298,541.
- The District had \$18,763,044 in expenses related to governmental activities; only \$3,259,627 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 \$16,038,914 were adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$17,235,066 in revenues and \$16,388,966 in expenditures. During fiscal year 2012, the general fund's fund balance increased \$846,100 from \$547,017 to \$1,393,117.

Using these Basic Financial Statements

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

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

**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2012?" The statement of net assets and the statement of activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

The District's statement of net assets and statement of activities can be found on pages 15-16 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Reporting the District's Fiduciary Responsibilities

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

Notes to the Basic Financial Statements

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

The District as a Whole

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

The table below provides a summary of the District's net assets at June 30, 2012 and June 30, 2011. The restricted net assets and unrestricted net assets at June 30, 2011 have been restated to conform to fiscal year 2012 presentation due to the recording of committed fund balance as a component of unrestricted net assets at June 30, 2012.

	Net Assets	
	Governmental Activities	
	2012	Restated 2011
<u>Assets</u>		
Current assets	\$ 11,803,930	\$ 11,394,699
Capital assets, net	5,502,260	5,308,568
Total assets	17,306,190	16,703,267
<u>Liabilities</u>		
Current liabilities	9,275,036	9,160,967
Long-term liabilities	2,125,422	2,172,065
Total liabilities	11,400,458	11,333,032
<u>Net Assets</u>		
Invested in capital assets, net of related debt	4,408,377	4,203,080
Restricted	54,313	449,357
Unrestricted	1,443,042	717,798
Total net assets	\$ 5,905,732	\$ 5,370,235

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2012, the District's assets exceeded liabilities by \$5,905,732.

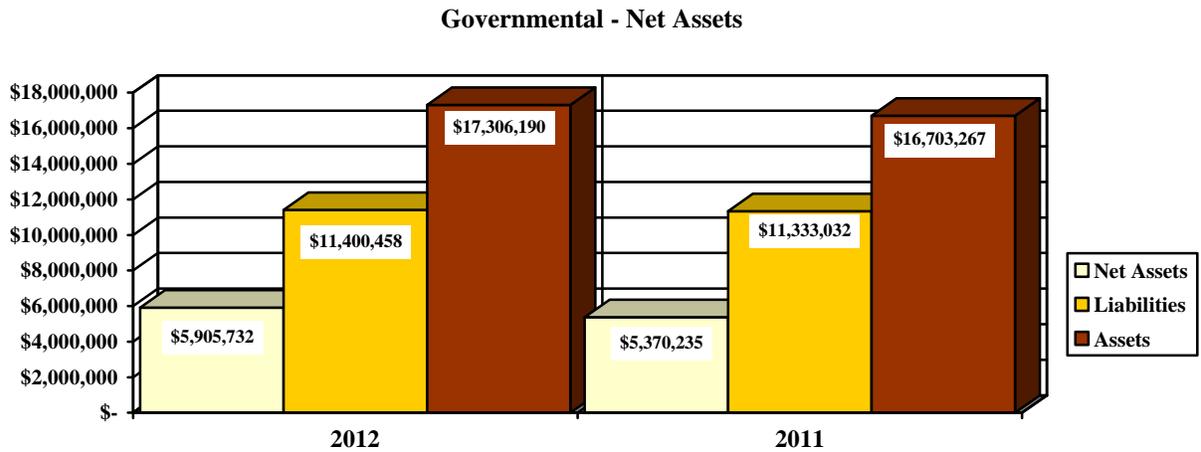
**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

At year-end, capital assets represented 31.79% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2012, were \$4,408,377. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$54,313, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$1,443,042 may be used to meet the District's ongoing obligations to the students and creditors.

The table below provides a summary of the District's net assets at June 30, 2012 and June 30, 2011.



The table below shows the changes in net assets for governmental activities for fiscal years 2012 and 2011.

Change in Net Assets

<u>Revenues</u>	Governmental Activities	
	2012	2011
Program revenues:		
Charges for services and sales	\$ 1,916,371	\$ 1,658,684
Operating grants and contributions	1,343,256	2,369,792
General revenues:		
Property taxes	7,782,708	7,058,688
Grants and entitlements	8,116,583	8,156,898
Investment earnings	23,313	54,662
Other	116,310	66,756
Total revenues	<u>19,298,541</u>	<u>19,365,480</u>

**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

<u>Expenses</u>	Governmental Activities	
	<u>2012</u>	<u>2011</u>
Program expenses:		
Instruction:		
Regular	\$ 7,295,769	\$ 7,473,036
Special	1,952,146	2,069,082
Vocational	263,870	331,644
Other	1,588,960	1,448,947
Support services:		
Pupil	1,136,450	1,218,851
Instructional staff	497,976	548,079
Board of education	26,757	22,204
Administration	1,386,022	1,618,511
Fiscal	417,257	454,720
Operations and maintenance	1,211,421	1,584,412
Pupil transportation	1,354,324	1,343,337
Central	376,112	342,770
Operation of non-instructional services:		
Other non-instructional services	28,955	28,687
Food service operations	678,044	653,054
Extracurricular activities	487,456	594,862
Interest and fiscal charges	<u>61,525</u>	<u>49,294</u>
Total expenses	18,763,044	19,781,490
Changes in net assets	535,497	(416,010)
Net assets at beginning of year	<u>5,370,235</u>	<u>5,786,245</u>
Net assets at end of year	<u>\$ 5,905,732</u>	<u>\$ 5,370,235</u>

Governmental Activities

Net assets of the District's governmental activities increased \$535,497. Total governmental expenses of \$18,763,044 were offset by program revenues of \$3,259,627 and general revenues of \$16,038,914. Program revenues supported 17.37% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These revenue sources represent 82.39% of total governmental revenue. Operating grants and contributions decreased \$1,026,536 or 43.32% primarily because of the decline in education stabilization and education jobs program federal funding. Property tax revenue increased slightly from the prior year due to an emergency tax levy passed in May of 2011 that resulted in increased tax receipts during fiscal year 2012.

