



**Auditor of State
Betty Montgomery**

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Kelleys Island Local School District
Erie County
Division Street, P.O. Box 349
Kelleys Island, Ohio 43438-0349

To the Board of Education:

We have audited the accompanying general-purpose financial statements of the Kelleys Island Local School District (the District) as of and for the years ended June 30, 2003 and 2002, as listed in the table of contents. These general-purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about 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 that our audits provide a reasonable basis for our opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Kelleys Island Local School District as of June 30, 2003 and 2002, and the results of its operations for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2003 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

A handwritten signature in cursive script that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

December 10, 2003

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**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2003

	<u>Governmental Fund Types</u>			
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>
ASSETS AND OTHER DEBITS				
Assets:				
Equity in pooled cash and cash equivalents	\$ 129,151	\$ 3,000	\$ 3,696	\$ 14,461
Receivables (net of allowances of uncollectibles):				
Property taxes - current and delinquent	596,322	-	127,945	22,848
Due from other governments	-	875	-	-
Prepayments	5,741	-	-	-
Property, plant and equipment (net of accumulated depreciation where applicable)	-	-	-	-
Other debits:				
Amount available in debt service fund	-	-	-	-
Amount to be provided for retirement of general long-term obligations	-	-	-	-
Total assets and other debits	<u>\$ 731,214</u>	<u>\$ 3,875</u>	<u>\$ 131,641</u>	<u>\$ 37,309</u>
LIABILITIES, EQUITY AND OTHER CREDITS				
Liabilities:				
Accounts payable	\$ 751	\$ -	\$ -	\$ -
Accrued wages and benefits	39,300	-	-	-
Compensated absences payable	-	-	-	-
Pension obligation payable	3,346	-	-	-
Deferred revenue	556,675	875	119,440	21,329
Due to other governments	719	-	-	-
General obligation bonds payable	-	-	-	-
Total liabilities	<u>600,791</u>	<u>875</u>	<u>119,440</u>	<u>21,329</u>
Equity and other credits:				
Investment in general fixed assets	-	-	-	-
Fund balances:				
Reserved for encumbrances	9,513	-	-	16,800
Reserved for prepayments	5,741	-	-	-
Reserved for tax revenue unavailable for appropriation	39,647	-	8,505	1,519
Unreserved-undesignated	75,522	3,000	3,696	(2,339)
Total equity and other credits	<u>130,423</u>	<u>3,000</u>	<u>12,201</u>	<u>15,980</u>
Total liabilities, equity and other credits	<u>\$ 731,214</u>	<u>\$ 3,875</u>	<u>\$ 131,641</u>	<u>\$ 37,309</u>

The notes to the general-purpose financial statements are an integral part of this statement.

Fiduciary Fund Types	Account Groups		Total (Memorandum Only)
	General Fixed Assets	General Long-Term Obligations	
Trust and Agency			
\$ 18,683	\$ -	\$ -	\$ 168,991
39,252	-	-	786,367
-	-	-	875
-	-	-	5,741
-	2,321,688	-	2,321,688
-	-	12,201	12,201
-	-	643,699	643,699
\$ 57,935	\$ 2,321,688	\$ 655,900	\$ 3,939,562
\$ -	\$ -	\$ -	\$ 751
-	-	-	39,300
-	-	10,900	10,900
-	-	-	3,346
-	-	-	698,319
39,252	-	-	39,971
-	-	645,000	645,000
39,252	-	655,900	1,437,587
-	2,321,688	-	2,321,688
-	-	-	26,313
-	-	-	5,741
-	-	-	49,671
18,683	-	-	98,562
18,683	2,321,688	-	2,501,975
\$ 57,935	\$ 2,321,688	\$ 655,900	\$ 3,939,562

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2002

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
ASSETS AND OTHER DEBITS				
Assets:				
Equity in pooled cash and cash equivalents	\$ 140,813	\$ 3,120	\$ -	\$ 13
Cash with fiscal agent	-	65	-	-
Receivables (net of allowances of uncollectibles):				
Property taxes - current and delinquent	561,384	-	120,561	21,529
Due from other governments	-	1,876	-	-
Interfund loan receivable	1,567	-	-	-
Prepayments	4,017	-	-	-
Property, plant and equipment (net of accumulated depreciation where applicable)	-	-	-	-
Other debits:				
Amount available in debt service fund	-	-	-	-
Amount to be provided for retirement of general long-term obligations	-	-	-	-
Total assets and other debits	\$ 707,781	\$ 5,061	\$ 120,561	\$ 21,542
LIABILITIES, EQUITY AND OTHER CREDITS				
Liabilities:				
Accounts payable	\$ 635	\$ -	\$ -	\$ -
Accrued wages and benefits	37,060	-	-	-
Compensated absences payable	-	-	-	-
Pension obligation payable	2,858	-	-	-
Interfund loan payable	-	1,567	-	-
Deferred revenue	504,743	1,866	108,408	19,359
Due to other governments	1,022	-	-	-
General obligation bonds payable	-	-	-	-
Total liabilities	546,318	3,433	108,408	19,359
Equity and other credits:				
Investment in general fixed assets	-	-	-	-
Fund balances (deficit):				
Reserved for encumbrances	25,315	-	-	-
Reserved for prepayments	4,017	-	-	-
Reserved for tax revenue unavailable for appropriation	56,641	-	12,153	2,170
Unreserved-undesignated	75,490	1,628	-	13
Total equity and other credits	161,463	1,628	12,153	2,183
Total liabilities, equity and other credits	\$ 707,781	\$ 5,061	\$ 120,561	\$ 21,542

The notes to the general-purpose financial statements are an integral part of this statement.

Fiduciary Fund Types	Account Groups		Total (Memorandum Only)
	General Fixed Assets	General Long-Term Obligations	
Trust and Agency			
\$ 18,923	\$ -	\$ -	\$ 162,869
-	-	-	65
34,446	-	-	737,920
-	-	-	1,876
-	-	-	1,567
-	-	-	4,017
-	2,294,616	-	2,294,616
-	-	12,153	12,153
-	-	729,695	729,695
\$ 53,369	\$ 2,294,616	\$ 741,848	\$ 3,944,778
\$ -	\$ -	\$ -	\$ 635
-	-	-	37,060
-	-	6,848	6,848
-	-	-	2,858
-	-	-	1,567
-	-	-	634,376
34,446	-	-	35,468
-	-	735,000	735,000
34,446	-	741,848	1,453,812
-	2,294,616	-	2,294,616
400	-	-	25,715
-	-	-	4,017
-	-	-	70,964
18,523	-	-	95,654
18,923	2,294,616	-	2,490,966
\$ 53,369	\$ 2,294,616	\$ 741,848	\$ 3,944,778

