



**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2004



**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 financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Kelleys Island Local School District, Erie County, Ohio (the District), as of and for the year ended June 30, 2004, 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 Kelleys Island Local School District, Erie County, Ohio, as of June 30, 2004, 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 3, during the year ended June 30, 2004, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2006, 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.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

June 28, 2006

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED**

The discussion and analysis of the Kelleys Island 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, 2004. 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 2004 are as follows:

- In total, net assets of governmental activities increased \$341,590 which represents a 20.39% increase from 2003.
- General revenues accounted for \$1,122,614 in revenue or 98.65% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$15,356 or 1.35% of total revenues of \$1,137,970.
- The District had \$796,380 in expenses related to governmental activities; only \$15,356 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$1,122,614 were adequate to provide for these programs.
- The District's major governmental funds are the general fund and the debt service fund. The general fund had \$887,841 in revenues and \$692,377 in expenditures. During fiscal 2004, the general fund's fund balance increased \$195,464 from \$130,423 to \$325,887.
- The District's other major governmental fund is the debt service fund. The debt service fund had \$157,390 in revenues and \$129,823 in expenditures. During fiscal 2004, the debt service fund's fund balance increased \$27,567 from \$12,201 to \$39,768.

Using the 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 nonmajor funds presented in total in one column. In the case of the District, the general fund and the debt service fund are by far the most significant funds, and the only governmental funds reported as major funds.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

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 2004?" 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 of plant and extracurricular activities.

Reporting the District's Most Significant Funds

Fund Financial Statements

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 major governmental funds are the general fund and the debt service fund.

Governmental Funds

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

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals. These activities are reported in an agency fund. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. 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.

The District as a Whole

Recall that the Statement of Net Assets provides the perspective of the District as a whole. This is the first year for government-wide financial statements using the full accrual basis of accounting therefore a comparison with prior years is not available. A comparative analysis will be provided in future years when prior year information is available.

The table below provides a summary of the District's net assets for 2004.

	Net Assets
	Governmental Activities <u>2004</u>
<u>Assets</u>	
Current and other assets	\$ 1,411,866
Capital assets, net	<u>2,001,874</u>
Total assets	<u>3,413,740</u>
<u>Liabilities</u>	
Current liabilities	835,448
Long-term liabilities	<u>561,563</u>
Total liabilities	<u>1,397,011</u>
<u>Net Assets</u>	
Invested in capital assets, net of related debt	1,451,874
Restricted	88,722
Unrestricted	<u>476,133</u>
Total net assets	<u>\$ 2,016,729</u>

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

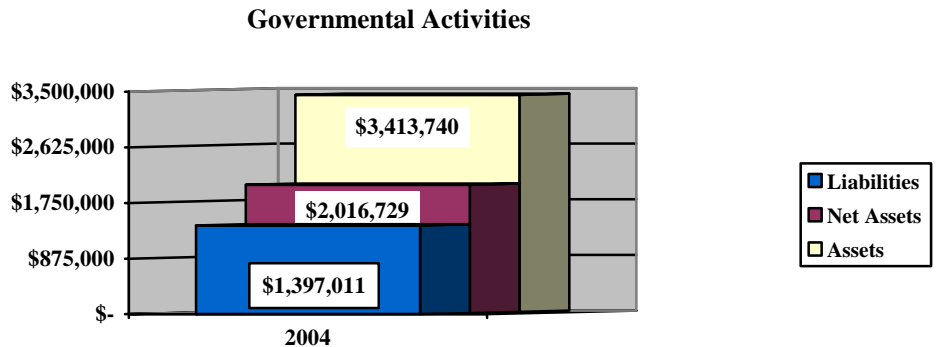
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2004, the District's assets exceeded liabilities by \$2,016,729. At year-end, unrestricted net assets were \$476,133.

At year-end, capital assets represented 58.64% of total assets. Capital assets include land, land improvements, buildings and improvements and furniture and equipment. Capital assets, net of related debt to acquire the assets at June 30, 2004, were \$1,451,874. 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, \$88,722, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$476,133 may be used to meet the District's ongoing obligations to the students and creditors.

The following graph illustrates the District's assets, liabilities and net assets at fiscal year-end as reported on the statement of net assets.