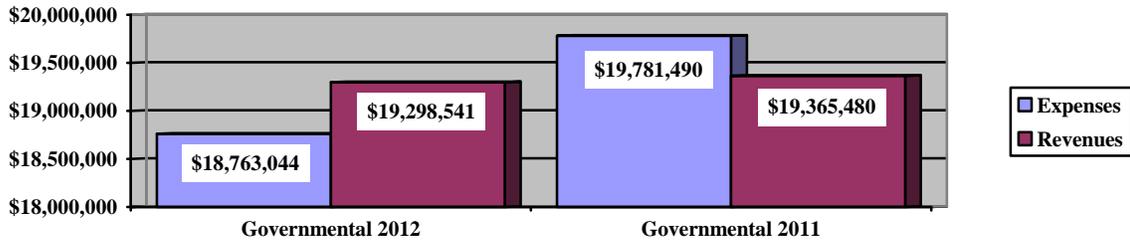
The largest expense of the District is for instructional programs. Instruction expenses totaled \$11,100,745 or 59.16% of total governmental expenses for fiscal year 2012. The overall decrease in expenses incurred by the District during fiscal year 2012 is a result of conservative spending practices across numerous District programs and functions.

**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2012 and 2011.

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 2012 and 2011. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

	Governmental Activities			
	Total Cost of Services 2012	Net Cost of Services 2012	Total Cost of Services 2011	Net Cost of Services 2011
Program expenses:				
Instruction:				
Regular	\$ 7,295,769	\$ 6,037,890	\$ 7,473,036	\$ 6,564,424
Special	1,952,146	1,095,608	2,069,082	960,108
Vocational	263,870	227,768	331,644	295,542
Other	1,588,960	1,588,960	1,448,947	1,212,699
Support services:				
Pupil	1,136,450	1,017,738	1,218,851	710,388
Instructional staff	497,976	464,009	548,079	524,338
Board of education	26,757	26,757	22,204	22,204
Administration	1,386,022	1,386,022	1,618,511	1,618,511
Fiscal	417,257	417,257	454,720	358,774
Operations and maintenance	1,211,421	1,196,549	1,584,412	1,342,010
Pupil transportation	1,354,324	1,294,633	1,343,337	1,282,917
Central	376,112	359,193	342,770	305,911
Operation of non-instructional services:				
Other non-instructional services	28,955	(8,589)	28,687	3,226
Food service operations	678,044	(5,633)	653,054	(534)
Extracurricular activities	487,456	343,730	594,862	503,202
Interest and fiscal charges	61,525	61,525	49,294	49,294
Total expenses	\$ 18,763,044	\$ 15,503,417	\$ 19,781,490	\$ 15,753,014

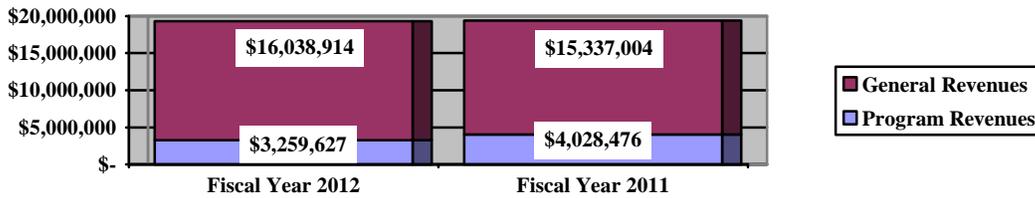
**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

The dependence upon tax revenues and other general revenue during fiscal year 2012 for governmental activities is apparent, as 80.63% of taxes and other general revenues are used to support fiscal year 2012 instruction activities. In fiscal year 2012, general revenues supported 82.63% of all governmental expenditures. The District's taxpayers and grants and entitlements not restricted to specific programs are by far the primary support for the District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2012 and 2011.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds reported a combined fund balance of \$2,064,231, which is more than last year's total balance of \$1,518,004. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2012 and June 30, 2011.

	Fund Balance <u>June 30, 2012</u>	Fund Balance <u>June 30, 2011</u>	Increase/ <u>(Decrease)</u>
General	\$ 1,393,117	\$ 547,017	\$ 846,100
Other Governmental	<u>671,114</u>	<u>970,987</u>	<u>(299,873)</u>
Total	<u>\$ 2,064,231</u>	<u>\$ 1,518,004</u>	<u>\$ 546,227</u>

General Fund

The District's general fund balance increased \$846,100.

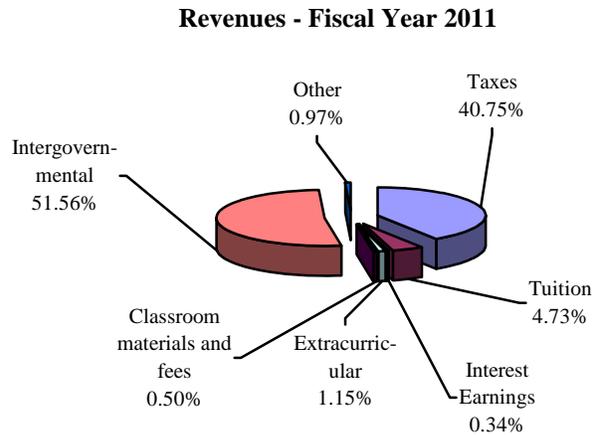
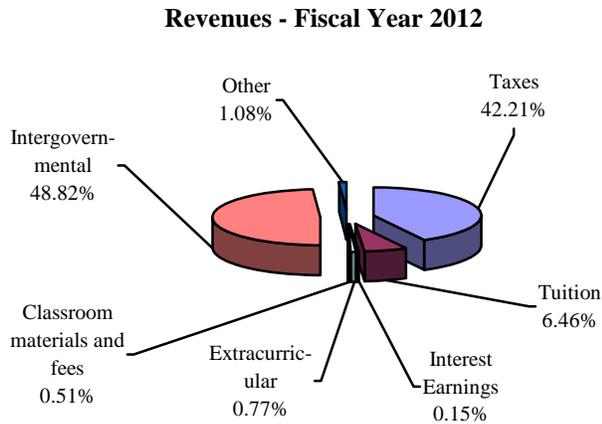
**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

The table that follows assists in illustrating the revenues of the general fund during fiscal years 2012 and 2011.

