



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 N. Lake Street  
South Amherst, Ohio 44001

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Firelands Local School District, Lorain County, Ohio, (the District), as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Firelands Local School District, Lorain County, Ohio, as of June 30, 2011, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3B, the District implemented Governmental Accounting Standard Board Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" and restated the June 30, 2010 fund balances of the Governmental Funds due to a change in fund structure.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 10, 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 relates directly 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

February 10, 2012

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(UNAUDITED)

The management's discussion and analysis of Firelands Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2011. 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 2011 are as follows:

- In total, net assets decreased \$416,010, a 7.19% decrease from fiscal year 2010.
- General revenues accounted for \$15,337,004 in revenue or 79.20% of all revenues. Program specific revenues in the form of charges for services and sales, and operating grants and contributions accounted for \$4,028,476, or 20.80% of total revenues of \$19,365,480.
- The District had \$19,781,490 in expenses related to governmental activities; only \$4,028,476 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 \$15,337,004 were not adequate to provide for these programs.
- The District's only major governmental funds are the general fund and the permanent improvement fund. The District restated fund balances at June 30, 2010 as described in Note 3.B to the basic financial statements. The general fund had \$16,405,602 in revenues and \$17,135,471 in expenditures. During fiscal year 2011, the general fund's fund balance decreased \$729,869 from \$1,276,886 to \$547,017.
- The District's permanent improvement fund had \$535,105 in revenues and other financing sources and \$991,007 in expenditures. During fiscal year 2011, the permanent improvement fund's fund balance decreased \$455,902 from \$1,315,699 to \$859,797.

**Using these Basic Financial Statements**

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(UNAUDITED)

**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 2011?" 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 funds are the general fund and the permanent improvement fund.

***Governmental Funds***

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



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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(UNAUDITED)

***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 23-50 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, 2011 and June 30, 2010.

	<b>Net Assets</b>	
	<b>Governmental</b>	
	<b>Activities</b>	
	2011	2010
<b><u>Assets</u></b>		
Current assets	\$ 11,394,699	\$ 11,781,232
Capital assets, net	5,308,568	3,773,391
Total assets	16,703,267	15,554,623
<b><u>Liabilities</u></b>		
Current liabilities	9,160,967	8,621,733
Long-term liabilities	2,172,065	1,146,645
Total liabilities	11,333,032	9,768,378
<b><u>Net Assets</u></b>		
Invested in capital		
assets, net of related debt	4,203,080	3,734,641
Restricted	1,355,137	1,776,200
Unrestricted (deficit)	(187,982)	275,404
Total net assets	\$ 5,370,235	\$ 5,786,245

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2011, the District's assets exceeded liabilities by \$5,370,235.

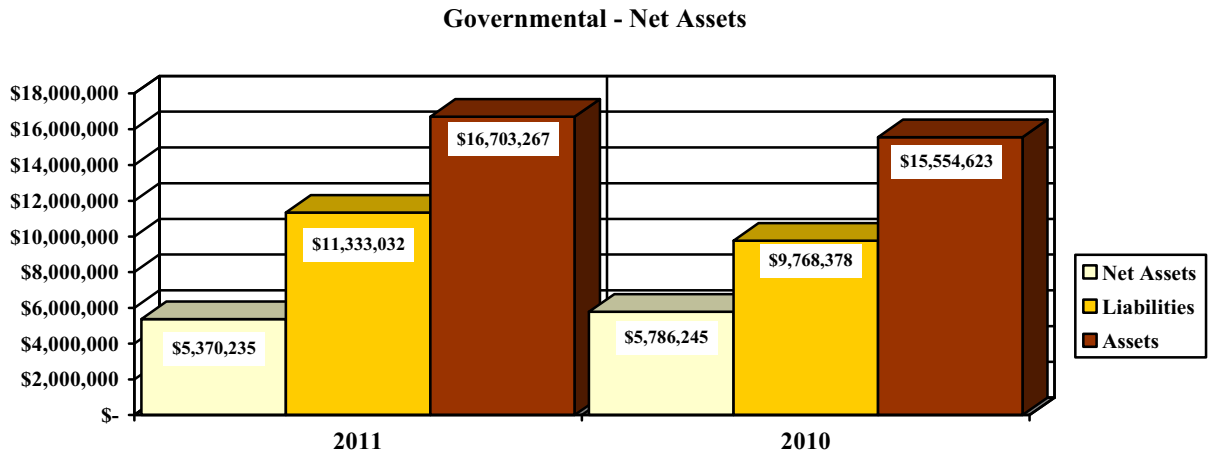
**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(UNAUDITED)

At year-end, capital assets represented 31.78% of total assets. Capital assets include land, construction in progress, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2011, were \$4,203,080. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$1,355,137, represents resources that are subject to external restriction on how they may be used. The District had a remaining deficit balance of unrestricted net assets of \$187,982.

The table below provides a summary of the District's net assets at June 30, 2011 and June 30, 2010:



The table below shows the changes in net assets for governmental activities for fiscal years 2011 and 2010.

**Change in Net Assets**

	Governmental Activities	
	2011	2010
<b>Revenues</b>		
Program revenues:		
Charges for services and sales	\$ 1,658,684	\$ 1,701,810
Operating grants and contributions	2,369,792	1,581,091
General revenues:		
Property taxes	7,058,688	6,757,846
Grants and entitlements	8,156,898	8,722,316
Investment earnings	54,662	139,471
Other	66,756	79,993
<b>Total revenues</b>	<b>19,365,480</b>	<b>18,982,527</b>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(UNAUDITED)

<u>Expenses</u>	Governmental Activities	
	2011	2010
Program expenses:		
Instruction:		
Regular	7,473,036	7,888,899
Special	2,069,082	2,064,321
Vocational	331,644	305,688
Other	1,448,947	1,192,292
Support services:		
Pupil	1,218,851	1,261,840
Instructional staff	548,079	505,076
Board of education	22,204	19,007
Administration	1,618,511	1,586,250
Fiscal	454,720	380,658
Operations and maintenance	1,584,412	1,492,120
Pupil transportation	1,343,337	1,315,623
Central	342,770	365,694
Operation of non-instructional services:		
Other non-instructional services	28,687	31,314
Food service operations	653,054	627,115
Extracurricular activities	594,862	603,482
Interest and fiscal charges	49,294	3,597
Total expenses	19,781,490	19,642,976
Changes in net assets	(416,010)	(660,449)
Net assets at beginning of year	5,786,245	6,446,694
Net assets at end of year	\$ 5,370,235	\$ 5,786,245

**Governmental Activities**

Net assets of the District's governmental activities decreased \$416,010. Total governmental expenses of \$19,781,490 were offset by program revenues of \$4,028,476 and general revenues of \$15,337,004. Program revenues supported 20.36% 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 78.57% of total governmental revenue. The increase in operating grants and contributions is attributable to monies received during fiscal year 2011 related to the Pathway to Student Success program, which is administered through the Ohio Department of Education. The increase is also attributable to federal monies available to the District during fiscal year 2011 related to the Education Jobs program. This increase offsets the decrease in grants and entitlements general revenue. Real estate property is reappraised every six years.

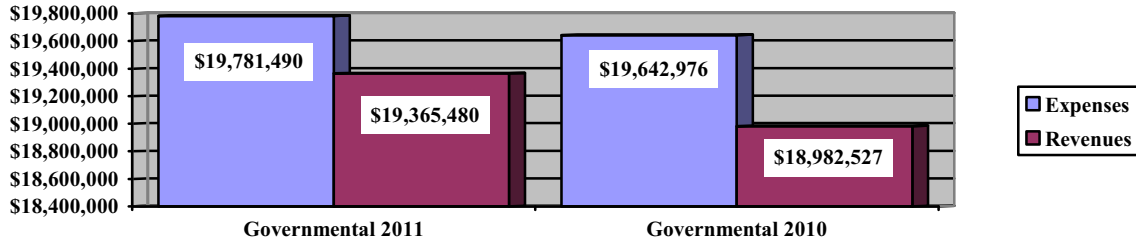
The largest expense of the District is for instructional programs. Instruction expenses totaled \$11,322,709 or 57.24% of total governmental expenses for fiscal year 2011.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(UNAUDITED)

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2011 and 2010.