The table below shows the change in net assets for fiscal year 2004. Since this is the first year the District has prepared government-wide financial statements using the full accrual basis of accounting, revenue and expense comparisons to fiscal year 2004 are not available. A comparative analysis will be provided in future years when prior year information is available.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

Change in Net Assets

		Governmental Activities <u>2004</u>
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$	43
Operating grants and contributions		15,313
General revenues:		
Property taxes		1,022,115
Grants and entitlements		99,216
Investment earnings		682
Other		<u>601</u>
Total revenues		<u>1,137,970</u>

Change in Net Assets

		Governmental Activities <u>2004</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular		419,405
Special		20,134
Support services:		
Pupil		41,521
Instructional staff		73,401
Board of education		15,323
Administration		60,416
Fiscal		46,333
Operations and maintenance		87,119
Central		91
Extracurricular activities		4,256
Interest and fiscal charges		<u>28,381</u>
Total expenses		<u>796,380</u>
Increase in net assets	\$	<u><u>341,590</u></u>

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

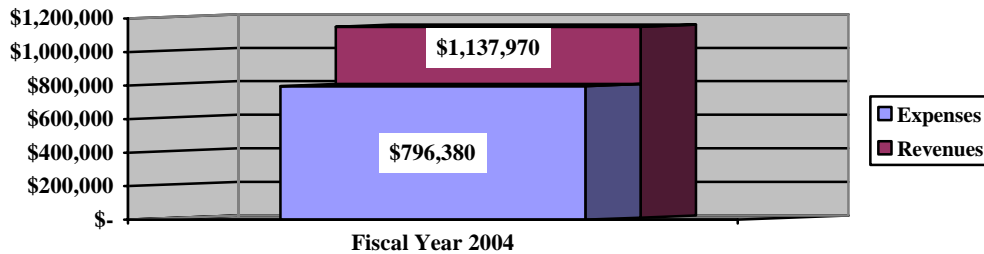
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

Governmental Activities

Net assets of the District's governmental activities increased \$341,590. Total governmental expenses of \$796,380 were offset by program revenues of \$15,356 and general revenues of \$1,122,614. Program revenues supported 1.93% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These revenue sources represent 98.54% of total governmental revenue. Real estate property is reappraised every six years. During fiscal 2004, the District received a one-time delinquent property tax payment of approximately \$145,000. The payment contributed to the District's increase in net assets over the prior year along with increases in property taxes and state support. These revenue increases were higher than modest increases in expenditures for instructional and support services. The graph below presents the District's governmental activities revenue and expenses for fiscal year 2004.

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. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. Comparisons to 2003 have not been presented since they are not available.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

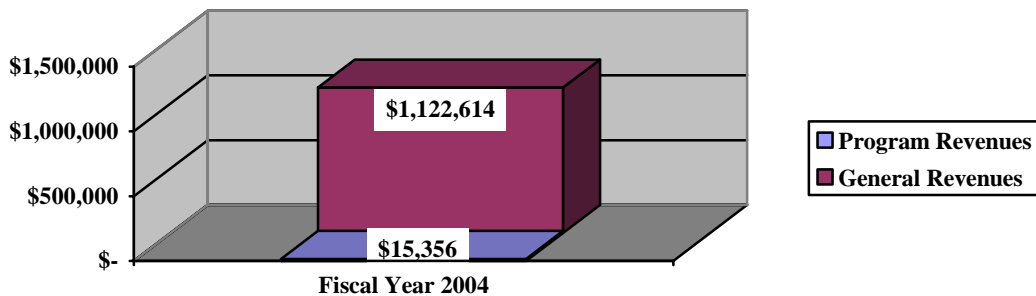
Governmental Activities

	Total Cost of Services 2004	Net Cost of Services 2004
	<u>2004</u>	<u>2004</u>
Program expenses		
Instruction:		
Regular	\$ 419,405	\$ 410,620
Special	20,134	20,134
Support services:		
Pupil	41,521	41,305
Instructional staff	73,401	70,046
Board of education	15,323	15,323
Administration	60,416	60,416
Fiscal	46,333	43,333
Operations and maintenance	87,119	87,119
Central	91	91
Extracurricular activities	4,256	4,256
Interest and fiscal charges	<u>28,381</u>	<u>28,381</u>
Total expenses	<u>\$ 796,380</u>	<u>\$ 781,024</u>

The dependence upon tax and other general revenues for governmental activities is apparent, 98.00% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 98.07%. The District's taxpayers, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal year 2004.

Governmental Activities - General and Program Revenues



**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

The District's Funds

The District's governmental funds reported a combined fund balance of \$393,326, which is higher than last year's total of \$161,604. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2004 and 2003.