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Governmental Fund Types	
	General	Special Revenue
Revenues:		
From local sources:		
Taxes	\$ 530,244	\$ -
Earnings on investments	977	-
Other local revenues	516	-
Intergovernmental - State	69,866	6,500
Intergovernmental - Federal	-	17,961
	601,603	24,461
Expenditures:		
Current:		
Instruction:		
Regular	320,290	13,602
Special	19,030	-
Support services:		
Pupil	30,690	280
Instructional staff	65,015	6,207
Board of Education	7,009	-
Administration	44,441	-
Fiscal	22,401	3,000
Operations and maintenance	107,324	-
Pupil transportation	7,296	-
Extracurricular activities	2,733	-
Facilities acquisition and construction	10,289	-
Debt service:		
Principal retirement	-	-
Interest and fiscal charges	9,722	-
	646,240	23,089
Excess of revenues over (under) expenditures	(44,637)	1,372
Other financing sources:		
Sale of fixed assets	13,597	-
	13,597	-
Excess of revenues and other financing sources over (under) expenditures and other financing (uses)	(31,040)	1,372
Fund balances (deficit), July 1	161,463	1,628
Fund balances, June 30	\$ 130,423	\$ 3,000

The notes to the general-purpose financial statements are an integral part of this statement.

<u>Governmental Fund Types</u>		<u>Fiduciary Fund Type</u>	<u>Total (Memorandum Only)</u>
<u>Debt Service</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>	
\$ 104,347	\$ 21,088	\$ -	\$ 655,679
18	68	160	1,223
-	-	500	1,016
13,213	3,137	-	92,716
-	-	-	17,961
<u>117,578</u>	<u>24,293</u>	<u>660</u>	<u>768,595</u>
-	778	-	334,670
-	-	-	19,030
-	-	900	31,870
-	-	-	71,222
-	-	-	7,009
-	-	-	44,441
2,340	418	-	28,159
-	-	-	107,324
-	-	-	7,296
-	-	-	2,733
-	9,300	-	19,589
90,000	-	-	90,000
25,190	-	-	34,912
<u>117,530</u>	<u>10,496</u>	<u>900</u>	<u>798,255</u>
<u>48</u>	<u>13,797</u>	<u>(240)</u>	<u>(29,660)</u>
-	-	-	13,597
-	-	-	13,597
48	13,797	(240)	(16,063)
12,153	2,183	18,923	196,350
<u>\$ 12,201</u>	<u>\$ 15,980</u>	<u>\$ 18,683</u>	<u>\$ 180,287</u>

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	Governmental Fund Types	
	General	Special Revenue
Revenues:		
From local sources:		
Taxes	\$ 555,169	\$ -
Earnings on investments	1,893	-
Other local revenues	1	-
Intergovernmental - State	76,135	7,500
Intergovernmental - Federal	-	3,141
	633,198	10,641
Expenditures:		
Current:		
Instruction:		
Regular	268,810	5,128
Special	20,000	-
Support services:		
Pupil	27,202	124
Instructional staff	58,845	10,642
Board of Education	8,135	-
Administration	34,584	-
Fiscal	32,107	-
Operations and maintenance	80,424	-
Extracurricular activities	3,211	-
Facilities acquisition and construction	28,174	-
Debt service:		
Principal retirement	-	-
Interest and fiscal charges	6,943	-
	568,435	15,894
Total expenditures	568,435	15,894
Excess of revenues over (under) expenditures	64,763	(5,253)
Other financing sources:		
Sale of fixed assets	5,243	-
	5,243	-
Total other financing sources	5,243	-
Excess of revenues and other financing sources over (under) expenditures and other financing (uses)	70,006	(5,253)
Fund balances, July 1	91,457	6,881
Fund balances (deficit), June 30	\$ 161,463	\$ 1,628

The notes to the general-purpose financial statements are an integral part of this statement.

<u>Governmental Fund Types</u>		<u>Fiduciary Fund Type</u>	<u>Total (Memorandum Only)</u>
<u>Debt Service</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>	
\$ 115,930	\$ 13,191	\$ -	\$ 684,290
17	-	308	2,218
-	-	620	621
12,184	1,165	-	96,984
-	-	-	3,141
<u>128,131</u>	<u>14,356</u>	<u>928</u>	<u>787,254</u>
-	2,500	-	276,438
-	-	-	20,000
-	-	691	28,017
-	-	-	69,487
-	-	-	8,135
-	-	-	34,584
2,018	246	-	34,371
-	-	-	80,424
-	-	-	3,211
-	11,927	-	40,101
90,000	-	-	90,000
30,182	-	-	37,125
<u>122,200</u>	<u>14,673</u>	<u>691</u>	<u>721,893</u>
<u>5,931</u>	<u>(317)</u>	<u>237</u>	<u>65,361</u>
-	-	-	5,243
-	-	-	5,243
5,931	(317)	237	70,604
6,222	2,500	18,686	125,746
<u><u>\$ 12,153</u></u>	<u><u>\$ 2,183</u></u>	<u><u>\$ 18,923</u></u>	<u><u>\$ 196,350</u></u>

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	General		Variance: Favorable (Unfavorable)
	Revised Budget	Actual	
Revenues:			
From local sources:			
Taxes	\$ 546,515	\$ 547,238	\$ 723
Earnings on investments	850	977	127
Other local revenues	451	516	65
Intergovernmental - State	68,581	69,866	1,285
Intergovernmental - Federal	-	-	-
Total revenues	<u>616,397</u>	<u>618,597</u>	<u>2,200</u>
Expenditures:			
Current:			
Instruction:			
Regular	352,835	327,642	25,193
Special	24,118	19,633	4,485
Support services:			
Pupil	40,991	31,430	9,561
Instructional staff	75,694	65,017	10,677
Board of Education	13,030	7,405	5,625
Administration	57,155	45,016	12,139
Fiscal	29,245	23,974	5,271
Operations and maintenance	122,840	109,594	13,246
Pupil transportation	10,600	7,296	3,304
Extracurricular activities	6,905	2,537	4,368
Facilities acquisition and construction	11,137	10,289	848
Debt service:			
Principal retirement	25,278	-	25,278
Interest and fiscal charges	9,722	9,722	-
Total expenditures	<u>779,550</u>	<u>659,555</u>	<u>119,995</u>
Excess of revenues over (under) expenditures	<u>(163,153)</u>	<u>(40,958)</u>	<u>122,195</u>
Other financing sources (uses):			
Advances in	1,567	1,567	-
Advances (out)	-	-	-
Miscellaneous revenue	13,597	13,597	-
Refund of prior year expenditure	4,177	4,177	-
Total other financing sources (uses)	<u>19,341</u>	<u>19,341</u>	<u>-</u>
Excess of revenues and other financing sources over (under) expenditures and other financing (uses)	<u>(143,812)</u>	<u>(21,617)</u>	<u>122,195</u>
Fund balances, July 1	115,253	115,253	-
Prior year encumbrances appropriated	25,560	25,560	-
Fund balances, June 30	<u>\$ (2,999)</u>	<u>\$ 119,196</u>	<u>\$ 122,195</u>