**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 2011 and 2010. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

	<b>Governmental Activities</b>			
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	2011	2011	2010	2010
Program expenses:				
Instruction:				
Regular	\$ 7,473,036	\$ 6,564,424	\$ 7,888,899	\$ 6,850,486
Special	2,069,082	960,108	2,064,321	1,401,511
Vocational	331,644	295,542	305,688	269,855
Other	1,448,947	1,212,699	1,192,292	857,176
Support services:				
Pupil	1,218,851	710,388	1,261,840	1,092,546
Instructional staff	548,079	524,338	505,076	484,312
Board of education	22,204	22,204	19,007	19,007
Administration	1,618,511	1,618,511	1,586,250	1,586,250
Fiscal	454,720	358,774	380,658	247,321
Operations and maintenance	1,584,412	1,342,010	1,492,120	1,459,176
Pupil transportation	1,343,337	1,282,917	1,315,623	1,239,845
Central	342,770	305,911	365,694	330,450
Operation of non-instructional services:				
Other non-instructional services	28,687	3,226	31,314	8,535
Food service operations	653,054	(534)	627,115	14,523
Extracurricular activities	594,862	503,202	603,482	495,485
Interest and fiscal charges	49,294	49,294	3,597	3,597
<b>Total expenses</b>	<b>\$ 19,781,490</b>	<b>\$ 15,753,014</b>	<b>\$ 19,642,976</b>	<b>\$ 16,360,075</b>

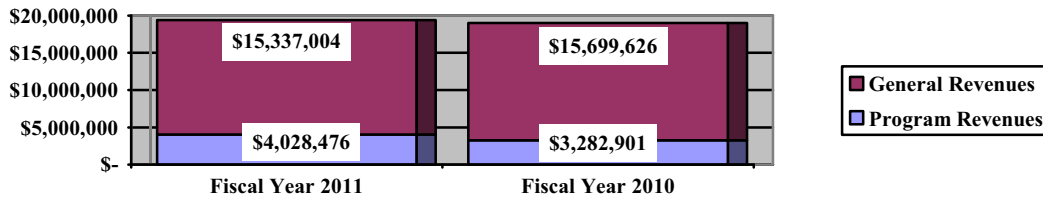
**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(UNAUDITED)

The dependence upon tax revenues and other general revenue during fiscal year 2011 for governmental activities is apparent, as 79.78% of taxes and other general revenues are used to support fiscal year 2011 instruction activities. In fiscal year 2011, general revenues supported 79.64% 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 2011 and 2010.

**Governmental Activities - General and Program Revenues**



**The District's Funds**

The District's governmental funds reported a combined fund balance of \$1,518,004, which is lower than last year's total restated balance of \$2,860,360 (as described in Note 3.B). The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2011 and June 30, 2010.

	Fund Balance <u>June 30, 2011</u>	Restated Fund Balance <u>June 30, 2010</u>	<u>Decrease</u>
General	\$ 547,017	\$ 1,276,886	\$ (729,869)
Permanent Improvement	859,797	1,315,699	(455,902)
Other Governmental	<u>111,190</u>	<u>267,775</u>	<u>(156,585)</u>
Total	<u>\$ 1,518,004</u>	<u>\$ 2,860,360</u>	<u>\$ (1,342,356)</u>

**General Fund**

The District's general fund balance decreased \$729,869.

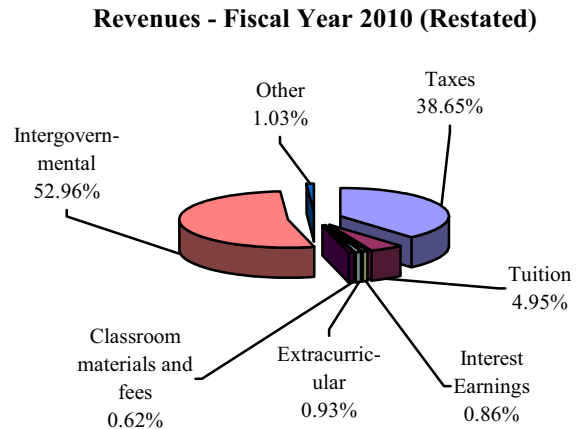
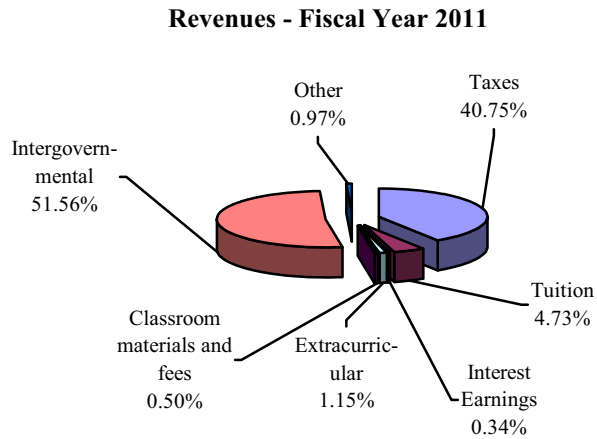
**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(UNAUDITED)**

The table that follows assists in illustrating the revenues of the general fund during fiscal years 2011 and 2010.

<u>Revenues</u>	2011 Amount	Restated 2010 Amount	Percentage Change
Taxes	\$ 6,683,274	\$ 6,386,209	4.65 %
Tuition	775,696	818,309	(5.21) %
Interest earnings	56,114	140,645	(60.10) %
Extracurricular	189,866	153,535	23.66 %
Classroom materials and fees	82,300	102,629	(19.81) %
Intergovernmental	8,459,159	8,749,722	(3.32) %
Other revenues	159,193	170,926	(6.86) %
<b>Total</b>	<u>\$ 16,405,602</u>	<u>\$ 16,521,975</u>	<u>(0.70) %</u>

Overall revenues of the general fund remained consistent during fiscal year 2011, only decreasing 0.70% from the prior year. Tax revenue increased \$297,065 or 4.65% during fiscal year 2011 mainly due to increased real estate tax receipts and an increased amount available for advance from the county auditors at June 30, 2011. Intergovernmental revenue decreased \$290,563 or 3.32% primarily because of a decrease in State foundation receipts during fiscal year 2011. Interest earnings decreased \$84,531 or 60.10% due to declining interest rates in fiscal year 2011.



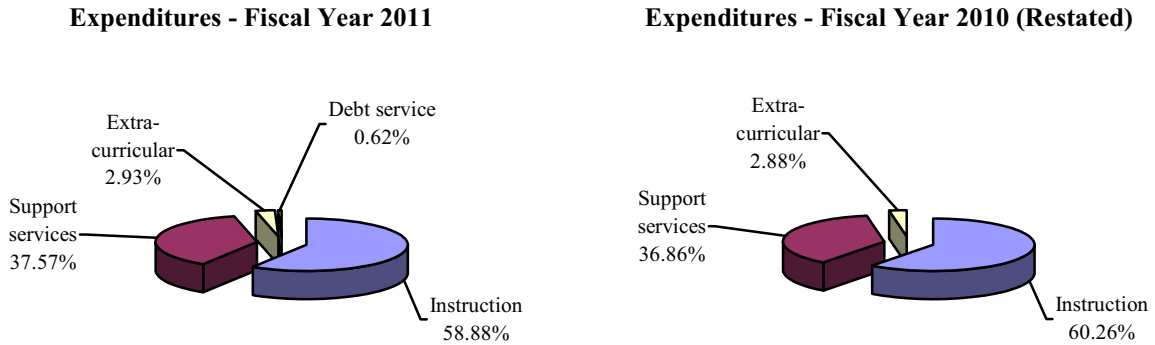
**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(UNAUDITED)

The table that follows assists in illustrating the expenditures of the general fund during fiscal years 2011 and 2010.