<u>Revenues</u>	<u>2012 Amount</u>	<u>2011 Amount</u>	<u>Percentage Change</u>
Taxes	\$ 7,275,728	\$ 6,683,274	8.86 %
Tuition	1,113,676	775,696	43.57 %
Interest earnings	26,113	56,114	(53.46) %
Extracurricular	131,872	189,866	(30.54) %
Classroom materials and fees	87,752	82,300	6.62 %
Intergovernmental	8,413,420	8,459,159	(0.54) %
Other revenues	<u>186,505</u>	<u>159,193</u>	<u>17.16 %</u>
Total	<u>\$ 17,235,066</u>	<u>\$ 16,405,602</u>	<u>5.06 %</u>

Overall revenues of the general fund increased \$829,464 or 5.06%. Tax revenue increased \$592,454 or 8.86% primarily due to an emergency tax levy passed in May of 2011 that resulted in increased tax receipts during fiscal year 2012. Tuition revenue increased \$337,980 or 43.57% mainly due to a significant increase in open enrollment receipts during fiscal year 2012. Interest earnings decreased \$30,001 or 53.46% due to declining interest rates. Extracurricular revenue decreased \$57,994 or 30.54% primarily due to a decline in extracurricular receipts reported as part of middle school activities.



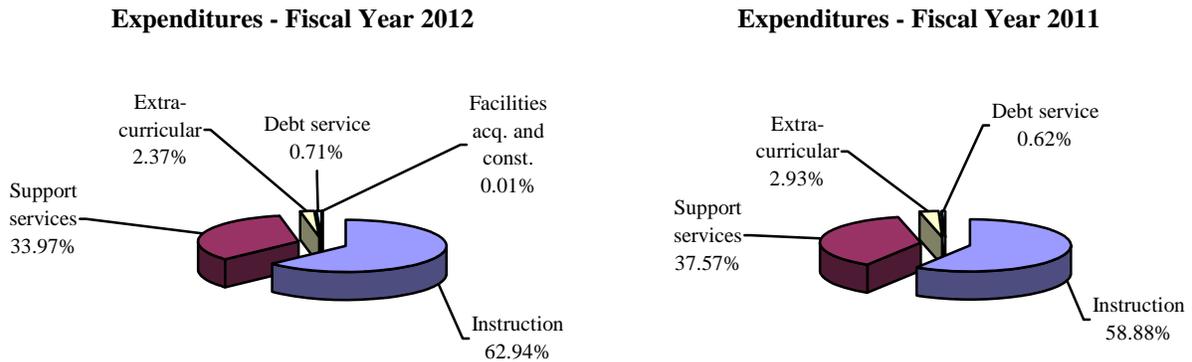
**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

The table that follows assists in illustrating the expenditures of the general fund during fiscal years 2012 and 2011.

<u>Expenditures</u>	<u>2012 Amount</u>	<u>2011 Amount</u>	<u>Percentage Change</u>
Instruction	\$ 10,317,617	\$ 10,089,636	2.26 %
Support services	5,566,673	6,438,102	(13.54) %
Extracurricular activities	387,686	501,393	(22.68) %
Facilities acquisition and construction	250	-	100.00 %
Debt service	<u>116,740</u>	<u>106,340</u>	<u>9.78 %</u>
Total	<u>\$ 16,388,966</u>	<u>\$ 17,135,471</u>	<u>(4.36) %</u>

Overall expenditures of the general fund decreased \$746,505 or 4.36%. Support services expenditures decreased \$871,429 or 13.54% primarily due to declining costs incurred by the District related to counseling services and pupil transportation. Extracurricular activities expenditures decreased \$113,707 or 22.68% mainly due to the elimination of swimming as a high school varsity sport, the elimination of all freshmen sports, and the combination of the athletic director position with the middle school principal position beginning in fiscal year 2012.



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 and other financing sources of \$16,450,788 were \$190,824 less than final budgeted amounts of \$16,641,612. Actual revenues and other financing sources were \$16,897,222, which was \$255,610 more than the final budget.

General fund original appropriations (appropriated expenditures plus other financing uses) of \$17,390,738 were \$333,394 less than final budgeted amounts of \$17,724,132. The actual budget basis expenditures and other financing uses for fiscal year 2012 totaled \$16,727,347, which was \$996,785 less than the final budget.

**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2012, the District had \$5,502,260 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles.

The following table shows June 30, 2012 balances compared to those at June 30, 2011.

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

	Governmental Activities	
	2012	2011
Land	\$ 851,565	\$ 851,565
Construction in progress	-	192,933
Land improvements	773,356	629,254
Buildings and improvements	2,546,436	2,346,349
Furniture and equipment	517,337	322,752
Vehicles	813,566	965,715
Total	\$ 5,502,260	\$ 5,308,568

The overall increase in capital assets of \$193,692 is due to capital outlays of \$638,165 exceeding depreciation expense of \$414,650. Total disposals to capital assets for fiscal year 2012 were \$29,823 (net of accumulated depreciation).

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

Debt Administration

At June 30, 2012 the District had \$930,000 in energy conservation improvement bonds outstanding and \$182,448 in capital lease obligations. Of this total, \$101,155 is due within one year and \$1,011,293 is due in more than one year. The following table summarizes the long-term obligations outstanding at June 30, 2012 and June 30, 2011.

	Governmental Activities	
	2012	2011
Energy conservation improvement bonds	\$ 930,000	\$ 995,000
Capital lease obligations	182,448	110,488
Total	\$ 1,112,448	\$ 1,105,488

At June 30, 2012, the District's overall legal debt margin was \$26,374,185 with an unvoted debt margin of \$303,380.

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

**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Current Financial Related Activities

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

District enrollment decreased again in fiscal year 2012, 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 57 students in fiscal year 2012. The District experienced a net loss of approximately \$2,500 in fiscal year 2007, which grew to a net loss of \$181,444 in fiscal year 2011 on open enrollment. The implementation of full open enrollment resulted in a net gain of \$205,798 in fiscal year 2012. An additional increase of 60 open enrolled students is expected for fiscal year 2013.

In fiscal year 2012, the District continued to act to reduce costs with the elimination of classified, certified and administrative positions. In fiscal year 2012, 16 positions were eliminated through attrition and reductions-in-force. The technology department was outsourced for cost savings and performance improvement. Federal education jobs funds not spent in fiscal year 2011 were used to preserve cash flow in fiscal year 2012. Another 5 positions were reduced for fiscal year 2013 to offset the total loss of all federal stimulus funds and reductions in federal Title funding.

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. The District has implemented an e-school to improve services to at-risk students and as a District option to compete with community schools. The District has also attained an "Excellent" academic rating in fiscal year 2012, and if State report card data is released, the District expects an "Excellent with Distinction" rating this fall for fiscal year 2013.