Special Revenue			Debt Service		
Revised Budget	Actual	Variance: Favorable (Unfavorable)	Budget Revised	Actual	Variance: Favorable (Unfavorable)
\$ -	\$ -	\$ -	\$ 104,377	\$ 107,995	\$ 3,618
-	-	-	50	18	(32)
-	-	-	-	-	-
6,500	6,500	-	13,213	13,213	-
18,332	17,457	(875)	-	-	-
<u>24,832</u>	<u>23,957</u>	<u>(875)</u>	<u>117,640</u>	<u>121,226</u>	<u>3,586</u>
14,477	13,602	875	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
5,908	5,908	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
3,000	3,000	-	2,350	2,340	10
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	90,000	90,000	-
-	-	-	25,290	25,190	100
<u>23,385</u>	<u>22,510</u>	<u>875</u>	<u>117,640</u>	<u>117,530</u>	<u>110</u>
<u>1,447</u>	<u>1,447</u>	<u>-</u>	<u>-</u>	<u>3,696</u>	<u>3,696</u>
-	-	-	-	-	-
(1,567)	(1,567)	-	-	-	-
-	-	-	-	-	-
<u>(1,567)</u>	<u>(1,567)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
(120)	(120)	-	-	3,696	3,696
3,120	3,120	-	-	-	-
-	-	-	-	-	-
<u>\$ 3,000</u>	<u>\$ 3,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,696</u>	<u>\$ 3,696</u>

(Continued)

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

	Capital Projects		
	Budget Revised	Actual	Variance: Favorable (Unfavorable)
Revenues:			
From local sources:			
Taxes	\$ 25,352	\$ 21,739	\$ (3,613)
Earnings on investments	50	68	18
Other local revenues	-	-	-
Intergovernmental - State	3,137	3,137	-
Intergovernmental - Federal	-	-	-
Total revenues	<u>28,539</u>	<u>24,944</u>	<u>(3,595)</u>
Expenditures:			
Current:			
Instruction:			
Regular	778	778	-
Special	-	-	-
Support services:			
Pupil	-	-	-
Instructional staff	-	-	-
Board of Education	-	-	-
Administration	-	-	-
Fiscal	420	418	2
Operations and maintenance	-	-	-
Pupil transportation	-	-	-
Extracurricular activities	-	-	-
Facilities acquisition and construction	27,354	26,100	1,254
Debt service:			
Principal retirement	-	-	-
Interest and fiscal charges	-	-	-
Total expenditures	<u>28,552</u>	<u>27,296</u>	<u>1,256</u>
Excess of revenues over (under) expenditures	<u>(13)</u>	<u>(2,352)</u>	<u>(2,339)</u>
Other financing sources (uses):			
Advances in	-	-	-
Advances (out)	-	-	-
Miscellaneous revenue	-	-	-
Refund of prior year expenditure	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues and other financing sources over (under) expenditures and other financing (uses)	(13)	(2,352)	(2,339)
Fund balances, July 1	13	13	-
Prior year encumbrances appropriated	-	-	-
Fund balances, June 30	<u>\$ -</u>	<u>\$ (2,339)</u>	<u>\$ (2,339)</u>

The notes to the general-purpose financial statements are an integral part of this statement.

Total (Memorandum only)

Budget Revised	Actual	Variance: Favorable (Unfavorable)
\$ 676,244	\$ 676,972	\$ 728
950	1,063	113
451	516	65
91,431	92,716	1,285
<u>18,332</u>	<u>17,457</u>	<u>(875)</u>
<u>787,408</u>	<u>788,724</u>	<u>1,316</u>
368,090	342,022	26,068
24,118	19,633	4,485
40,991	31,430	9,561
81,602	70,925	10,677
13,030	7,405	5,625
57,155	45,016	12,139
35,015	29,732	5,283
122,840	109,594	13,246
10,600	7,296	3,304
6,905	2,537	4,368
38,491	36,389	2,102
115,278	90,000	25,278
<u>35,012</u>	<u>34,912</u>	<u>100</u>
<u>949,127</u>	<u>826,891</u>	<u>122,236</u>
<u>(161,719)</u>	<u>(38,167)</u>	<u>123,552</u>
1,567	1,567	-
(1,567)	(1,567)	-
13,597	13,597	-
4,177	4,177	-
<u>17,774</u>	<u>17,774</u>	<u>-</u>
(143,945)	(20,393)	123,552
118,386	118,386	-
25,560	25,560	-
<u>\$ 1</u>	<u>\$ 123,553</u>	<u>\$ 123,552</u>

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	General		Variance: Favorable (Unfavorable)
	Revised Budget	Actual	
Revenues:			
From local sources:			
Taxes	\$ 572,500	\$ 536,511	\$ (35,989)
Earnings on investments	3,600	1,893	(1,707)
Other local revenues	1	1	-
Intergovernmental - State	71,500	76,135	4,635
Intergovernmental - Federal	-	-	-
Total revenues	<u>647,601</u>	<u>614,540</u>	<u>(33,061)</u>
Expenditures:			
Current:			
Instruction:			
Regular	311,095	289,791	21,304
Special	29,461	20,997	8,464
Support services:			
Pupil	50,310	28,371	21,939
Instructional staff	71,134	57,323	13,811
Board of Education	13,600	7,856	5,744
Administration	46,166	35,574	10,592
Fiscal	37,783	33,591	4,192
Operations and maintenance	112,016	86,315	25,701
Pupil transportation	5,000	50	4,950
Extracurricular activities	10,050	3,216	6,834
Facilities acquisition and construction	42,931	34,111	8,820
Debt service:			
Principal retirement	-	-	-
Interest and fiscal charges	11,500	6,943	4,557
Total expenditures	<u>741,046</u>	<u>604,138</u>	<u>136,908</u>
Excess of revenues over (under) expenditures	<u>(93,445)</u>	<u>10,402</u>	<u>103,847</u>
Other financing sources (uses):			
Advances in	14,107	14,107	-
Advances (out)	(15,708)	(15,674)	34
Miscellaneous revenue	-	5,243	5,243
Refund of prior year expenditure	3,500	9,629	6,129
Total other financing sources (uses)	<u>1,899</u>	<u>13,305</u>	<u>11,406</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(91,546)	23,707	115,253
Fund balances, July 1	74,016	74,016	-
Prior year encumbrances appropriated	17,530	17,530	-
Fund balances, June 30	<u><u>\$ -</u></u>	<u><u>\$ 115,253</u></u>	<u><u>\$ 115,253</u></u>