<u>Expenditures</u>	2011 <u>Amount</u>	Restated 2010 <u>Amount</u>	Percentage <u>Change</u>
Instruction	\$ 10,089,636	\$ 10,338,382	(2.41) %
Support services	6,438,102	6,324,473	1.80 %
Extracurricular activities	501,393	493,555	1.59 %
Debt service	<u>106,340</u>	<u>-</u>	<u>100.00 %</u>
Total	<u>\$ 17,135,471</u>	<u>\$ 17,156,410</u>	<u>(0.12) %</u>

Overall expenditures of the general fund decreased 0.12% during fiscal year 2011. Expenditures remained comparable to fiscal year 2010 due to the District's effort to remain fiscally responsible during difficult economic times.



***Permanent Improvement Fund***

The District's permanent improvement fund had \$535,105 in revenues and other financing sources and \$991,007 in expenditures. During fiscal year 2011, the permanent improvement fund's fund balance decreased \$455,902 from \$1,315,699 to \$859,797.

***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 \$16,598,010 matched exactly to the final budget. Actual revenues and other financing sources were \$15,873,192, which was \$724,818 less than the final budget.

General fund original appropriations (appropriated expenditures plus other financing uses) of \$17,239,092 exactly matched the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2011 totaled \$16,961,798, which was \$277,294 less than the final budget.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(UNAUDITED)

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal year 2011, the District had \$5,308,568 invested in land, construction in progress, land improvements, buildings and improvements, furniture and equipment and vehicles.

The following table shows June 30, 2011 balances compared to those at June 30, 2010.

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

	Governmental Activities	
	2011	2010
Land	\$ 851,565	\$ 851,565
Construction in progress	192,933	12,615
Land improvements	629,254	582,430
Buildings and improvements	2,346,349	1,153,304
Furniture and equipment	322,752	319,366
Vehicles	965,715	854,111
Total	\$ 5,308,568	\$ 3,773,391

The overall increase in capital assets of \$1,535,177 is due to capital outlays of \$1,947,054 exceeding depreciation expense of \$386,204. Total disposals to capital assets for fiscal year 2011 were \$25,673 (net of accumulated depreciation).

See Note 7 to the basic financial statements for additional information on the District's capital assets.

***Debt Administration***

At June 30, 2011 the District had \$995,000 in energy conservation improvement bonds outstanding and \$110,488 in capital lease obligations. Of this total, \$92,759 is due within one year and \$1,012,729 is due in more than one year. The following table summarizes the long-term obligations outstanding at June 30, 2011 and June 30, 2010.

	Governmental Activities	
	2011	2010
Energy conservation improvement bonds	\$ 995,000	\$ -
Capital lease obligations	110,488	38,750
Total	\$ 1,105,488	\$ 38,750

At June 30, 2011, the District's overall legal debt margin was \$26,249,488 with an unvoted debt margin of \$302,634.

See Note 9 to the basic financial statements for additional information on the District's debt administration.



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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(UNAUDITED)

**Current Financial Related Activities**

The District continues to face a challenging future as do many districts in the State of Ohio. As the preceding information shows, the District relies heavily upon grants and entitlements and property taxes. Since future grant and entitlement revenue stability is in question, the reliance upon local property taxes is increasingly important. In May of 2006, the community approved the renewal of a 5 year emergency levy which raises \$820,000 annually. A new emergency levy was put on the ballot in November of 2010, which failed. This was followed by the passage of a new \$1,500,000 emergency levy in May of 2011. Collections from this levy will not be available to the District until the second half of fiscal year 2012. The continuing mortgage crisis and skyrocketing foreclosures have the District facing reductions in property values during the calendar year 2009 update and calendar year 2012 reappraisal.

District enrollment decreased again in fiscal year 2011, but with the federal stimulus money the District was able to maintain its State funding level with only an approximate 1% reduction. The District acted to improve enrollment trends by enacting statewide open enrollment effective for fiscal year 2012. In fiscal year 2012, the District also acted to reduce costs with the elimination of classified, certified and administrative positions. Sixteen positions were eliminated through attrition and reductions-in-force. Monies related to the Federal Ed Jobs program were not spent in fiscal year 2011 to preserve this cash flow for use in fiscal year 2012.

Another challenge facing the District is the continually growing costs of open enrollment and community school students leaving the District. The District experienced a net loss of approximately \$2,500 in fiscal year 2007 which grew to a net loss of over \$181,000 in fiscal year 2011 on open enrollment. The community schools costs for fiscal year 2011 were over \$277,000. The District has implemented an e-school to improve services to at-risk students and as a District option to compete with community schools.

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 2013. Additional reductions in State funding begin 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 forecast decline in State and federal funding in excess of 10%.

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.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(UNAUDITED)**

**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 Schools Board of Education Office, 112 North Lake Street, South Amherst, Ohio, 44001.

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

STATEMENT OF NET ASSETS  
JUNE 30, 2011

	<b>Governmental Activities</b>
<b>Assets:</b>	
Equity in pooled cash and investments . . . . .	\$ 3,187,833
Receivables:	
Taxes . . . . .	7,700,150
Accounts . . . . .	42,706
Intergovernmental . . . . .	402,500
Accrued interest . . . . .	8,269
Prepayments . . . . .	23,300
Materials and supplies inventory . . . . .	9,939
Unamortized bond issuance costs . . . . .	20,002
Capital assets:	
Land and construction in progress . . . . .	1,044,498
Depreciable capital assets, net . . . . .	4,264,070
Total capital assets, net . . . . .	5,308,568
 Total assets . . . . .	 16,703,267
 <b>Liabilities:</b>	
Accounts payable . . . . .	36,258
Contracts payable . . . . .	36,545
Accrued wages and benefits . . . . .	1,827,955
Pension obligation payable . . . . .	429,887
Intergovernmental payable . . . . .	83,912
Accrued interest payable . . . . .	4,100
Unearned revenue . . . . .	6,742,310
Long-term liabilities:	
Due within one year . . . . .	296,919
Due in more than one year . . . . .	1,875,146
 Total liabilities . . . . .	 11,333,032
 <b>Net Assets:</b>	
Invested in capital assets, net of related debt . . . . .	4,203,080
Restricted for:	
Capital projects . . . . .	868,770
Debt service . . . . .	7,386
State funded programs . . . . .	983
Federally funded programs . . . . .	393,280
Student activities . . . . .	18,997
Other purposes . . . . .	65,721
Unrestricted (deficit) . . . . .	(187,982)
 Total net assets . . . . .	 \$ 5,370,235

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Expenses	Program Revenues		Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Revenue and Changes in Net Assets
				Governmental Activities
<b>Governmental activities:</b>				
Instruction:				
Regular . . . . .	\$ 7,473,036	\$ 841,725	\$ 66,887	\$ (6,564,424)
Special . . . . .	2,069,082	64,347	1,044,627	(960,108)
Vocational . . . . .	331,644	-	36,102	(295,542)
Other . . . . .	1,448,947	-	236,248	(1,212,699)
Support services:				
Pupil . . . . .	1,218,851	166,746	341,717	(710,388)
Instructional staff . . . . .	548,079	296	23,445	(524,338)
Board of education . . . . .	22,204	-	-	(22,204)
Administration . . . . .	1,618,511	-	-	(1,618,511)
Fiscal . . . . .	454,720	-	95,946	(358,774)
Operations and maintenance . . . . .	1,584,412	30,993	211,409	(1,342,010)
Pupil transportation . . . . .	1,343,337	11,064	49,356	(1,282,917)
Central . . . . .	342,770	25,674	11,185	(305,911)
Operation of non-instructional services:				
Other non-instructional services . . . . .	28,687	25,461	-	(3,226)
Food service operations . . . . .	653,054	400,718	252,870	534
Extracurricular activities . . . . .	594,862	91,660	-	(503,202)
Interest and fiscal charges . . . . .	49,294	-	-	(49,294)
<b>Totals . . . . .</b>	<b>\$ 19,781,490</b>	<b>\$ 1,658,684</b>	<b>\$ 2,369,792</b>	<b>(15,753,014)</b>
<b>General Revenues:</b>				
Property taxes levied for:				
General purposes . . . . .				6,676,465
Capital outlay . . . . .				382,223
Grants and entitlements not restricted				
to specific programs . . . . .				8,156,898
Investment earnings . . . . .				54,662
Miscellaneous . . . . .				66,756
Total general revenues . . . . .				15,337,004
Change in net assets . . . . .				(416,010)
<b>Net assets at beginning of year . . . . .</b>				<b>5,786,245</b>
<b>Net assets at end of year . . . . .</b>				<b>\$ 5,370,235</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2011