	<u>Fund Balance June 30, 2004</u>	<u>Fund Balance June 30, 2003</u>	<u>Increase</u>
General	\$ 325,887	\$ 130,423	\$ 195,464
Debt Service	39,768	12,201	27,567
Other Governmental	<u>27,671</u>	<u>18,980</u>	<u>8,691</u>
Total	<u>\$ 393,326</u>	<u>\$ 161,604</u>	<u>\$ 231,722</u>

General Fund

The District's general fund balance increased \$195,464. The increase in fund balance can be attributed to an increase in property tax revenue including a one-time delinquent property tax payment received in fiscal 2004 of approximately \$145,000. Also, state support increased. The revenue increases were higher than modest increases in expenditures for instructional and support services. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	<u>2004 Amount</u>	<u>2003 Amount</u>	<u>Percentage Change</u>
<u>Revenues</u>			
Taxes	\$ 803,643	\$ 530,244	51.56 %
Earnings on investments	613	977	(37.26) %
Intergovernmental	82,941	69,866	18.71 %
Other revenues	<u>644</u>	<u>516</u>	24.81 %
Total	<u>\$ 887,841</u>	<u>\$ 601,603</u>	47.58 %
<u>Expenditures</u>			
Instruction	\$ 376,097	\$ 339,320	10.84 %
Support services	305,461	284,176	7.49 %
Extracurricular activities	4,256	2,733	55.73 %
Facilities acquisition and construction	6,563	10,289	(36.21) %
Debt service	<u>-</u>	<u>9,722</u>	(100.00) %
Total	<u>\$ 692,377</u>	<u>\$ 646,240</u>	7.14 %

Debt Service Fund

The debt service fund had \$157,390 in revenues and \$129,823 in expenditures. During fiscal 2004, the debt service fund's fund balance increased \$27,567 from \$12,201 to \$39,768. This was due to a significant increase in property tax revenues.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

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.

During the course of fiscal 2004, the District amended its general fund budget numerous times. For the general fund, final budgeted revenues and other financing sources were \$829,725, which was increased from the original budgeted revenues and other financing sources estimate of \$612,244. Actual revenues and other financing sources for fiscal 2004 was \$824,389. This represents a \$5,336 decrease from final budgeted revenues and other financing sources. This decrease is primarily due to overestimating tuition revenues in the original and final budget.

General fund original appropriations (appropriated expenditures plus other financing uses) of \$734,640 were increased to \$961,876 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2004 totaled \$696,020, which was \$265,856 less than the final budget appropriations. The increases in appropriations were caused by an estimated increase in the District's health insurance rates. The District actually spent less than anticipated for salaries, benefits, operations, and interest expense.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2004, the District had \$2,001,874 invested in land, land improvements, buildings and improvements and furniture and equipment. This entire amount is reported in governmental activities. The following table shows fiscal 2004 balances compared to 2003:

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

	Governmental Activities	
	2004	2003
Land	\$ 3,804	\$ 3,804
Land improvements	35,012	38,185
Building and improvements	1,856,568	1,874,298
Furniture and equipment	106,490	114,642
Total	\$ 2,001,874	\$ 2,030,929

Total additions to capital assets for 2004 were \$40,666. The overall decrease in capital assets of \$29,055 is primarily due to the recording of \$69,721 in depreciation expense for fiscal 2004.

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

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

Debt Administration

At June 30, 2004, the District had \$550,000 in general obligation bonds outstanding. Of this total, \$100,000 is due within one year and \$450,000 is due within greater than one year. The following table summarizes the bonds outstanding.

Outstanding Debt, at Year End

	<u>Governmental Activities 2004</u>	<u>Governmental Activities 2003</u>
General obligation bonds:		
School improvement bond	<u>\$ 550,000</u>	<u>\$ 645,000</u>
Total	<u>\$ 550,000</u>	<u>\$ 645,000</u>

At June 30, 2004, the District's overall legal debt margin was \$5,266,900 with an unvoted debt margin of \$64,190.

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

Current Financial Related Activities

The District has carefully managed its general fund budget in order to optimize the dollars available for educating the students it serves. The general fund's cash balance was \$264,331 at June 30, 2004. A one-time delinquent personal property tax payment in fiscal year 2004 resulted in the larger-than-normal carry-over balance. Fiscal year-end general fund cash balances were \$132,151, \$143,813, \$91,546, and \$129,183 at June 30 in Fiscal Years 2003, 2002, 2001, and 2000, respectively. Sound fiscal management by the Board of Education and Administration has enabled the District to maintain a healthy cash balance, and continue a quality, comprehensive educational program.

The Board's five-year projection indicates that the natural budget cycle needs would not require additional operating income. With the tri-annual reappraisals and the nature of real estate on the island, there has been a major increase in the real estate value within the district. Since the district is under the 20-mil floor this impacts revenue significantly. Since calendar year 2002, the board has requested the budget commission not collect 2 mils of tax revenue on behalf of the school. Projections show that this tax reduction could continue with current staff numbers and services.