Since the District relies on the State for approximately 50% of the general operating revenues, one of the largest challenges facing the District is that of State funding. The State of Ohio was found by the Supreme Court in March 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 little property tax wealth. On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional. At this time, the District is unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

The State has ended the "Evidence Based Funding" model and has provided a "Bridge Formula" funding for fiscal year 2012 and fiscal year 2013. The State is defining a new funding formula, which may be effective for fiscal year 2014. As of June 30, 2012, the District is unaware of the status of its State funding for fiscal year 2014. Additional reductions in State funding began in fiscal year 2012 with the elimination of taxable personal property reimbursements. The net result of the changes in State and federal funding is a decline in intergovernmental revenue in fiscal year 2012, which is forecasted to stabilize at that lower level for fiscal year 2013 and beyond.

**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

In May of 2007, the community voted down a \$24.6 million bond issue to build a new high school. With the many changes occurring with the Ohio Schools Facilities Commission and 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.

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

Contacting the District's Financial Management

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

**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

STATEMENT OF NET ASSETS
JUNE 30, 2012

	Governmental Activities
Assets:	
Equity in pooled cash and investments	\$ 3,170,307
Receivables:	
Taxes	8,533,616
Accounts	28,714
Intergovernmental	22,645
Accrued interest	1,059
Prepayments	22,377
Materials and supplies inventory	6,647
Unamortized bond issuance costs	18,565
Capital assets:	
Land	851,565
Depreciable capital assets, net	4,650,695
Total capital assets, net	5,502,260
 Total assets	 17,306,190
 Liabilities:	
Accounts payable	57,315
Contracts payable	71,475
Accrued wages and benefits	1,394,146
Pension obligation payable	391,564
Intergovernmental payable	71,252
Accrued interest payable	3,832
Unearned revenue	7,285,452
Long-term liabilities:	
Due within one year	305,492
Due in more than one year	1,819,930
 Total liabilities	 11,400,458
 Net Assets:	
Invested in capital assets, net of related debt	4,408,377
Restricted for:	
Student activities	17,031
Other purposes	37,282
Unrestricted	1,443,042
 Total net assets	 \$ 5,905,732

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Expenses	Program Revenues		Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Revenue and Changes in Net Assets
				Governmental Activities
Governmental activities:				
Instruction:				
Regular	\$ 7,295,769	\$ 1,206,154	\$ 51,725	\$ (6,037,890)
Special	1,952,146	46,562	809,976	(1,095,608)
Vocational	263,870	-	36,102	(227,768)
Other	1,588,960	-	-	(1,588,960)
Support services:				
Pupil	1,136,450	67,693	51,019	(1,017,738)
Instructional staff	497,976	327	33,640	(464,009)
Board of education	26,757	-	-	(26,757)
Administration	1,386,022	-	-	(1,386,022)
Fiscal	417,257	-	-	(417,257)
Operations and maintenance	1,211,421	14,872	-	(1,196,549)
Pupil transportation	1,354,324	8,785	50,906	(1,294,633)
Central	376,112	10,119	6,800	(359,193)
Operation of non-instructional services:				
Other non-instructional services	28,955	37,544	-	8,589
Food service operations	678,044	380,589	303,088	5,633
Extracurricular activities	487,456	143,726	-	(343,730)
Interest and fiscal charges	61,525	-	-	(61,525)
Totals	\$ 18,763,044	\$ 1,916,371	\$ 1,343,256	(15,503,417)

General Revenues:

Property taxes levied for:	
General purposes	7,410,680
Capital outlay	372,028
Grants and entitlements not restricted	
to specific programs	8,116,583
Investment earnings	23,313
Miscellaneous	116,310
Total general revenues	16,038,914
Change in net assets	535,497
Net assets at beginning of year	5,370,235
Net assets at end of year	\$ 5,905,732

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash and investments	\$ 2,340,309	\$ 829,998	\$ 3,170,307
Receivables:			
Taxes	8,152,528	381,088	8,533,616
Accounts	28,714	-	28,714
Intergovernmental	-	22,645	22,645
Accrued interest	1,059	-	1,059
Prepayments	21,021	1,356	22,377
Materials and supplies inventory	-	6,647	6,647
Total assets	<u>\$ 10,543,631</u>	<u>\$ 1,241,734</u>	<u>\$ 11,785,365</u>
Liabilities:			
Accounts payable	\$ 56,430	\$ 885	\$ 57,315
Contracts payable	-	71,475	71,475
Accrued wages and benefits	1,283,377	110,769	1,394,146
Compensated absences payable	137,692	4,425	142,117
Pension obligation payable	362,712	28,852	391,564
Intergovernmental payable	52,978	18,274	71,252
Deferred revenue	293,589	14,224	307,813
Unearned revenue	<u>6,963,736</u>	<u>321,716</u>	<u>7,285,452</u>
Total liabilities	<u>9,150,514</u>	<u>570,620</u>	<u>9,721,134</u>
Fund Balances:			
Nonspendable:			
Prepayments	21,021	1,356	22,377
Materials and supplies inventory	-	6,647	6,647
Restricted:			
Food service operations	-	42,065	42,065
Targeted academic assistance	-	4,011	4,011
Extracurricular	-	17,031	17,031
Committed:			
Capital improvements	-	620,753	620,753
Termination benefits	101,991	-	101,991
Latchkey program	-	16,975	16,975
Other purposes	-	28,624	28,624
Assigned:			
Student instruction	13,483	-	13,483
Student and staff support	98,801	-	98,801
School supplies	19	-	19
Subsequent year appropriations	5,261	-	5,261
Unassigned (deficit)	<u>1,152,541</u>	<u>(66,348)</u>	<u>1,086,193</u>
Total fund balances	<u>1,393,117</u>	<u>671,114</u>	<u>2,064,231</u>
Total liabilities and fund balances	<u>\$ 10,543,631</u>	<u>\$ 1,241,734</u>	<u>\$ 11,785,365</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2012

Total governmental fund balances		\$	2,064,231
<i>Amounts reported for governmental activities on the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			5,502,260
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes receivable	\$	304,753	
Accounts receivable		2,792	
Accrued interest receivable		268	
Total			307,813
Unamortized bond issuance costs are not recognized in the funds.			18,565
On the statement of net assets interest is accrued on outstanding bonds, whereas in governmental funds, interest is reported when due.			(3,832)
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		(930,000)	
Capital lease obligation payable		(182,448)	
Compensated absences payable		(870,857)	
Total			(1,983,305)
Net assets of governmental activities			\$ 5,905,732