	<u>General</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>				
Equity in pooled cash and investments. . . . .	\$ 2,102,783	\$ 855,032	\$ 230,018	\$ 3,187,833
Receivables:				
Taxes . . . . .	7,323,161	376,989	-	7,700,150
Accounts . . . . .	42,706	-	-	42,706
Intergovernmental. . . . .	-	-	402,500	402,500
Accrued interest . . . . .	8,269	-	-	8,269
Prepayments. . . . .	21,663	1,560	77	23,300
Materials and supplies inventory. . . . .	-	-	9,939	9,939
Total assets . . . . .	<u>\$ 9,498,582</u>	<u>\$ 1,233,581</u>	<u>\$ 642,534</u>	<u>\$ 11,374,697</u>
<b>Liabilities:</b>				
Accounts payable . . . . .	\$ 30,003	\$ 6,255	\$ -	\$ 36,258
Contracts payable. . . . .	-	36,545	-	36,545
Accrued wages and benefits. . . . .	1,730,376	-	97,579	1,827,955
Compensated absences payable . . . . .	138,979	-	-	138,979
Pension obligation payable . . . . .	398,520	-	31,367	429,887
Intergovernmental payable . . . . .	71,951	-	11,961	83,912
Deferred revenue . . . . .	161,437	8,973	390,437	560,847
Unearned revenue. . . . .	6,420,299	322,011	-	6,742,310
Total liabilities. . . . .	<u>8,951,565</u>	<u>373,784</u>	<u>531,344</u>	<u>9,856,693</u>
<b>Fund Balances:</b>				
Nonspendable:				
Prepayments. . . . .	21,663	1,560	77	23,300
Materials and supplies inventory. . . . .	-	-	9,939	9,939
Restricted:				
Debt service . . . . .	-	-	7,386	7,386
Food service operations . . . . .	-	-	34,089	34,089
Special education . . . . .	-	-	1,887	1,887
Targeted academic assistance . . . . .	-	-	879	879
Extracurricular . . . . .	-	-	18,997	18,997
Other purposes. . . . .	-	-	983	983
Committed:				
Capital improvements . . . . .	-	858,237	-	858,237
Termination benefits. . . . .	119,205	-	-	119,205
Latchkey program . . . . .	-	-	8,386	8,386
Other purposes. . . . .	-	-	28,624	28,624
Assigned:				
Student instruction . . . . .	32,602	-	-	32,602
Student and staff support. . . . .	75,890	-	-	75,890
School supplies . . . . .	29	-	-	29
Unassigned (deficit). . . . .	297,628	-	(57)	297,571
Total fund balances . . . . .	<u>547,017</u>	<u>859,797</u>	<u>111,190</u>	<u>1,518,004</u>
Total liabilities and fund balances . . . . .	<u>\$ 9,498,582</u>	<u>\$ 1,233,581</u>	<u>\$ 642,534</u>	<u>\$ 11,374,697</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2011

<b>Total governmental fund balances</b>		\$	1,518,004
<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.			5,308,568
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes receivable	\$	164,550	
Accounts receivable		2,792	
Intergovernmental receivable		390,437	
Accrued interest receivable		<u>3,068</u>	
Total			560,847
Unamortized bond issuance costs are not recognized in the funds.			20,002
On the statement of net assets interest is accrued on outstanding bonds, whereas in governmental funds, interest is reported when due.			(4,100)
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		(995,000)	
Capital lease obligation payable		(110,488)	
Compensated absences payable		<u>(927,598)</u>	
Total			<u>(2,033,086)</u>
<b>Net assets of governmental activities</b>		<b>\$</b>	<b><u>5,370,235</u></b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	General	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 6,683,274	\$ 382,505	\$ -	\$ 7,065,779
Tuition . . . . .	775,696	-	-	775,696
Transportation fees . . . . .	11,064	-	-	11,064
Charges for services . . . . .	-	-	400,407	400,407
Earnings on investments . . . . .	56,114	-	-	56,114
Extracurricular . . . . .	189,866	-	91,900	281,766
Classroom materials and fees . . . . .	82,300	-	-	82,300
Rental income . . . . .	29,977	-	-	29,977
Contributions and donations . . . . .	7,708	-	-	7,708
Contract services . . . . .	2,850	-	-	2,850
Other local revenues . . . . .	107,594	-	25,772	133,366
Intergovernmental - state . . . . .	8,419,807	68,578	21,244	8,509,629
Intergovernmental - federal . . . . .	39,352	-	1,611,234	1,650,586
<b>Total revenues . . . . .</b>	<b>16,405,602</b>	<b>451,083</b>	<b>2,150,557</b>	<b>19,007,242</b>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	7,255,531	90,994	107,393	7,453,918
Special . . . . .	1,335,080	-	713,330	2,048,410
Vocational . . . . .	327,709	-	-	327,709
Other . . . . .	1,171,316	-	277,631	1,448,947
Support services:				
Pupil . . . . .	1,180,675	-	42,309	1,222,984
Instructional staff . . . . .	516,129	-	24,934	541,063
Board of education . . . . .	22,204	-	-	22,204
Administration . . . . .	1,662,483	4	-	1,662,487
Fiscal . . . . .	343,189	22,492	112,754	478,435
Operations and maintenance . . . . .	990,483	31,469	248,443	1,270,395
Pupil transportation . . . . .	1,456,936	-	-	1,456,936
Central . . . . .	266,003	35,308	16,966	318,277
Operation of non-instructional services:				
Other non-instructional services . . . . .	-	-	28,662	28,662
Food service operations . . . . .	-	-	650,607	650,607
Extracurricular activities . . . . .	501,393	-	88,055	589,448
Facilities acquisition and construction . . . . .	-	711,778	1,038,800	1,750,578
Capital outlay . . . . .	-	84,022	-	84,022
Debt service:				
Principal retirement . . . . .	65,000	12,284	-	77,284
Interest and fiscal charges . . . . .	41,340	2,656	-	43,996
Bond issuance costs . . . . .	-	-	21,200	21,200
<b>Total expenditures . . . . .</b>	<b>17,135,471</b>	<b>991,007</b>	<b>3,371,084</b>	<b>21,497,562</b>
Excess of expenditures over revenues . . . . .	(729,869)	(539,924)	(1,220,527)	(2,490,320)
<b>Other financing sources:</b>				
Sale of bonds . . . . .	-	-	1,060,000	1,060,000
Capital lease transaction . . . . .	-	84,022	-	84,022
<b>Total other financing sources . . . . .</b>	<b>-</b>	<b>84,022</b>	<b>1,060,000</b>	<b>1,144,022</b>
Net change in fund balances . . . . .	(729,869)	(455,902)	(160,527)	(1,346,298)
<b>Fund balances at beginning of year (restated) . . . . .</b>	<b>1,276,886</b>	<b>1,315,699</b>	<b>267,775</b>	<b>2,860,360</b>
<b>Increase in reserve for inventory . . . . .</b>	<b>-</b>	<b>-</b>	<b>3,942</b>	<b>3,942</b>
<b>Fund balances at end of year . . . . .</b>	<b>\$ 547,017</b>	<b>\$ 859,797</b>	<b>\$ 111,190</b>	<b>\$ 1,518,004</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