Special Revenue			Debt Service		
Revised Budget	Actual	Variance: Favorable (Unfavorable)	Budget Revised	Actual	Variance: Favorable (Unfavorable)
\$ -	\$ -	\$ -	\$ 109,950	\$ 109,810	\$ (140)
-	-	-	165	17	(148)
-	-	-	-	-	-
7,500	7,500	-	12,200	12,184	(16)
4,457	2,578	(1,879)	-	-	-
<u>11,957</u>	<u>10,078</u>	<u>(1,879)</u>	<u>122,315</u>	<u>122,011</u>	<u>(304)</u>
5,557	5,128	429	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
10,457	10,454	3	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
3,000	-	3,000	2,021	2,018	3
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	90,000	90,000	-
-	-	-	30,483	30,182	301
<u>19,014</u>	<u>15,582</u>	<u>3,432</u>	<u>122,504</u>	<u>122,200</u>	<u>304</u>
<u>(7,057)</u>	<u>(5,504)</u>	<u>1,553</u>	<u>(189)</u>	<u>(189)</u>	<u>-</u>
-	1,567	1,567	14,107	14,107	-
-	-	-	(14,107)	(14,107)	-
-	-	-	-	-	-
175	175	-	-	-	-
<u>175</u>	<u>1,742</u>	<u>1,567</u>	<u>-</u>	<u>-</u>	<u>-</u>
(6,882)	(3,762)	3,120	(189)	(189)	-
3,625	3,625	-	189	189	-
3,257	3,257	-	-	-	-
<u>\$ -</u>	<u>\$ 3,120</u>	<u>\$ 3,120</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

(Continued)

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)

	Capital Projects		
	Budget Revised	Actual	Variance: Favorable (Unfavorable)
Revenues:			
From local sources:			
Taxes	\$ 11,008	\$ 11,021	\$ 13
Earnings on investments	-	-	-
Other local revenues	-	-	-
Intergovernmental - State	1,165	1,165	-
Intergovernmental - Federal	-	-	-
Total revenues	<u>12,173</u>	<u>12,186</u>	<u>13</u>
Expenditures:			
Current:			
Instruction:			
Regular	2,500	2,500	-
Special	-	-	-
Support services:			
Pupil	-	-	-
Instructional staff	-	-	-
Board of Education	-	-	-
Administration	-	-	-
Fiscal	246	246	-
Operations and maintenance	-	-	-
Pupil transportation	-	-	-
Extracurricular activities	-	-	-
Facilities acquisition and construction	11,927	11,927	-
Debt service:			
Principal retirement	-	-	-
Interest and fiscal charges	-	-	-
Total expenditures	<u>14,673</u>	<u>14,673</u>	<u>-</u>
Excess of revenues over (under) expenditures	<u>(2,500)</u>	<u>(2,487)</u>	<u>13</u>
Other financing sources (uses):			
Advances in	-	-	-
Advances (out)	-	-	-
Miscellaneous revenue	-	-	-
Refund of prior year expenditure	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(2,500)	(2,487)	13
Fund balances, July 1	2,500	2,500	-
Prior year encumbrances appropriated	-	-	-
Fund balances, June 30	<u><u>\$ -</u></u>	<u><u>\$ 13</u></u>	<u><u>\$ 13</u></u>

The notes to the general-purpose financial statements are an integral part of this statement.

Total (Memorandum only)

Budget Revised	Actual	Variance: Favorable (Unfavorable)
\$ 693,458	\$ 657,342	\$ (36,116)
3,765	1,910	(1,855)
1	1	-
92,365	96,984	4,619
4,457	2,578	(1,879)
<u>794,046</u>	<u>758,815</u>	<u>(35,231)</u>
319,152	297,419	21,733
29,461	20,997	8,464
50,310	28,371	21,939
81,591	67,777	13,814
13,600	7,856	5,744
46,166	35,574	10,592
43,050	35,855	7,195
112,016	86,315	25,701
5,000	50	4,950
10,050	3,216	6,834
54,858	46,038	8,820
90,000	90,000	-
41,983	37,125	4,858
<u>897,237</u>	<u>756,593</u>	<u>140,644</u>
<u>(103,191)</u>	<u>2,222</u>	<u>105,413</u>
28,214	29,781	1,567
(29,815)	(29,781)	34
-	5,243	5,243
3,675	9,804	6,129
<u>2,074</u>	<u>15,047</u>	<u>12,973</u>
(101,117)	17,269	118,386
80,330	80,330	-
20,787	20,787	-
<u>\$ -</u>	<u>\$ 118,386</u>	<u>\$ 118,386</u>

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**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND 2002

1. DESCRIPTION OF THE SCHOOL DISTRICT

The Kelleys Island Local School District (the "District") is located in Erie County and encompasses Kelleys Island. The District was established through the consolidation of existing land areas and school districts and is organized under Section 2 and 3, Articles VI of the Constitution of the State of Ohio. Under such laws there is no authority for a school district to have a charter or adopt local laws. The legislative power of the school district is vested in the Board of Education, consisting of five members elected at large for staggered four-year terms.

The District ranks as the 733rd largest by enrollment among the 740 public and community school districts in the State and 7th in Erie County. It currently operates one elementary school, one middle school, and one comprehensive high school. The District employs three non-certified and eight certified employees to provide services to 29 students in grades K through 12 and various community groups.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The general-purpose financial statements (GPFS) of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District's significant accounting policies are described below.

A. Reporting Entity

The District's reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity". When applying GASB Statement No. 14, management has considered all potential component units.

The basic, but not the only, criterion for including a potential component unit within the reporting entity is the District's ability to exercise significant oversight responsibility. The most significant manifestation of this ability is financial interdependence. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of the governing authority, the designation of management, the ability to significantly influence operations, and the accountability for fiscal matters.

A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the District and/or its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, the District has no component units. The following organizations are described due to their relationship with the District.

PUBLIC ENTITY RISK POOL

Huron-Erie School Employees Insurance Association

The Huron-Erie School Employees Insurance Association is a shared risk pool, with participants from Erie and Huron Counties. The Association is governed by an assembly which consists of one representative from each participant. The assembly elects officers for two year terms to serve as

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND 2002
(Continued)

the Board of Directors. The assembly exercises control over the operation of the Association. All Association revenues are generated from charges for services. Financial information can be obtained by writing to Glen Szana, 1616 East Wooster, Box B, Bowling Green, Ohio 43402.