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Taxes	\$ 7,275,728	\$ 366,777	\$ 7,642,505
Tuition	1,113,676	-	1,113,676
Transportation fees	8,785	-	8,785
Charges for services	-	380,589	380,589
Earnings on investments	26,113	-	26,113
Extracurricular	131,872	86,843	218,715
Classroom materials and fees	87,752	-	87,752
Rental income	14,872	-	14,872
Contributions and donations	8,302	-	8,302
Contract services	3,150	-	3,150
Other local revenues	151,396	45,444	196,840
Intergovernmental - state	8,364,168	83,494	8,447,662
Intergovernmental - federal	49,252	1,353,362	1,402,614
Total revenues	17,235,066	2,316,509	19,551,575
Expenditures:			
Current:			
Instruction:			
Regular	7,136,245	59,569	7,195,814
Special	1,324,773	636,137	1,960,910
Vocational	280,314	-	280,314
Other	1,576,285	-	1,576,285
Support services:			
Pupil	769,701	402,538	1,172,239
Instructional staff	484,184	33,720	517,904
Board of education	26,757	-	26,757
Administration	1,427,837	12	1,427,849
Fiscal	408,822	6,173	414,995
Operations and maintenance	1,025,023	20,595	1,045,618
Pupil transportation	1,165,318	-	1,165,318
Central	259,031	90,443	349,474
Operation of non-instructional services:			
Other non-instructional services	-	28,955	28,955
Food service operations	-	675,187	675,187
Extracurricular activities	387,686	88,809	476,495
Facilities acquisition and construction	250	540,884	541,134
Capital outlay	-	119,878	119,878
Debt service:			
Principal retirement	65,000	21,452	86,452
Interest and fiscal charges	51,740	8,616	60,356
Total expenditures	16,388,966	2,732,968	19,121,934
Excess (deficiency) of revenues over (under) expenditures	846,100	(416,459)	429,641
Other financing sources (uses):			
Transfers in	-	7,386	7,386
Transfers (out)	-	(7,386)	(7,386)
Inception of capital lease	-	119,878	119,878
Total other financing sources (uses)	-	119,878	119,878
Net change in fund balances	846,100	(296,581)	549,519
Fund balances at beginning of year	547,017	970,987	1,518,004
Decrease in reserve for inventory	-	(3,292)	(3,292)
Fund balances at end of year	\$ 1,393,117	\$ 671,114	\$ 2,064,231

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

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, 2012

Net change in fund balances - total governmental funds	\$	549,519
<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	\$ 638,165	
Current year depreciation	<u>(414,650)</u>	
Total		223,515
Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.		
		(29,823)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Taxes	140,203	
Earnings on investments	(2,800)	
Intergovernmental revenue	<u>(390,437)</u>	
Total		(253,034)
Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as an expense when consumed.		
		(3,292)
Capital lease transactions are recorded as an other financing source in the funds; however, in the statement of activities, they are not reported as revenues as they increase the liabilities on the statement of net assets.		
		(119,878)
Capital lease obligation payable balance forgiven as part of a lease trade-in agreement reduces the long-term obligations on the statement of net assets.		
		26,466
Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.		
		86,452
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. The following items resulted in additional interest being reported in the statement of activities:		
Decrease in accrued interest payable	268	
Amortization of bond issuance costs	<u>(1,437)</u>	
Total		(1,169)
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>56,741</u>
Change in net assets of governmental activities	\$	<u>535,497</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

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, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Taxes	\$ 7,198,317	\$ 7,088,954	\$ 7,131,450	\$ 42,496
Tuition	890,766	1,102,879	1,113,676	10,797
Transportation fees	11,004	11,000	9,840	(1,160)
Earnings on investments	40,013	33,500	37,845	4,345
Extracurricular	55,022	55,083	56,883	1,800
Classroom materials and fees	46,603	45,087	56,146	11,059
Rental income	29,006	14,291	14,872	581
Contributions and donations	-	41	41	-
Other local revenues	34,876	85,580	92,208	6,628
Intergovernmental - state	8,145,175	8,189,854	8,364,168	174,314
Total revenues	16,450,782	16,626,269	16,877,129	250,860
Expenditures:				
Current:				
Instruction:				
Regular	7,338,253	7,425,642	7,330,205	95,437
Special	1,471,781	1,431,876	1,338,974	92,902
Vocational	285,362	321,799	300,210	21,589
Other	1,510,177	1,575,096	1,551,089	24,007
Support services:				
Pupil	789,018	801,934	726,886	75,048
Instructional staff	503,054	512,914	504,603	8,311
Board of education	23,831	27,889	27,113	776
Administration	1,549,387	1,571,701	1,496,145	75,556
Fiscal	422,013	441,961	431,811	10,150
Operations and maintenance	1,290,069	1,364,550	1,054,825	309,725
Pupil transportation	1,314,575	1,328,493	1,211,816	116,677
Central	289,097	390,619	280,928	109,691
Extracurricular activities	496,378	437,920	386,535	51,385
Facilities acquisition and construction	16,141	250	250	-
Debt service:				
Principal retirement	65,072	65,000	65,000	-
Interest and fiscal charges	2,503	2,488	2,488	-
Total expenditures	17,366,711	17,700,132	16,708,878	991,254
Excess (deficiency) of revenues over (under) expenditures	(915,929)	(1,073,863)	168,251	1,242,114
Other financing sources (uses):				
Refund of prior year expenditures	3	7,926	12,676	4,750
Transfers (out)	(24,027)	(24,000)	(18,469)	5,531
Sale of capital assets	3	7,417	7,417	-
Total other financing sources (uses)	(24,021)	(8,657)	1,624	10,281
Net change in fund balance	(939,950)	(1,082,520)	169,875	1,252,395
Fund balance at beginning of year	1,821,968	1,821,968	1,821,968	-
Prior year encumbrances appropriated	80,837	80,837	80,837	-
Fund balance at end of year	\$ 962,855	\$ 820,285	\$ 2,072,680	\$ 1,252,395

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUND
JUNE 30, 2012

	Agency
Assets:	
Equity in pooled cash and investments	\$ 48,213
Total assets.	\$ 48,213
Liabilities:	
Accounts payable.	\$ 180
Due to students.	48,033
Total liabilities.	\$ 48,213

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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 89 non-certified and 112 certified personnel to provide services to approximately 1,883 students and other community members.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government 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 governments 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**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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)

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

Lake Erie Regional Council (LERC)

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

PUBLIC ENTITY RISK POOL

Workers' Compensation Group Rating Program

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

**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

B. Fund Accounting

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

GOVERNMENTAL FUNDS

Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following 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 of construction of capital facilities and other capital assets, (b) specific revenue sources that are restricted or committed to an expenditure for specified purposes other than debt service or capital projects and (c) financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

FIDUCIARY FUNDS

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

C. Basis of Presentation and Measurement Focus

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

**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

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

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

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

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

D. Basis of Accounting

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

Revenues - Exchange and 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.