<b>Net change in fund balances - total governmental funds</b>	\$	(1,346,298)
<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	\$ 1,947,054	
Current year depreciation	<u>(386,204)</u>	
Total		1,560,850
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.		
		(25,673)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Taxes	(7,091)	
Earnings on investments	(1,452)	
Extracurricular	(240)	
Classroom materials and fees	(460)	
Rental income	1,016	
Other local revenues	(10)	
Intergovernmental revenue	<u>361,210</u>	
Total		352,973
Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as an expense when consumed.		
		3,942
Issuance of bonds is recorded as an other financing source in the funds; however, in the statement of activities, it is not reported as revenues as it increases liabilities on the statement of net assets.		
		(1,060,000)
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.		
		(84,022)
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.		
		77,284
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:		
Increase in accrued interest payable	(4,100)	
Amortization of bond issue costs	<u>(1,198)</u>	
Total		(5,298)
Bond issuance costs are recognized as expenditures in the governmental funds, however, they are amortized over the life of the issuance in the statement of activities.		
		21,200
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>89,032</u>
<b>Change in net assets of governmental activities</b>	<b>\$</b>	<b><u>(416,010)</u></b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 6,696,301	\$ 6,696,301	\$ 6,378,529	\$ (317,772)
Tuition . . . . .	809,045	809,045	775,786	(33,259)
Transportation fees . . . . .	10,203	10,203	9,784	(419)
Earnings on investments . . . . .	80,981	80,981	77,652	(3,329)
Classroom materials and fees . . . . .	55,073	55,073	52,809	(2,264)
Rental income . . . . .	32,831	32,831	31,481	(1,350)
Other local revenues . . . . .	47,293	47,293	45,349	(1,944)
Intergovernmental - state . . . . .	8,775,282	8,775,282	8,414,542	(360,740)
Total revenues . . . . .	<u>16,507,009</u>	<u>16,507,009</u>	<u>15,785,932</u>	<u>(721,077)</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	7,242,279	7,242,279	7,220,784	21,495
Special . . . . .	1,389,333	1,389,333	1,371,068	18,265
Vocational . . . . .	358,355	358,355	354,813	3,542
Other . . . . .	1,183,350	1,183,350	1,163,554	19,796
Support services:				
Pupil . . . . .	1,025,576	1,025,576	1,016,143	9,433
Instructional staff . . . . .	491,399	491,399	491,245	154
Board of education . . . . .	23,444	23,444	21,928	1,516
Administration . . . . .	1,650,548	1,650,548	1,642,393	8,155
Fiscal . . . . .	428,073	428,073	339,384	88,689
Operations and maintenance . . . . .	1,037,603	1,037,603	1,013,026	24,577
Pupil transportation . . . . .	1,520,172	1,520,172	1,496,840	23,332
Central . . . . .	272,978	272,978	241,003	31,975
Extracurricular activities . . . . .	523,594	523,594	497,229	26,365
Debt service:				
Principal retirement . . . . .	65,000	65,000	65,000	-
Interest and fiscal charges . . . . .	1,988	1,988	1,988	-
Total expenditures . . . . .	<u>17,213,692</u>	<u>17,213,692</u>	<u>16,936,398</u>	<u>277,294</u>
Excess of expenditures over revenues . . . . .	<u>(706,683)</u>	<u>(706,683)</u>	<u>(1,150,466)</u>	<u>(443,783)</u>
<b>Other financing sources (uses):</b>				
Refund of prior year expenditures . . . . .	82,818	82,818	79,413	(3,405)
Transfers (out) . . . . .	(25,400)	(25,400)	(25,400)	-
Sale of capital assets . . . . .	8,183	8,183	7,847	(336)
Total other financing sources (uses) . . . . .	<u>65,601</u>	<u>65,601</u>	<u>61,860</u>	<u>(3,741)</u>
Net change in fund balance . . . . .	(641,082)	(641,082)	(1,088,606)	(447,524)
<b>Fund balance at beginning of year . . . . .</b>	<b>2,871,482</b>	<b>2,871,482</b>	<b>2,871,482</b>	<b>-</b>
<b>Prior year encumbrances appropriated . . . . .</b>	<b>39,092</b>	<b>39,092</b>	<b>39,092</b>	<b>-</b>
<b>Fund balance at end of year . . . . .</b>	<b><u>\$ 2,269,492</u></b>	<b><u>\$ 2,269,492</u></b>	<b><u>\$ 1,821,968</u></b>	<b><u>\$ (447,524)</u></b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS  
AGENCY FUND  
JUNE 30, 2011

	<b>Agency</b>
<b>Assets:</b>	
Equity in pooled cash and investments . . . . .	\$ 40,967
<b>Total assets.</b> . . . . .	<u>\$ 40,967</u>
<b>Liabilities:</b>	
Accounts payable . . . . .	\$ 450
Intergovernmental payable . . . . .	1
Due to students. . . . .	<u>40,516</u>
<b>Total liabilities.</b> . . . . .	<u>\$ 40,967</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT**

The Firelands Local School District, Lorain County, Ohio (the "District") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District operates under an elected Board of Education, consisting of five members and is responsible for the provision of public education to residents of the District.

The District is the 293<sup>rd</sup> largest in the State of Ohio (among the 918 public school districts and community schools in the State) in terms of enrollment. It is staffed by 91 non-certified and 122 certified personnel to provide services to approximately 1,833 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, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**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.

Lake Erie Education Computer Association (LEECA)

The Lake Erie Education Computer Association (LEECA) is a jointly governed organization among 35 school districts. The jointly governed organization was formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to administrative and instructional functions among member districts. Each of the governments of these schools supports LEECA based upon a per pupil charge, dependent upon the software package utilized. The LEECA assembly consists of a superintendent or designated representative from each participating school district and a representative from the fiscal agent. LEECA is governed by a Board of Directors which consists of a representative from the fiscal agent, the chairman of each of the operating committees, and at least one Assembly member from each county in which participating school districts are located. The degree of control exercised by any participating school district is limited to its representation on the Board. During fiscal year 2011, the District paid \$64,528 in fees to LEECA. Financial information can be obtained by contacting the Treasurer at the Educational Service Center of Lorain County, who serves as the fiscal agent, at 1885 Lake Avenue, Elyria, Ohio 44035.

Lake Erie Regional Council (LERC)

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

*PUBLIC ENTITY RISK POOL*

Workers' Compensation Group Rating Program

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

**B. Fund Accounting**

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

*GOVERNMENTAL FUNDS*

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

General fund - The general fund is used to account for 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.

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

Other governmental funds of the District are used to account for (a) financial resources 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, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**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 5). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**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, 2011, but which were levied to finance fiscal year 2012 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, 2011 are recorded as deferred revenue.

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

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

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of 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, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**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  
LORAIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

During fiscal year 2011, investments were limited to federal agency securities, negotiable certificates of deposit and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio).

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

The District has invested funds in STAR Ohio during fiscal year 2011. 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, 2011.

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 2011 amounted to \$56,114 which includes \$19,806 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  
LORAIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**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 and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

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

**I. Compensated Absences**

Compensated absences of the District consist of vacation leave and 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, 2011 and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**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, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**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, special trusts and latchkey programs.

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, 2011.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**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. The District had no interfund activity as of June 30, 2011.

**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 2011.

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Change in Accounting Principles**

For fiscal year 2011, the District has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", and GASB Statement No. 59, "Financial Instruments Omnibus".

GASB Statement No. 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. GASB Statement No. 54 also clarifies the definitions of governmental fund types. The implementation of this statement resulted in the reclassification of certain funds and restatement of the District's financial statements.

GASB Statement No. 59 updates and improves guidance for financial reporting and disclosure requirements of certain financial instruments and external investment pools. The implementation of GASB Statement No. 59 did not have an effect on the financial statements of the District.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

**B. Fund Reclassifications**

Fund reclassifications are required in order to report funds in accordance with GASB Statement No 54. These fund reclassifications had the following effect on the District's governmental fund balances as previously reported:

	General	Permanent Improvement	Nonmajor Governmental	Total Governmental
Fund balance as previously reported	\$ 1,107,539	\$ 1,315,699	\$ 437,122	\$ 2,860,360
Fund reclassifications:				
Uniform school supplies fund	2,892	-	(2,892)	-
Public school support fund	54,364	-	(54,364)	-
Termination benefits fund	112,091	-	(112,091)	-
Total fund reclassifications	169,347	-	(169,347)	-
Restated fund balance at July 1, 2010	\$ 1,276,886	\$ 1,315,699	\$ 267,775	\$ 2,860,360

The fund reclassifications did not have an effect on net assets as previously reported.