Ohio School Boards Association Workers' Compensation Group Rating Program

The District participates in a group rating plan for workers' compensation as established in § 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Program (GRP) was established as an insurance purchasing pool. The GRP is governed by a three-member Board of Directors. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program. Refer to Note 9 for further information on this group rating plan.

JOINTLY GOVERNED ORGANIZATION

Northern Ohio Educational Computer Association (NOECA)

NOECA is a jointly governed organization among 41 area school districts and service centers. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member school districts and service centers. Each of the governments of these schools supports NOECA based upon a per pupil charge, dependent upon the software package utilized. The NOECA assembly consists of a superintendent from each participating school district and service center and a representative from the fiscal agent. NOECA is governed by a Board of Directors chosen from the general membership of the NOECA Assembly. The Board of Directors consists of a representative from the fiscal agent, the chairman of each of the operating committees, and two Assembly members from each county in which participating service centers are located. Each service center's authority is limited to its representation on the Board. Financial information can be obtained by contacting Betty Schwiefert, who serves as Controller, at 2900 South Columbus Avenue, Sandusky, Ohio 44870.

B. Fund Accounting

The District uses funds and account groups 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. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain school district activities or functions. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category is divided into separate fund types.

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions of the District are financed. The acquisition, use and balances of the District's expendable financial resources and the related liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The following are the District's governmental fund types:

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND 2002
(Continued)

General Fund - The general fund is the general operating fund of the District and is used to account for all financial resources, except those required to be accounted for in another fund.

Special Revenue Funds - The special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Fund - The debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Fund - The capital project fund is used to account for financial resources to be used for the acquisition of construction of major capital facilities (other than those financed by proprietary funds).

FIDUCIARY FUNDS

Fiduciary funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. These include an expendable trust fund and agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

ACCOUNT GROUPS

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of general nature, the following account groups are used.

General Fixed Assets Account Group - This group of accounts is established to account for all fixed assets of the District, other than those accounted for in the proprietary funds.

General Long-Term Obligations Account Group - This group of accounts is established to account for all long-term obligations of the District, other than those accounted for in the proprietary funds.

C. Measurement Focus/Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and the expendable trust fund are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is followed for governmental funds, the expendable trust fund, and agency fund. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available to finance expenditures of the current period, which for the District is 60 days after the June 30 year-end. Revenues accrued at the end of the year include taxes, (to the extent they are intended to finance the current fiscal year), interest, and

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND 2002
(Continued)

accounts (student fees and tuition). Current property taxes measurable as of June 30, 2003, and which are intended to finance fiscal 2004 operations, have been recorded as deferred revenues.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On the modified accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied and the resources are available. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been met and the resources are available. 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.

The District reports deferred revenue on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the recognition of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

Expenditures (decreases in net financial resources) are recognized in the period in which the fund liability is incurred with the following exception: general long-term obligation principal and interest are reported only when due; and costs of accumulated unpaid vacation and sick leave are reported as expenditures in the period in which they will be liquidated with available financial resources rather than in the period earned by employees.

D. Budgets

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2003 and 2002 is as follows:

1. Prior to January 15 of the preceding year, 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 expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Erie County Budget Commission for tax rate determination.
3. Prior to 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 June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND 2002
(Continued)

The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts set forth in the final Amended Certificate issued for fiscal year 2003 and 2002.

4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund, function, and object level of expenditures, which are the legal levels of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year.) Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund appropriation or alter total function appropriations within a fund, or alter object appropriations within functions must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All departments/functions and funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board during fiscal 2003 and 2002; however, none of the amendments were significant.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund, function and/or object level.

Encumbrance accounting is utilized with District funds in the normal course of operations, for purchase orders and contract related expenditures. An encumbrance is a reserve on the available spending authority due to commitment for a future expenditure and does not represent a liability. For governmental fund types, encumbrances outstanding at year-end appear as a reserve to the fund balance on a GAAP basis and as the equivalent of expenditures on a non-GAAP budgetary basis in order to demonstrate legal compliance. Note 12 provides a reconciliation of the budgetary and GAAP basis of accounting and disclosure of the encumbrances outstanding for the governmental funds.

E. 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 Cash Equivalents" on the combined balance sheet.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND 2002
(Continued)

During fiscal year 2003 and 2002, investments were limited to repurchase agreements and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio).

Investments in STAR Ohio are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2003 or 2002.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. During fiscal 2003, interest revenue credited to the general fund amounted to \$977. During fiscal 2002, interest revenue credited to the general fund amounted to \$1,893, which includes \$303 assigned from other District funds.

For presentation on the combined balance sheet, 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 Treasurer's investment account at year-end is provided in Note 3.

F. Prepayments

Prepayments for governmental funds represent cash disbursements, which have occurred and are, therefore, not current expendable resources. These items are reported as fund assets on the balance sheet using the allocation method, which amortizes their cost over the periods benefiting from the advance payment. At fiscal year-end, because prepayment is not available to finance future governmental fund expenditures, the fund balance is reserved by an amount equal to the carrying value of the asset.

G. Fixed Assets

GENERAL FIXED ASSETS ACCOUNT GROUP

General fixed assets are capitalized at cost or estimated historical cost. Donated fixed assets are recorded at their fair market values as of the date donated. The District follows the policy of not capitalizing assets with a cost of less than \$500. No depreciation is recognized for assets in the general fixed assets account group. The District has not included infrastructure in the general fixed assets account group.

H. Compensated Absences

Compensated absences of the District consist of vacation leave and sick leave to the extent that payment 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.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND 2002
(Continued)

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age 50 or greater with at least 10 years of service and all employees with at least 20 years of service regardless of their age 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 the balance sheet date, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

Accumulated vacation and severance of governmental fund type employees meeting the above requirements have been recorded in the appropriate governmental fund as a current liability to the extent that the amounts are expected to be payable within the current available period. The balance of the liability is recorded in the general long-term obligations account group.

I. Long-Term Obligations

Long-term debt is recognized as a liability of a governmental fund when due. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a government fund. The remaining portion of such obligations is reported in the general long-term obligations account group.

J. Fund Equity

Reserved fund balances indicate that portion of fund equity, which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for encumbrances, prepayments and tax revenue unavailable for appropriation. The unreserved portions of fund equity reflected for the governmental funds are available for use within the specific purposes of those funds. The reserve for tax revenue unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriations under State statute.