**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

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

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2012, but which were levied to finance fiscal year 2013 operations and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at June 30, 2012 are recorded as deferred revenue in the governmental funds.

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

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

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

E. Budgets

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

**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

Tax Budget:

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

Estimated Resources:

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

Appropriations:

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

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

F. Cash and Investments

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

**FIRELANDS LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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

During fiscal year 2012, investments were limited to negotiable certificates of deposit and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio).

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices.

The District has invested funds in STAR Ohio during fiscal year 2012. 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, 2012.

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 2012 amounted to \$26,113 which includes \$7,955 assigned from other District funds.

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

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

G. Inventory

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

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

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

H. Capital Assets

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

**FIRELANDS LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

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

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

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

I. Compensated Absences

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

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

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2012 and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

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

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

**FIRELANDS LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

J. Accrued Liabilities and Long-Term Obligations

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

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

K. Fund Balance

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

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

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

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

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

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

**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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

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

L. Net Assets

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

M. Prepayments

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

N. Estimates

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

O. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. The District has no restricted assets as of June 30, 2012.

**FIRELANDS LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

P. Interfund Activity

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

Q. Unamortized Bond Issuance Costs

On government-wide financial statements, issuance costs are deferred and amortized over the term of the bonds using the straight-line method. Unamortized bond issuance costs are recorded as a separate line item on the statement of net assets.

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 2012.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2012, the District has implemented GASB Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans", and GASB Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions - an Amendment of GASB Statement No. 53".

GASB Statement No. 57 addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans. The implementation of GASB Statement No. 57 did not have an effect on the financial statements of the District.

GASB Statement No. 64 clarifies the circumstances in which a hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of GASB Statement No. 64 did not have an effect on the financial statements of the District.

**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

B. Deficit Fund Balances

Fund balances at June 30, 2012 included the following individual fund deficits:

<u>Nonmajor governmental funds</u>	<u>Deficit</u>
Vocational education enhancement	\$ 11
Education jobs	52,091
Title VI-B	13,880
Improving teacher quality	289

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
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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, 2012, the carrying amount of all District deposits was \$2,782,520. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2012, \$965,866 of the District's bank balance of \$2,878,867 was exposed to custodial risk as discussed below, while \$1,913,001 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, 2012

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

B. Investments

As of June 30, 2012, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>				
		<u>6 months or less</u>	<u>7 to 12 months</u>	<u>13 to 18 months</u>	<u>19 to 24 months</u>	<u>Greater than 24 months</u>
Negotiable CD's	\$ 435,796	\$ -	\$ 184,316	\$ 147,974	\$ -	\$ 103,506
STAR Ohio	204	204	-	-	-	-
Total	<u>\$ 436,000</u>	<u>\$ 204</u>	<u>\$ 184,316</u>	<u>\$ 147,974</u>	<u>\$ -</u>	<u>\$ 103,506</u>

The weighted average maturity of investments is 1.52 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: 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 District's investment policy does not specifically address custodial credit risk beyond the adherence to all relevant sections of the Ohio Revised Code.

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, 2012:

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
Negotiable CD's	\$ 435,796	99.95
STAR Ohio	204	0.05
Total	<u>\$ 436,000</u>	<u>100.00</u>

**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2012:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 2,782,520
Investments	<u>436,000</u>
Total	<u>\$ 3,218,520</u>
 <u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 3,170,307
Agency fund	<u>48,213</u>
Total	<u>\$ 3,218,520</u>

NOTE 5 - INTERFUND TRANSACTIONS

Interfund transfers for the year ended June 30, 2012, consisted of the following, as reported on the fund financial statements:

<u>Transfer to nonmajor governmental fund from:</u>	<u>Amount</u>
Nonmajor governmental fund	<u>\$ 7,386</u>

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

During fiscal year 2012, the District transferred the residual fund balance of the bond retirement fund (a nonmajor governmental fund) to the permanent improvement fund (a nonmajor governmental fund) in accordance with Ohio Revised Code Section 5705.14. Interfund transfers between governmental funds are eliminated for reporting in the statement of activities.

NOTE 6 - PROPERTY TAXES

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

**FIRELANDS LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 6 - PROPERTY TAXES - (Continued)

Property taxes include amounts levied against all real property and public utility property. Real property tax revenues received in calendar year 2012 represent the collection of calendar year 2011 taxes. Real property taxes received in calendar year 2012 were levied after April 1, 2011, on the assessed values as of January 1, 2011, 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 2012 represent the collection of calendar year 2011 taxes. Public utility real and personal property taxes received in calendar year 2012 became a lien on December 31, 2010, were levied after April 1, 2011, 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, 2012, are available to finance fiscal year 2012 operations. The amount available as an advance at June 30, 2012 was \$922,271 in the general fund and \$45,148 in the permanent improvement fund (a nonmajor governmental fund). This amount is recorded as revenue. The amount available for advance at June 30, 2011 was \$777,993 in the general fund and \$46,005 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, 2012 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to unearned revenue.

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 deferred.