**C. Deficit Fund Balance**

Fund balances at June 30, 2011 included the following individual fund deficit:

<u>Nonmajor governmental fund</u>	<u>Deficit</u>
Management information systems	\$ 57

The general fund is liable for any deficits in the funds and provides transfers when cash is required, not when accruals occur. The deficit fund balance resulted from an adjustment for accrued liabilities.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**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;
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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

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, 2011, the carrying amount of all District deposits was \$497,872. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2011, all of the District's bank balance of \$651,751 was covered by the Federal Deposit Insurance Corporation.

**B. Investments**

As of June 30, 2011, 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	\$ 688,289	\$ 151,116	\$ 101,104	\$ -	\$ 186,806	\$ 249,263
FNMA	698,415	-	-	-	-	698,415
FFCB	405,440	-	-	-	-	405,440
STAR Ohio	938,784	938,784	-	-	-	-
Total	<u>\$ 2,730,928</u>	<u>\$ 1,089,900</u>	<u>\$ 101,104</u>	<u>\$ -</u>	<u>\$ 186,806</u>	<u>\$ 1,353,118</u>

The weighted average maturity of investments is 2.24 years.



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

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

*Credit Risk:* The District's investments in federal agency securities were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio an AAAM money market rating. 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 investments or collateral securities that are in the possession of an outside party. The federal agency securities are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent but not in the District's name. The District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

*Concentration of Credit Risk:* The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2011:

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
Negotiable CD's	\$ 688,289	25.20
FNMA	698,415	25.57
FFCB	405,440	14.85
STAR Ohio	938,784	34.38
Total	<u>\$ 2,730,928</u>	<u>100.00</u>

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

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2011:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 497,872
Investments	<u>2,730,928</u>
Total	<u>\$ 3,228,800</u>
 <u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 3,187,833
Agency fund	<u>40,967</u>
Total	<u>\$ 3,228,800</u>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**NOTE 5 - PROPERTY TAXES**

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

Property taxes include amounts levied against all real property, public utility property, and certain tangible personal (used in business) property located in the District. Real property tax revenues received in calendar year 2011 represent the collection of calendar year 2010 taxes. Real property taxes received in calendar year 2011 were levied after April 1, 2010, on the assessed values as of January 1, 2010, 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 2011 represent the collection of calendar year 2010 taxes. Public utility real and tangible personal property taxes received in calendar year 2011 became a lien on December 31, 2009, were levied after April 1, 2010, 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.

Tangible personal property tax revenues received in the District's fiscal year ended June 30, 2011 (other than public utility property) generally represent the collection of calendar year 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property taxes received from telephone companies in calendar year 2010 were levied after October 1, 2009 on the value as of December 31, 2009. Amounts paid by multi-county taxpayers were due September 20, 2010. Single county taxpayers could pay annually or semiannually. If paid semiannually, the first payment was due April 30, 2010, with the remainder payable by September 20, 2010.

The District receives property taxes from Lorain and Erie Counties. The County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2011, are available to finance fiscal year 2011 operations. 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, 2011 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 5 - PROPERTY TAXES - (Continued)**

The assessed values upon which the fiscal year 2011 taxes were collected are:

	2010 Second Half Collections		2011 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 289,814,360	96.77	\$ 292,198,430	96.40
Public utility personal	8,960,350	2.99	10,436,040	3.44
Tangible personal property	<u>729,649</u>	<u>0.24</u>	<u>474,320</u>	<u>0.16</u>
Total	<u>\$ 299,504,359</u>	<u>100.00</u>	<u>\$ 303,108,790</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$47.07		\$47.03	

**NOTE 6 - RECEIVABLES**

Receivables at June 30, 2011 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	\$ 7,700,150
Accounts	42,706
Intergovernmental	402,500
Accrued interest	<u>8,269</u>
Total receivables	<u>\$ 8,153,625</u>

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 7 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	<u>Balance</u> <u>June 30, 2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2011</u>
<b>Governmental activities:</b>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 851,565	\$ -	\$ -	\$ 851,565
Construction in progress	<u>12,615</u>	<u>1,241,352</u>	<u>(1,061,034)</u>	<u>192,933</u>
Total capital assets, not being depreciated	<u>864,180</u>	<u>1,241,352</u>	<u>(1,061,034)</u>	<u>1,044,498</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,230,147	88,948	-	1,319,095
Buildings and improvements	8,228,033	1,273,449	-	9,501,482
Furniture and equipment	1,633,100	105,155	(29,091)	1,709,164
Vehicles	<u>1,824,807</u>	<u>299,184</u>	<u>(245,320)</u>	<u>1,878,671</u>
Total capital assets, being depreciated	<u>12,916,087</u>	<u>1,766,736</u>	<u>(274,411)</u>	<u>14,408,412</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(647,717)	(42,124)	-	(689,841)
Buildings and improvements	(7,074,729)	(80,404)	-	(7,155,133)
Furniture and equipment	(1,313,734)	(78,566)	5,888	(1,386,412)
Vehicles	<u>(970,696)</u>	<u>(185,110)</u>	<u>242,850</u>	<u>(912,956)</u>
Total accumulated depreciation	<u>(10,006,876)</u>	<u>(386,204)</u>	<u>248,738</u>	<u>(10,144,342)</u>
Governmental activities capital assets, net	<u>\$ 3,773,391</u>	<u>\$ 2,621,884</u>	<u>\$ (1,086,707)</u>	<u>\$ 5,308,568</u>

Depreciation expense was charged to governmental activities as follows:

<b>Instruction:</b>	
Regular	\$ 65,873
Special	5,598
Vocational	3,030
<b>Support services:</b>	
Pupil	2,150
Instructional staff	2,710
Administration	2,021
Operations and maintenance	87,696
Pupil transportation	180,558
Central	23,243
Extracurricular activities	10,916
Food service operations	<u>2,409</u>
Total depreciation expense	<u>\$ 386,204</u>

**FIRELANDS LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 8 - CAPITALIZED LEASES - LESSEE DISCLOSURE**

In fiscal year 2011 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 \$148,323. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2011 for this equipment was \$45,911, leaving a current book value of \$102,412. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2011 totaled \$12,284 paid by the permanent improvement fund.

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, 2011:

<u>Fiscal Year Ending June 30.</u>	<u>Amount</u>
2012	\$ 35,320
2013	34,075
2014	20,380
2015	20,380
2016	<u>20,379</u>
Total minimum lease payments	130,534
Less amount representing interest	<u>(20,046)</u>
Total	<u>\$ 110,488</u>

**FIRELANDS LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 9 - LONG-TERM OBLIGATIONS**

- A. During fiscal year 2011, the following changes occurred in governmental activities long-term obligations:

	Balance			Balance	Amounts
	<u>June 30, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2011</u>	<u>Due in</u>
					<u>One Year</u>
<b>Governmental activities:</b>					
Compensated absences	\$ 1,107,895	\$ 195,458	\$ (236,776)	\$ 1,066,577	\$ 204,160
Energy conservation improvement bonds	-	1,060,000	(65,000)	995,000	65,000
Capital lease obligations	38,750	84,022	(12,284)	110,488	27,759
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total governmental activities					
long-term liabilities	<u>\$ 1,146,645</u>	<u>\$ 1,339,480</u>	<u>\$ (314,060)</u>	<u>\$ 2,172,065</u>	<u>\$ 296,919</u>

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

*Energy Conservation Improvement Bonds - Series 2010:* On September 1, 2010, the District issued \$1,060,000 in energy conservation improvement bonds. The proceeds of these bonds were used for building improvements intended to increase the energy efficiency of the District's buildings. These bonds bear an annual interest rate of 5.2% and are scheduled to mature in fiscal year 2025. Payments of principal and interest relating to these liabilities are recorded as expenditures in the general fund. The balance of these bonds at June 30, 2011 in the amount of \$995,000 has been included on the statement of net assets.

*Capital Lease Obligations:* The capital lease obligations will be paid from the permanent improvement fund. See Note 8 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	<u>Energy Conservation Improvement Bonds - Series 2010</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 65,000	\$ 51,740	\$ 116,740
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
2017-2021	350,000	135,200	485,200
2022-2025	310,000	42,640	352,640
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total	<u>\$ 995,000</u>	<u>\$ 402,480</u>	<u>\$ 1,397,480</u>

**FIRELANDS LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)**

**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, 2011, are a voted debt margin of \$26,249,488 (including available funds of \$7,386) and an unvoted debt margin of \$302,634.