K. Interfund Transactions

During the course of normal operations, the District has numerous transactions between funds. The most significant include:

1. Transfers of resources from one fund to another fund. The resources transferred are to be expended for operations by the receiving fund and are recorded as operating transfers, with the exception of agency funds, which do not show transfers of resources as operating transfers. There were no transfers made during fiscal year 2003 or 2002.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND 2002
(Continued)

2. Reimbursements from one fund to another are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditures/expenses in the reimbursed fund. Quasi-external transactions are accounted for as revenues, expenditures or expenses.
3. Short-term interfund loans made pursuant to Board of Education Resolution are reflected as "interfund loans receivable or payable." Such interfund loans are repaid in the following fiscal year. There were no interfund loans receivable or payable at June 30, 2003.

L. Estimates

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

M. Memorandum Only - Total Columns

Total columns on the GPFS are captioned (Memorandum Only) to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with GAAP. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

3. ACCOUNTABILITY AND COMPLIANCE

Deficit Fund Balance

Fund balances at June 30, 2002 included the following individual fund deficit:

<u>Special Revenue Funds</u>	<u>Deficit Balance</u>
Title IV	\$1,557

This GAAP-basis deficit will be funded by anticipated future intergovernmental revenues or other subsidies not recognized and recorded at June 30. The general fund provides advances for deficit balances; however, advances are made when cash is needed rather than when accruals occur. This fund complied with state statute which does not allow for a negative fund balance at year-end.

4. EQUITY IN POOLED CASH AND INVESTMENTS

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Cash Equivalents". Statutes require the classification of 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.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND 2002
(Continued)

Inactive deposits are public deposits the Board of Education has identified as not required for use within the current two-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 accounts, including passbook accounts.

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.

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 or 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 2 percent and be marked to market daily, and that the term of the agreement must not exceed 30 days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25 percent of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instruments rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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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 qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Cash with fiscal agent: At June 30, 2002, the District had \$65 in cash held by the Erie-Huron-Ottawa Educational Service Center, which is included on the combined balance sheet as "Cash with Fiscal Agent". The money is held in a pooled amount which is representative of numerous entities and therefore cannot be classified by risk under GASB Statement No. 3.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements".

Deposits: At year-end 2003 and 2002, the carrying amount of the District's deposits was \$(5,215) and \$(16,922), respectively, and the bank balance was \$5,226 and \$5,990, respectively. A liability was not recorded for the negative carrying amount of deposits because there was no actual overdraft, due to the "zero-balance" nature of the District's bank accounts. The negative carrying amount of deposits is due to the sweeping of monies into overnight repurchase agreements which are reported as "investments." The entire bank balance was covered by federal deposit insurance. Although all state statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

Collateral is required for demand deposits and certificates of deposits in excess of all deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of the other states. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

Investments: Investments are categorized to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or securities held by the District. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department, but not in the District's name. Investments in STAR Ohio are not categorized as they are not evidenced by securities that exist in physical or book entry form.

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	Category 3	Reported Amount	Fair Value
<u>June 30, 2003</u>			
Repurchase agreement	\$ 160,000	\$ 160,000	\$ 160,000
Investment in STAR Ohio	-	14,206	14,206
Total investments	<u>\$ 160,000</u>	<u>\$ 174,206</u>	<u>\$ 174,206</u>
<u>June 30, 2002</u>			
Repurchase agreement	\$ 146,000	\$ 146,000	\$ 146,000
Investment in STAR Ohio	-	33,791	33,791
Total investments	<u>\$ 146,000</u>	<u>\$ 179,791</u>	<u>\$ 179,791</u>

The classification of cash and cash equivalents on the combined balance sheet is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting".

A reconciliation between the classifications of cash and cash equivalents on the combined balance sheet (per GASB Statement No. 9) and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/ Deposits	Investments
<u>June 30, 2003</u>		
Per GASB Statement No. 9	\$ 168,991	\$ -
Investments of the Cash Management Pool:		
Repurchase Agreement	(160,000)	160,000
Investment in STAR Ohio	(14,206)	14,206
Per GASB Statement No. 3	<u>\$ (5,215)</u>	<u>\$ 174,206</u>
<u>June 30, 2002</u>		
Per GASB Statement No. 9	\$ 162,934	\$ -
Investments of the Cash Management Pool:		
Repurchase Agreement	(146,000)	146,000
Investment in STAR Ohio	(33,791)	33,791
Cash with Fiscal Agent	(65)	-
Per GASB Statement No. 3	<u>\$ (16,922)</u>	<u>\$ 179,791</u>

5. INTERFUND TRANSACTIONS

The following is a summarized breakdown of the District's interfund loans receivable and payable at June 30, 2002:

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	Interfund Loans Receivable	Interfund Loans Payable
General Fund	\$ 1,567	\$ -
Special Revenue Funds		
Eisenhower Grant	-	10
Title I Grant	-	1,557
	\$ 1,567	\$ 1,567
Total	\$ 1,567	\$ 1,567

6. PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. Distributions from the second half of the calendar year occur in a new fiscal year and are intended to finance the operations of that year. Property taxes include amounts levied against all real, public utility and tangible (used in business) property located in the District. Real property taxes and public utility taxes are levied after November 1 on the assessed value listed as of the prior January 1, the lien date. Assessed values are established by State law at 35 percent of appraised market value.

Public utility property taxes are assessed on tangible personal property, as well as land and improvements. Real property is assessed at 35 percent of market value and personal property is assessed at 100 percent of market value, except for the personal property of rural electric companies, which is assessed 50 percent of market and railroads, which are assessed at 29 percent.

Tangible personal property taxes attach as a lien and are levied on January 1 of the current year. Tangible personal property assessments are 25 percent of true value. The assessed value upon which the 2002 taxes were collected was \$45,973,455. Agricultural/residential and public utility real estate represented 85 percent or \$39,227,240 of this total; commercial and industrial real estate represented 9 percent or \$4,119,850 of this total; public utility tangible represented 2 percent or \$1,001,840 of this total and general tangible property represented 4 percent or \$1,624,525 of this total. The voted general tax rate at the fiscal year ended June 30, 2003 and 2002 was \$13.05 per \$1,000.00 of assessed valuation for operations, \$.50 per \$1,000 assessed valuation for permanent improvement, and \$2.80 per \$1,000.00 of assessed valuation for debt service.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20.

The Erie County Treasurer collects property tax on behalf of the District. The Erie County Auditor periodically remits to the District its portion of the taxes collected. These tax "advances" are based on statutory cash flow collection rates. Final "settlements" are made each February and August.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, personal property and public utility taxes, which became measurable as of June 30, 2003. Although total property tax collections for the next fiscal year are measurable, they are not (exclusive of advances) intended to finance current year operations. The net receivable (total receivable less amount available intended to finance the current year) is therefore offset by a credit to deferred revenue. At June 30, 2003 and 2002,

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a total of \$49,671 and \$70,964, respectively, was available to the District as an advance and is recognized as revenue.