The assessed values upon which the fiscal year 2012 taxes were collected are:

	2011 Second Half Collections		2012 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 292,198,430	96.40	\$ 291,965,060	96.24
Public utility personal	10,436,040	3.44	11,414,770	3.76
Tangible personal property	<u>474,320</u>	<u>0.16</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 303,108,790</u>	<u>100.00</u>	<u>\$ 303,379,830</u>	<u>100.00</u>
 Tax rate per \$1,000 of assessed valuation	 \$47.03		 \$51.98	

**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 7 - RECEIVABLES

Receivables at June 30, 2012 consisted of taxes, accounts (billings for user charged services and student fees), intergovernmental grants and entitlements and accrued interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental activities:

Taxes	\$ 8,533,616
Accounts	28,714
Intergovernmental	22,645
Accrued interest	<u>1,059</u>
Total receivables	<u>\$ 8,586,034</u>

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

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	<u>Balance</u> <u>June 30, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2012</u>
Governmental activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 851,565	\$ -	\$ -	\$ 851,565
Construction in progress	<u>192,933</u>	<u>31,623</u>	<u>(224,556)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>1,044,498</u>	<u>31,623</u>	<u>(224,556)</u>	<u>851,565</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,319,095	193,232	-	1,512,327
Buildings and improvements	9,501,482	302,117	-	9,803,599
Furniture and equipment	1,709,164	312,915	(128,870)	1,893,209
Vehicles	<u>1,878,671</u>	<u>22,834</u>	<u>(125,651)</u>	<u>1,775,854</u>
Total capital assets, being depreciated	<u>14,408,412</u>	<u>831,098</u>	<u>(254,521)</u>	<u>14,984,989</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(689,841)	(49,130)	-	(738,971)
Buildings and improvements	(7,155,133)	(102,030)	-	(7,257,163)
Furniture and equipment	(1,386,412)	(91,538)	102,078	(1,375,872)
Vehicles	<u>(912,956)</u>	<u>(171,952)</u>	<u>122,620</u>	<u>(962,288)</u>
Total accumulated depreciation	<u>(10,144,342)</u>	<u>(414,650)</u>	<u>224,698</u>	<u>(10,334,294)</u>
Governmental activities capital assets, net	<u>\$ 5,308,568</u>	<u>\$ 448,071</u>	<u>\$ (254,379)</u>	<u>\$ 5,502,260</u>

**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 8 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental activities as follows:

Instruction:	
Regular	\$ 81,349
Special	5,153
Vocational	5,750
Support services:	
Pupil	2,747
Instructional staff	3,337
Administration	5,437
Operations and maintenance	98,755
Pupil transportation	165,307
Central	32,916
Extracurricular activities	10,961
Food service operations	<u>2,938</u>
Total depreciation expense	<u>\$ 414,650</u>

NOTE 9 - CAPITALIZED LEASES - LESSEE DISCLOSURE

In fiscal year 2012 and a prior fiscal year, the District entered into capitalized leases for copier equipment. These lease agreements met the criteria of a capital lease as defined by generally accepted accounting principles, which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the fund financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

Capital assets consisting of copier equipment have been capitalized in the amount of \$203,900. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2012 for this equipment was \$37,194, leaving a current book value of \$166,706. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2012 totaled \$21,452 paid by the permanent improvement fund (a nonmajor governmental fund). The District also disposed of capital leases in the amount of \$26,466 during fiscal year 2012.

**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the future minimum lease payments as of June 30, 2012:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2013	\$ 49,444
2014	49,444
2015	49,444
2016	49,443
2017	<u>19,376</u>
Total minimum lease payments	217,151
Less amount representing interest	<u>(34,703)</u>
Total	<u>\$ 182,448</u>

NOTE 10 - LONG-TERM OBLIGATIONS

A. During fiscal year 2012, the following changes occurred in governmental activities long-term obligations:

	<u>Balance</u>			<u>Balance</u>	<u>Amounts</u>
	<u>June 30, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2012</u>	<u>Due in</u>
					<u>One Year</u>
Governmental activities:					
Compensated absences	\$ 1,066,577	\$ 163,405	\$ (217,008)	\$ 1,012,974	\$ 204,337
Energy conservation improvement bonds	995,000	-	(65,000)	930,000	65,000
Capital lease obligations	<u>110,488</u>	<u>119,878</u>	<u>(47,918)</u>	<u>182,448</u>	<u>36,155</u>
Total governmental activities long-term liabilities	<u>\$ 2,172,065</u>	<u>\$ 283,283</u>	<u>\$ (329,926)</u>	<u>\$ 2,125,422</u>	<u>\$ 305,492</u>

Compensated Absences: Compensated absences are paid primarily from the general fund, the food service fund (a nonmajor governmental fund) and the Title I 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 liabilities 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 \$49,252 in the general fund. The balance of these bonds at June 30, 2012 in the amount of \$930,000 has been included on the statement of net assets.

**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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
2013	\$ 65,000	\$ 48,360	\$ 113,360
2014	65,000	44,980	109,980
2015	70,000	41,600	111,600
2016	70,000	37,960	107,960
2017	70,000	34,320	104,320
2018 - 2022	350,000	117,000	467,000
2023 - 2025	240,000	26,520	266,520
Total	<u>\$ 930,000</u>	<u>\$ 350,740</u>	<u>\$ 1,280,740</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, 2012, are a voted debt margin of \$26,374,185 and an unvoted debt margin of \$303,380.

NOTE 11 - COMPENSATED ABSENCES

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

All employees are entitled to a sick leave credit equal to one and one-quarter days for each month of service (earned on a pro rata basis for less than full-time employees). This sick leave will either be absorbed by time off due to illness or injury or, within certain limitations, be paid to the employee upon retirement. The amount paid to an employee upon retirement is limited to one-quarter of the accumulated sick leave to a maximum payout of 72 days for certified employees and 67 days for classified employees depending on the amount of years the employee has been with the District.

**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 11 - COMPENSATED ABSENCES - (Continued)

The District provides a retirement incentive plan for State Teacher's Retirement System of Ohio (STRS Ohio). In fiscal year 2012, employees who enrolled in the retirement incentive plan will receive an \$18,000 cash payment payable in January 2013. Only employees with 30 years of STRS Ohio service, but less than 31 years of STRS Ohio service were eligible for the incentive. No employees took advantage of the retirement incentive in fiscal year 2012.

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 2012, 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)	\$42,526,457 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 2011.

B. Employee Health and Dental

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

C. Workers' Compensation Rating Program

For fiscal year 2012, 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**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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 2012, 12.65 percent and 0.05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2012, 2011 and 2010 were \$298,224, \$279,408 and \$293,117, respectively; 58.55 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

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
LORAIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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 2012, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2012, 2011 and 2010 were \$1,074,584, \$1,100,019 and \$1,062,150, respectively; 83.55 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010. Contributions to the DC and Combined Plans for fiscal year 2012 were \$26,699 made by the District and \$19,071 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, 2012, 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 premium for calendar year 2011 (latest information available) was \$96.40 for most participants, but could be as high as \$369.10 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
LORAIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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 2012, 0.55 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 2012, the actuarially determined amount was \$35,800.