**NOTE 10 - 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.

The District provides a retirement incentive plan for State Teacher's Retirement System of Ohio (STRS Ohio). In fiscal year 2011, employees who enrolled in the retirement incentive plan will receive an \$18,000 cash payment payable in January 2012. Only employees with 30 years of STRS Ohio service, but less than 31 years of STRS Ohio service were eligible for the incentive. Two employees took advantage of the retirement incentive in fiscal year 2011. A liability for the incentive payment has been recorded in the fund financial statements as a component of "compensated absences payable."

**FIRELANDS LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 11 - 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 2011, 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)	\$42,507,197 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 2010.

**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. 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 2011, the District participated in a Workers' Compensation Group Rating Program (GRP). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is tiered into groups based upon past workers' compensation experience. Within each tiered group, a common premium rate is applied to all school districts within that group. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of their tiered group. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Sheakley Uniservice, Inc. provides administrative, cost control and actuarial services to the GRP.



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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 12 - PENSION PLANS**

**A. School Employees Retirement System**

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

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 2011, 11.77 percent and 0.04 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, 2011, 2010 and 2009 were \$279,408, \$293,117 and \$208,096, respectively; 50.94 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

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

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

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

**FIRELANDS LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 12 - 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 2011, 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, 2011, 2010 and 2009 were \$1,100,019, \$1,062,150 and \$1,096,802, respectively; 84.26 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009. Contributions to the DC and Combined Plans for fiscal year 2011 were \$34,332 made by the District and \$24,523 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, 2011, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

**NOTE 13 - 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 was \$96.40 and SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, [www.ohsers.org](http://www.ohsers.org), under "Media/Financial Reports".

**FIRELANDS LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**NOTE 13 - 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 2011, 1.43 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 2011, 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, 2011, 2010, and 2009 were \$69,569, \$48,167 and \$129,781, respectively; 50.94 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2011, this actuarially required allocation was 0.76 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2011, 2010, and 2009 were \$17,981, \$17,431 and \$17,170, respectively; 50.94 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

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

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2011, 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, 2011, 2010 and 2009 were \$84,617, \$81,704 and \$84,369, respectively; 84.26 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 14 - 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); and,
- (d) 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	\$ (1,088,606)
Net adjustment for revenue accruals	340,478
Net adjustment for expenditure accruals	15,684
Net adjustment for other sources/uses	(87,260)
Funds budgeted elsewhere	8,998
Adjustment for encumbrances	80,837
GAAP basis	\$ (729,869)

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 15 - CONTINGENCIES**

**A. Grants**

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

**B. Litigation**

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

**NOTE 16 - SET-ASIDES**

The District is required by State law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2011, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Improvements</u>
Set-aside reserve balance June 30, 2010	\$ -	\$ -
Current year set-aside requirement	279,244	279,244
Contributions in excess of the current fiscal year set-aside requirement	-	-
Current year qualifying expenditures	(66,557)	(308,517)
Excess qualified expenditures from prior years	(311,473)	-
Current year offsets	-	(433,178)
Waiver granted by ODE	-	-
Prior year offset from bond proceeds	-	-
Total	<u>\$ (98,786)</u>	<u>\$ (462,451)</u>
Balance carried forward to fiscal year 2012	<u>\$ -</u>	<u>\$ -</u>
Set-aside reserve balance June 30, 2011	<u>\$ -</u>	<u>\$ -</u>

The District had qualifying disbursements and offsets during the fiscal year that reduced the textbook set-aside amount to below zero. Effective July 1, 2011, the textbook set-aside is no longer required and has been removed from existing law. This negative balance is therefore not being presented as being carried forward to the future fiscal year. For the capital improvements reserve, qualifying expenditures and offsets exceeding the set-aside requirement may not be carried forward to the next fiscal year.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 17 - 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	\$ 49,568
Capital projects	184,124
Other governmental	<u>3,473</u>
 Total	 <u>\$ 237,165</u>

**NOTE 18 - OPERATING LEASE DISCLOSURE**

During fiscal year 2011, the District made payments on two operating leases. The first operating lease requires monthly payments of \$1,842 and the second operating lease requires monthly payments of \$236. The first operating lease was retired during fiscal year 2011. Total rental payments made during the fiscal year amounted to \$24,931.

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

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2012	\$ 2,832
2013	2,832
2014	2,832
2015	2,832
2016	<u>2,832</u>
Total	<u>\$ 14,160</u>

**FIRELANDS LOCAL SCHOOL DISTRICT**  
**LORAIN COUNTY**  
**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES**  
**FOR THE YEAR ENDED JUNE 30, 2011**

<u>Federal Grantor</u>		<u>Federal</u>				
<i>Pass Through Grantor</i>	<u>Grant</u>	<u>CFDA</u>		<u>Non-Cash</u>		<u>Non-Cash</u>
<u>Program Title</u>	<u>Year</u>	<u>Number</u>	<u>Receipts</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Expenditures</u>
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>						
<i>Passed Through the Ohio Department of Education:</i>						
<i>Child Nutrition Cluster:</i>						
School Breakfast Program	2011	10.553	\$27,998	\$0	\$27,998	\$0
National School Lunch Program	2011	10.555	184,616	24,867	184,616	24,867
Total U.S. Department of Agriculture			<u>212,614</u>	<u>24,867</u>	<u>212,614</u>	<u>24,867</u>
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>						
<i>Passed Through the Ohio Department of Education:</i>						
Special Education - Grants to States	2006	84.027	(461)	0	0	0
Special Education - Grants to States	2010	84.027	(1,873)	0	17,547	0
Special Education - Grants to States	2011	84.027	344,485	0	332,328	0
ARRA Special Education - Grants to States	2010	84.391	9,724	0	55,949	0
ARRA Special Education - Grants to States	2011	84.391	172,252	0	171,322	0
Total Special Education - Grants to States			<u>524,127</u>	<u>0</u>	<u>577,146</u>	<u>0</u>
Title I Grants to Local Educational Agencies	2010	84.010	14,600	0	16,596	0
Title I Grants to Local Educational Agencies	2011	84.010	164,562	0	149,931	0
ARRA Title I Grants to Local Educational Agencies	2010	84.389	151	0	7,516	0
ARRA Title I Grants to Local Educational Agencies	2011	84.389	53,938	0	53,938	0
Total Title I Grants to Local Educational Agencies			<u>233,251</u>	<u>0</u>	<u>227,981</u>	<u>0</u>
Safe and Drug-Free Schools and Communities State Grants	2000	84.186	(6,025)	0	0	0
Education Technology State Grants	2010	84.318	(455)	0	(180)	0
Education Technology State Grants	2011	84.318	2,127	0	2,127	0
Total Education Technology State Grants			<u>1,672</u>	<u>0</u>	<u>1,947</u>	<u>0</u>
Improving Teacher Quality State Grants	2010	84.367	5,542	0	9,164	0
Improving Teacher Quality State Grants	2011	84.367	59,335	0	50,560	0
Total Improving Teacher Quality State Grants			<u>64,877</u>	<u>0</u>	<u>59,724</u>	<u>0</u>
ARRA State Fiscal Stabilization	2011	84.394	567,708	0	638,828	0
Comprehensive School Reform Demonstration Grant	2002	84.332	(43,832)	0	0	0
Dwight D. Eisenhower Professional Development Grant	2000	84.168	(4,737)	0	0	0
Dwight D. Eisenhower Professional Development Grant	2001	84.168	(3,408)	0	0	0
Total Dwight D. Eisenhower Professional Development Grant			<u>(8,145)</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total U.S. Department of Education			<u>1,333,633</u>	<u>0</u>	<u>1,505,626</u>	<u>0</u>
Total All Federal Awards			<u>\$1,546,247</u>	<u>\$24,867</u>	<u>\$1,718,240</u>	<u>\$24,867</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, 2011**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B - CHILD NUTRITION CLUSTER**