Taxes available for advance and recognized as revenue, but not received by the District prior to June 30, 2003, are reflected as a reservation of fund balance for future appropriations. The District is prohibited, by law, from appropriating this revenue in accordance with ORC § 5705.35, since an advance of revenue was not requested or received prior to fiscal year-end.

7. RECEIVABLES

Receivables at June 30, 2003 and 2002, consisted of taxes, and intergovernmental grants and entitlements (to the extent eligibility requirements have been met by fiscal year-end). Intergovernmental receivables have been reported as "due from other governments" on the combined balance sheet. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes and the stable condition of state programs.

A summary of the principal items of receivables follows:

	FY2003	FY2002
General Fund:		
Taxes - Current and Delinquent	\$ 596,322	\$ 561,384
Interfund Loan Receivable		1,567
Special Revenue Funds:		
Due from Other Governments	875	1,876
Debt Service Fund:		
Taxes - Current and Delinquent	127,945	120,561
Capital Projects Funds:		
Taxes - Current and Delinquent	22,848	21,529
Agency Funds:		
Taxes - Current and Delinquent	39,252	34,446
Total	\$ 787,242	\$ 741,363

8. FIXED ASSETS

A summary of the changes in the general fixed assets account group during the fiscal year follows:

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	Balance 07/01/02	Increase	Decrease	Balance 06/30/03
Land / Improvements	\$ 3,804	\$ -	\$ -	\$ 3,804
Buildings / Improvements	2,013,138	14,242	-	2,027,380
Furniture / Equipment	277,674	13,580	750	290,504
Total	\$ 2,294,616	\$ 27,822	\$ 750	\$ 2,321,688

	Balance 07/01/01	Increase	Decrease	Balance 06/30/02
Land / Improvements	\$ 3,804	\$ -	\$ -	\$ 3,804
Buildings / Improvements	2,001,645	11,493	-	2,013,138
Furniture / Equipment	237,326	40,348	-	277,674
Total	\$ 2,242,775	\$ 51,841	\$ -	\$ 2,294,616

9. COMPENSATED ABSENCES

Sick Leave

Each full time professional staff member is entitled to 15 days sick leave with pay for each year under contract and accrues sick leave at the rate of 1-1/4 days for each calendar month under contract. Sick leave is cumulative to 180 days.

Service Retirement

Certified employees are eligible for service retirement pay after the Board of Education accepts the employee's resignation. Service retirement pay is 25 percent of the certified and noncertified employee's accrued, but unused sick leave days at the time of retirement based on the daily rate per day times the value of the employee's eligible accrued, but unused sick leave days up to a maximum of 30 days. Criteria used to recognize the liability as being probable of payment was that employees must be 50 years old or greater with at least 10 years of services or have at least 20 years of service.

10. LONG-TERM OBLIGATIONS

The current obligation bond outstanding, issued to provide funds for a building addition and improvements, is a general obligation of the District for which the full faith and credit of the District is pledged for repayment. Accordingly, such unmatured obligations of the District are accounted for in the general long-term obligations account group. Payments of principal and interest relating to the bond are recorded as expenditures in the debt service fund and the general fund.

A. The following is a description of the District's bond outstanding as of June 30, 2003 and 2002:

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	Interest Rate	Maturity Date	Bond Outstanding 07/01/02	Retired in 2003	Bond Outstanding 06/30/03
School Improvement Bond	4.75%	1/1/2009	\$ 735,000	\$ 90,000	\$ 645,000

	Interest Rate	Maturity Date	Bond Outstanding 07/01/01	Retired in 2002	Bond Outstanding 01/02/00
School Improvement Bond	4.75%	1/1/2009	\$ 825,000	\$ 90,000	\$ 735,000

- B.** The following is a summary of the District's future annual debt service requirements to maturity for the general obligation bond:

At June 30, 2003			
Year Ending June 30	Principal on Bond	Interest on Bond	Total
2004	\$ 95,000	\$ 30,638	\$ 125,638
2005	100,000	26,125	126,125
2006	105,000	21,375	126,375
2007	110,000	16,388	126,388
2008	115,000	11,163	126,163
2009	120,000	5,700	125,700
Total	<u>\$ 645,000</u>	<u>\$ 111,389</u>	<u>\$ 756,389</u>

- C.** During the year ended June 30, 2003 and 2002, the following changes occurred in the liabilities reported in the general long-term obligations account group. Compensated absences will be paid from the fund in which the employee was paid.

Year Ended June 30, 2003				
	Balance 07/01/02	Increase	Decrease	Balance 06/30/03
Compensated absences	\$ 6,848	\$ 4,052	\$ -	\$ 10,900
General obligation bond payable	735,000	-	90,000	645,000
Total	<u>\$ 741,848</u>	<u>\$ 4,052</u>	<u>\$ 90,000</u>	<u>\$ 655,900</u>

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Year Ended June 30, 2002				
	Balance 07/01/01	Increase	Decrease	Balance 06/30/02
Compensated absences	\$ 6,457	\$ 391	\$ -	\$ 6,848
General obligation bond payable	825,000	-	90,000	735,000
Total	<u>\$ 831,457</u>	<u>\$ 391</u>	<u>\$ 90,000</u>	<u>\$ 741,848</u>

D. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9 percent of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1 percent of the property valuation of the District. The effects of these debt limitations at June 30, 2003 are a voted debt margin of \$3,501,196 (including available funds of \$8,585) and an unvoted debt margin of \$45,973. The effects of these debt limitations at June 30, 2002 are a voted debt margin of \$3,302,517 (including available funds of \$12,153) and an unvoted debt margin of \$44,726.

11. RISK MANAGEMENT

A. Comprehensive

The District maintains comprehensive insurance coverage with private carriers for liability, real property, building contents and boiler/machinery. In addition, real property contents are 90 percent coinsured. The following is a description of the District's insurance coverage:

Coverage	Insurer	Limits of Coverage	Deductible
General liability:	Indiana Insurance		
Each occurrence		\$ 1,000,000	\$ -
Aggregate		1,000,000	-
Building and contents	Indiana Insurance	3,171,173	1,000
Boiler and machinery	Cincinnati Insurance	2,000,000	1,000

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. There have been no significant changes in insurance coverage since the fiscal year 2001.

B. Health Insurance

The District provides employee health care benefits through the Erie-Ottawa-Huron Educational Service Center.

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C. Workers' Compensation

The District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 2.A.). The GRP's business and affairs are conducted by a three-member Board of Directors consisting of the President, the President-Elect and the Immediate Past President of the Ohio School Boards Association. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

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 calculated as one experience and a common premium rate is applied to all school districts in the GRP. 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 the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of GatesMcDonald & Co. provides administrative, cost control and actuarial services to the GRP.