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, 2012, 2011 and 2010 were \$49,577, \$69,569 and \$48,167, respectively; 58.55 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2012, this actuarially required allocation was 0.75 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010 were \$17,612, \$17,981 and \$17,431, respectively; 58.55 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

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 2012, 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, 2012, 2011 and 2010 were \$82,660, \$84,617 and \$81,704, respectively; 83.55 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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 and disbursements.

The statement of revenue, 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	\$ 169,875
Net adjustment for revenue accruals	188,179
Net adjustment for expenditure accruals	412,183
Net adjustment for other sources/uses	(1,624)
Funds budgeted elsewhere	(39,347)
Adjustment for encumbrances	116,834
GAAP basis	<u>\$ 846,100</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**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 16 - CONTINGENCIES

A. Grants and ADM

The Auditor of State is currently performing a statewide review of supporting documentation for student attendance data reported to the Ohio Department of Education. The results of this review are still pending and will be reported separately to the Ohio Department of Education at a later date.

The District received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. This also encompasses the Auditor of State's ongoing review of student attendance data. However, the effect of any such disallowed claims on the overall financial position of the District at June 30, 2012, if applicable, cannot be determined at this time.

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 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.

	<u>Capital Improvements</u>
Set-aside balance June 30, 2011	\$ -
Current year set-aside requirement	319,225
Current year qualifying expenditures	(87,603)
Current year offsets	<u>(478,324)</u>
Total	<u>\$ (246,702)</u>
Balance carried forward to fiscal year 2013	<u>\$ -</u>
Set-aside balance June 30, 2012	<u>\$ -</u>

**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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 Type</u>	<u>Year-End Encumbrances</u>
General fund	\$ 85,236
Nonmajor governmental funds	<u>39,370</u>
 Total	 <u>\$ 124,606</u>

NOTE 19 - OPERATING LEASE DISCLOSURE

During fiscal year 2012, 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>
2013	\$ 2,832
2014	2,832
2015	2,832
2016	<u>2,832</u>
Total	<u>\$ 11,328</u>

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FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY

SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2012

<u>Federal Grantor</u> <i>Pass Through Grantor</i> Program Title	Grant Year	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed Through the Ohio Department of Education:</i>						
<i>Child Nutrition Cluster:</i>						
School Breakfast Program	2012	10.553	\$44,203	\$0	\$44,203	\$0
National School Lunch Program	2011	10.555	220,489	33,495	220,489	33,495
Total U.S. Department of Agriculture			<u>264,692</u>	<u>33,495</u>	<u>264,692</u>	<u>33,495</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed Through the Ohio Department of Education:</i>						
Special Education - Grants to States	2011	84.027	(8,340)	0	3,817	0
Special Education - Grants to States	2012	84.027	411,517	0	410,382	0
ARRA Special Education - Grants to States	2011	84.391	0	0	15,427	0
Total Special Education - Grants to States			<u>403,177</u>	<u>0</u>	<u>429,626</u>	<u>0</u>
Title I Grants to Local Educational Agencies	2011	84.010	2,095	0	16,726	0
Title I Grants to Local Educational Agencies	2012	84.010	185,711	0	185,711	0
Total Title I Grants to Local Educational Agencies			<u>187,806</u>	<u>0</u>	<u>202,437</u>	<u>0</u>
Education Technology State Grants	2012	84.318	1,400	0	1,400	0
Improving Teacher Quality State Grants	2011	84.367	2,165	0	10,941	0
Improving Teacher Quality State Grants	2012	84.367	49,128	0	45,380	0
Total Improving Teacher Quality State Grants			<u>51,293</u>	<u>0</u>	<u>56,321</u>	<u>0</u>
Educations Job Fund	2012	84.410	400,917		400,917	
Total U.S. Department of Education			<u>1,044,593</u>	<u>0</u>	<u>1,090,701</u>	<u>0</u>
Total All Federal Awards			<u>\$1,309,285</u>	<u>\$33,495</u>	<u>\$1,355,393</u>	<u>\$33,495</u>

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

**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2012**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) reports the Firelands Local School District (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 programs that benefitted from the use of those donated food commodities.

NOTE D - TRANSFERS BETWEEN PROGRAM YEARS

Federal regulations require schools to obligate certain federal awards by June 30. However, with ODE's consent, schools can transfer unobligated amounts to the subsequent fiscal year's program. These transfers resulted in the Schedule reporting negative receipts. The District transferred the following amounts from 2011 to 2012 program:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount Transferred from 2011 to 2012</u>
Special Education - Grants to States	84.027	\$8,340



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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Firelands Local School District, Lorain County, (the District) as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 28, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

A *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 more than a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and timely corrected.

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

Compliance and Other Matters

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

We did note certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated December 28, 2012.

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

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

Dave Yost
Auditor of State

December 28, 2012



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

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

To the Board of Education:

Compliance

We have audited the compliance of Firelands Local School District (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the Firelands Local School District's major federal programs for the year ended June 30, 2012. The *summary of auditor's results* section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to opine on the District's compliance based on our audit.

Our compliance audit followed auditing standards generally accepted in the United States of America; the standards applicable to 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 that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with these requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with these requirements.

In our opinion, the Firelands Local School District complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining 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 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.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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



Dave Yost
Auditor of State

December 28, 2012

**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2012**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	No
(d)(1)(vii)	Major Programs (list):	1.CFDA # 84.410- Education Jobs Fund 2. Nutrition Cluster: CFDA # 10.553-School Breakfast Program CFDA # 10.555-National School Lunch Program
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: All Others
(d)(1)(ix)	Low Risk Auditee?	No

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

None.

3. FINDINGS FOR FEDERAL AWARDS

None.

**FIRELANDS LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COST
OMB CIRCULAR A -133 § .315 (b)
June 30, 2012**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2011-01	Improper posting of Permanent Improvement Fund real estate taxes to the General Fund.	Yes	Finding is no longer valid
2011-02	Questioned cost based on determining whether certain SFSF grant disbursement were for allowable activities.	Yes	Finding is no longer valid



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INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURE

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

To the Board of Education:

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

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

1. We noted the Board amended its anti-harassment policy at its meeting on June 11, 2012 to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

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

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

December 28, 2012

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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
JANUARY 10, 2013**