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

**NOTE C – FOOD DONATION PROGRAM**

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

**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 2010 to 2011 programs:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount Transferred from 2010 to 2011</u>
Special Education – Grants to States	84.027	\$1,873
Education Technology State Grants	84.318	455

**NOTE E – RETURNED MONIES**

Federal regulations require federal grant recipients to return unused grant monies to its direct pass through entity for past programs that are considered concluded. The return of monies resulted in the Schedule reporting negative receipts for the District. The District returned the following amounts to ODE during fiscal year 2011:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount Returned</u>
Special Education – Grants to States, Grant Year 2006	84.027	\$461
Safe and Drug-Free Schools and Communities State Grants, Grant Year 2000	84.186	6,025
Comprehensive School Reform Demonstration Grant, Grant Year 2002	84.332	43,832
Dwight D. Eisenhower Professional Development Grant, Grant Year 2000	84.168	4,737
Dwight D. Eisenhower Professional Development Grant, Grant Year 2001	84.168	3,408





# Dave Yost • Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Firelands Local School District, Lorain County, Ohio, (the District) as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 10, 2012, wherein we noted the District implemented Governmental Accounting Standard Board Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" and restated the June 30, 2010 fund balances of the Governmental Funds due to a change in fund structure. 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 opinions 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings and questioned costs we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider finding 2011-01 described in the accompanying schedule of findings and questioned costs to be a material weakness.

### **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 an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings and questioned costs as item 2011-01.

We also noted certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated February 10, 2012.

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

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



**Dave Yost**  
Auditor of State

February 10, 2012



# Dave Yost • Auditor of State

## 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 N. Lake Street  
South Amherst, Ohio 44001

To the Board of Education:

### Compliance

We have audited the compliance of the Firelands Local School District, Lorain County, Ohio, (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the Firelands Local School District's major federal programs for the year ended June 30, 2011. The *summary of auditor's results* section of the accompanying schedule of findings and questioned costs 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.

As described in finding 2011-02 in the accompanying schedule of findings and questioned costs, the District did not comply with requirements regarding activities allowed or unallowed applicable to its State Fiscal Stabilization Fund major federal program. Compliance with this requirement is necessary, in our opinion, for the District to comply with requirements applicable to this program.

In our opinion, except for the noncompliance described in the preceding paragraph, 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, 2011.

### 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 the requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, we cannot assure we have identified all deficiencies, significant deficiencies, or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

*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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2011-02 to be a material weakness.

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

We intend this report solely for the information and use of the audit committee, management, 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

February 10, 2012

FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2011

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

<i>(d)(1)(i)</i>	<b>Type of Financial Statement Opinion</b>	Unqualified
<i>(d)(1)(ii)</i>	<b>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</b>	Yes
<i>(d)(1)(ii)</i>	<b>Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(iii)</i>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	Yes
<i>(d)(1)(iv)</i>	<b>Were there any material internal control weaknesses reported for major federal programs?</b>	Yes
<i>(d)(1)(iv)</i>	<b>Were there any significant deficiencies in internal control reported for major federal programs?</b>	No
<i>(d)(1)(v)</i>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified for all major programs except for the State Fiscal Stabilization Fund Grant, which we qualified compliance over Activities Allowed or Unallowed.
<i>(d)(1)(vi)</i>	<b>Are there any reportable findings under § .510(a)?</b>	Yes
<i>(d)(1)(vii)</i>	<b>Major Programs (list):</b>	1. Special Education Cluster (IDEA): CFDA #84.027 – Special Education-Grants to States, and CFDA #84.391 ARRA Special Education-Grants to States; 2. CFDA #84.394 - ARRA State Fiscal Stabilization
<i>(d)(1)(viii)</i>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	<b>Low Risk Auditee?</b>	No

**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2011  
(CONTINUED)**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2011-01**

**Material Weakness / Material Noncompliance**

Posting of Receipts

Ohio Rev. Code Section 5705.10(A) prescribes that all revenue derived from the general levy for current expense within the ten-mill limitation, from any general levy for current expense authorized by vote in excess of the ten-mill limitation, and from sources other than the general property tax, unless its use for a particular purpose is prescribed by law, shall be paid into the general fund. Ohio Rev. Code Section 5705.10(C) states, in part, that all revenue derived from a source other than the general property tax and which the law prescribes shall be used for a particular purpose, shall be paid into a special fund for such purpose. Sound financial reporting is the responsibility of management and the Board of Education and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

During fiscal year 2011, the District posted real estate property taxes belonging to the Permanent Improvement Fund to the General Fund. As a result, property tax revenue was understated in the Permanent Improvement Fund by \$42,497. Accordingly, an audit adjustment has been posted in the District's accounting records as well as the fiscal year 2011 financial statements.

Failure to post receipts to the proper fund could lead to an improper expenditure of monies that are restricted for a particular purpose. Furthermore, the lack of controls over the posting of financial transactions and financial reporting can result in errors and irregularities that may go undetected and decreases the reliability of financial data throughout the year.

The District should adopt policies and procedures for controls over financial reporting to help ensure the information accurately reflects the activity of the District and thereby increasing the reliability of the financial data throughout the year.

**Officials' Response:**

A posting error was made on one of four thousand two hundred and ninety-nine receipt line items posted in FY11. Unfortunately, the amount of the single error was materially significant. I believe district policies and procedures for control and reliability are adequate. No funds were misspent nor unaccounted for. When the error was identified by the audit process it was corrected and all accounting statements adjusted.

**FIRELANDS LOCAL SCHOOL DISTRICT  
LORAIN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2011  
(CONTINUED)**

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS</b>
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State Fiscal Stabilization Fund Expenditures

<b>Finding Number</b>	2011-02
<b>CFDA Title and Number</b>	CFDA #84.394 - ARRA State Fiscal Stabilization Fund (SFSF) – Education State Grants
<b>Federal Award Number / Year</b>	2011 and 2010
<b>Federal Agency</b>	U.S. Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**Questioned Cost / Material Weakness / Material Noncompliance**

The Ohio Department of Education (ODE) distributes State Fiscal Stabilization Funds (SFSF) to local school districts through the State foundation system, the State's primary funding formula. ODE annually deducts from each local and client school district of each ESC, pursuant to Division (E) of Section 3317.023 of the Revised Code, and pays to the service center an amount equal to six dollars and fifty cents (\$6.50) times the school district's total student count. Since the foundation program calculates state funding on the basis of all students in their resident districts, the portion of funds that are earmarked as stabilization include funds that will be re-allocated to community and/or STEM schools by the state. Therefore, the initial allocation to districts includes the funds for the district and the funds to be transferred to community and/or STEM schools. According to ODE's SFSF Frequently Asked Questions (FAQ), this expenditure reflects the state transfer of the community and/or STEM school allocation and is the only expenditure for these schools that can be coded to fund 532.

During fiscal years 2011 and 2010, the District used their SFSF monies, in part, for community school state foundation aid expenditures in the amounts of \$277,631 and \$284,239, respectively. Adequate internal controls to help assure this money was spent only for allowed activities were not in place. As a result, the District spent a total of \$561,870 of their SFSF monies on unallowed activity expenditures, and thereby, are considered questioned costs.

We recommend the District establish and maintain internal controls designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements for all future federal grants.

**Officials' Response:**

Charges for community schools were applied to SFSF funds based on our understanding that all payments to community schools were allowed charges against SFSF funds. As we have been notified by this audit that these charges were not allowed, we now await the direction of the Ohio Department of Education as to whether reposting of replacement charges are required. I do not anticipate any revenues will be lost to the district as ample additional allowable costs remain to charge against these funds for both fiscal years in question.

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURE

Firelands Local School District  
Lorain County  
112 N. 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 the Firelands Local School District, Lorain County, Ohio, (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 did not amend its anti-harassment policy to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

Ohio Rev. Code Section 3313.666 required the Board to amend its definition by September 28, 2010.

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

February 10, 2012

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# Dave Yost • Auditor of State

**FIRELANDS LOCAL SCHOOL DISTRICT**

**LORAIN COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MARCH 8, 2012**