12. DEFINED BENEFIT PENSION PLANS

A. State Employees Retirement System of Ohio

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling (614) 222-5853.

Plan members are required to contribute 9 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate of 14 percent for 2003 and 2002, 8.17% and 5.46% was the portion to fund pension obligations in 2003 and 2002. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$3702, \$1,995, and \$1,985, respectively; 52 percent has been contributed for fiscal year 2003 and 100 percent for the fiscal years 2002 and 2001.

B. State Teachers Retirement System of Ohio

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to

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establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

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

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

Plan members are required to contribute 9.3 percent of their annual covered salary and the District is required to contribute 14 percent; 13% and 9.5% was the portion used to fund pension obligations in 2003 and 2002. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions to STRS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$34,112, \$23,561, and \$19,627, respectively; 83 percent has been contributed for fiscal year 2003 and 100 percent for the fiscal years 2002 and 2001.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement Systems/State Teachers Retirement System. As of June 30, 2003, three members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

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13. POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers who participated in the Defined Benefit or Combined Plans and their dependents through STRS and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS are funded on a pay-as-you-go-basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. The State Teachers Retirement Board allocated employer contributions equal to 1% and 4.5% of covered payroll to the Health Care Stabilization Fund for 2003 and 2002. For the District, this amount equaled \$2,624 during fiscal 2003 and \$11,161 during fiscal 2002.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.011 billion at June 30, 2002 (the latest information available). For the fiscal year ended June 30, 2002 (the latest information available), net health care costs paid by STRS were \$354.697 million and STRS had 105,300 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For fiscal year 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll. For fiscal year 2002, employer contributions to fund health care benefits were 8.54 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003 and 2002, the minimum pay has been established at \$12,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2002 (the latest information available) were \$182.947 million and the target level was \$274.4 million. At June 30, 2002, (the latest information available) SERS had net assets available for payment of health care benefits of \$335.2 million and SERS had approximately 50,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$2,642 and \$3,113 during the 2003 and 2002 fiscal years respectively.

14. BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance is done on a GAAP basis, the budgetary basis, as provided by law, is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The Combined Statement of Revenue, Expenditures, and Changes in Fund Balances -Budget and Actual Comparison - All Governmental Fund Types is presented on the budgetary basis to provide a

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meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures 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, encumbrances are recorded as the equivalent of an expenditure (budget basis) as opposed to a reservation of fund balance for governmental funds (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the governmental funds are as follows:

Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses June 30, 2003				
	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Project
Budget basis	\$ (21,617)	\$ (120)	\$ 3,696	\$ (2,352)
Net adjustment for revenue accruals	(16,994)	504	(3,648)	(651)
Net adjustment for expenditure accruals	3,360	(579)	-	-
Net adjustment for other financing sources/(uses)	(5,744)	1,567	-	-
Encumbrances (budget basis)	9,955	-	-	16,800
GAAP basis	\$ (31,040)	\$ 1,372	\$ 48	\$ 13,797

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Excess of Revenues and Other Financing Sources Over
(Under) Expenditures and Other Financing Uses
June 30, 2002

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Project
Budget basis	\$ 23,707	\$ (3,762)	\$ (189)	\$ (2,487)
Net adjustment for revenue accruals	18,658	563	6,120	2,170
Net adjustment for expenditure accruals	10,143	(312)	-	-
Net adjustment for other financing sources/(uses)	(8,062)	(1,742)	-	-
Encumbrances (budget basis)	<u>25,560</u>	<u>-</u>	<u>-</u>	<u>-</u>
GAAP basis	<u>\$ 70,006</u>	<u>\$ (5,253)</u>	<u>\$ 5,931</u>	<u>\$ (317)</u>

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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds; however, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District at June 30, 2003.

B. Litigation

The District is involved in no litigation as either plaintiff or defendant.

C. State School Funding Decision

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.

The Supreme Court relinquished jurisdiction over the case and directed "... the Ohio General Assembly to enact a school funding scheme that is thorough and efficient ...". The District is

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NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND 2002
(Continued)

currently unable to determine what effect, if any, this decision will have on its future state funding and its financial operations.

16. STATUTORY RESERVES

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2003, the reserve activity was as follows:

	<u>Capital</u>	<u>Textbooks Acquisition</u>
Set-aside balance as of June 30, 2002	\$ (42,105)	\$ -
Current year set-aside requirement	3,899	3,899
Qualifying disbursements	<u>(24,966)</u>	<u>(21,071)</u>
Total	<u>\$ (63,172)</u>	<u>\$ (17,172)</u>
Balance carried forward to FY 2004	<u>\$ (63,172)</u>	<u>\$ -</u>

	<u>Capital</u>	<u>Textbooks Acquisition</u>
Set-aside balance as of June 30, 2001	\$ (21,195)	\$ -
Current year set-aside requirement	4,960	4,960
Qualifying disbursements	<u>(25,870)</u>	<u>(48,775)</u>
Total	<u>\$ (42,105)</u>	<u>\$ (43,815)</u>
Balance carried forward to FY 2003	<u>\$ (42,105)</u>	<u>\$ -</u>

Although the District had offsets and qualifying disbursements during the fiscal years that reduced the set-aside amounts below zero for the capital acquisition reserve, this extra amount may not be used to reduce the set-aside requirement for future years. The negative amount is therefore not presented as being carried forward to the next fiscal year.



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL
CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Kelleys Island Local School District
Erie County
Division Street, P.O. Box 349
Kelleys Island, Ohio 43438-0349

To the Board of Education:

We have audited the accompanying financial statements of the Kelleys Island Local School District (the District) as of and for the years ended June 30, 2003 and 2002, and have issued our report thereon dated December 10, 2003. We conducted our audits in accordance with auditing standards generally accepted by the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted an immaterial instance of noncompliance that we have reported to management of the District in a separate letter dated December 10, 2003.

Internal Control over Financial Reporting

In planning and performing our audits, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated December 10, 2003.

One Government Center / Room 1420 / Toledo, OH 43604-2246
Telephone: (419) 245-2811 (800) 443-9276 Fax: (419) 245-2484
www.auditor.state.oh.us

Kelleys Island Local School District
Erie County
Independent Accountants' Report on Compliance and on Internal
Control Required by *Government Auditing Standards*
Page 2

This report is intended solely for the information and use of the audit committee, management, and 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 "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

December 10, 2003

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2003 AND 2002

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2001-10522-001	Ohio Revised Code § 5705.41(B) - Expenditures and encumbrances exceeded appropriations.	Yes	



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

KELLEYS ISLAND LOCAL SCHOOL DISTRICT

ERIE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 15, 2004**