Because of the District's small enrollment, any great increase or decrease in ADM could have a negative impact on the district and staff. Too many additional students would require additional staff members to continue to serve the needs of students. Not enough students would find the district over-staffed. The Board of Education and Administration realize the need to anticipate such changes in student enrollment.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

Another challenge facing the District is the future of state funding. The State of Ohio was found by the Ohio Supreme Court in March 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 September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan and granted a motion for reconsideration on November 2, 2001. At this time, the District is unable to determine what effect, if any, this decision and the reconsideration will have on its future State funding and on its financial operations.

The District has committed itself to educational and financial excellence for many years. It is committed to living within its financial means, and working with the community it serves in order to garner adequate resources to support the educational program. The Board of Education and administration closely monitor its revenues and expenditures in accordance with its financial forecast. Overall, the District continues to perform at a high level.

Contacting the District's Financial Management

This financial report is designed to provide our citizen's 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 Ms. Betty Schwiefert, Treasurer, Kelleys Island Local School District, 2900 S. Columbus Avenue, Sandusky, Ohio 44870-5554.

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**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

STATEMENT OF NET ASSETS
JUNE 30, 2004

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents. . . \$	311,168
Receivables:	
Taxes	1,093,707
Prepayments	6,991
Capital assets:	
Land	3,804
Depreciable capital assets, net	1,998,070
Total capital assets, net.	2,001,874
 Total assets.	 3,413,740
 Liabilities:	
Accounts payable.	2,109
Accrued wages and benefits	41,833
Pension obligation payable.	5,959
Intergovernmental payable	4,072
Deferred revenue	768,412
Accrued interest payable	13,063
Long-term liabilities:	
Due within one year.	100,000
Due in more than one year.	461,563
 Total liabilities	 1,397,011
 Net Assets:	
Invested in capital assets, net of related debt.	1,451,874
Restricted for:	
Capital projects	33,908
Debt service.	54,814
Unrestricted.	476,133
 Total net assets	 \$ 2,016,729

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental activities:				
Instruction:				
Regular	\$ 419,405	\$ 43	\$ 8,742	\$ (410,620)
Special	20,134			(20,134)
Vocational				
Other				
Support services:				
Pupil.	41,521		216	(41,305)
Instructional staff	73,401		3,355	(70,046)
Board of education	15,323			(15,323)
Administration.	60,416			(60,416)
Fiscal.	46,333		3,000	(43,333)
Operations and maintenance	87,119			(87,119)
Central	91			(91)
Extracurricular	4,256			(4,256)
Interest and fiscal charges	28,381			(28,381)
Total governmental activities	<u>\$ 796,380</u>	<u>\$ 43</u>	<u>\$ 15,313</u>	<u>(781,024)</u>
 General Revenues:				
Property taxes levied for:				
General purposes				843,666
Debt service.				145,731
Capital projects				32,718
Grants and entitlements not restricted to specific programs.				99,216
Investment earnings				682
Miscellaneous				601
Total general revenues.				<u>1,122,614</u>
 Change in net assets				 341,590
 Net assets at beginning of year (restated)				 <u>1,675,139</u>
 Net assets at end of year				 <u>\$ 2,016,729</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Assets:				
Equity in pooled cash and cash equivalents	\$ 264,331	\$ 23,286	\$ 23,551	\$ 311,168
Receivables:				
Taxes	915,485	142,890	35,332	1,093,707
Prepayments	6,991			6,991
Total assets	\$ 1,186,807	\$ 166,176	\$ 58,883	\$ 1,411,866
Liabilities:				
Accounts payable	\$ 2,109			\$ 2,109
Accrued wages and benefits	41,833			41,833
Pension obligation payable.	4,967			4,967
Intergovernmental payable.	4,072			4,072
Deferred revenue.	807,939	\$ 126,408	\$ 31,212	965,559
Total liabilities	860,920	126,408	31,212	1,018,540
Fund Balances:				
Reserved for encumbrances	\$ 4,724			\$ 4,724
Reserved for prepayments	6,991			6,991
Reserved for property tax unavailable for appropriation	107,546	\$ 16,482	\$ 4,120	128,148
Unreserved, undesignated, reported in:				
General fund	206,626			206,626
Debt service fund		23,286		23,286
Capital projects funds.			23,551	23,551
Total fund balances	325,887	39,768	27,671	393,326
Total liabilities and fund balances	\$ 1,186,807	\$ 166,176	\$ 58,883	\$ 1,411,866

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2004

Total governmental fund balances		\$	393,326
 <i>Amounts reported for governmental activities in 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.			2,001,874
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	<u>197,147</u>	
Total			197,147
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
Compensated absences		(11,563)	
Pension obligation payable		(992)	
General obligation bonds payable		(550,000)	
Accrued interest payable		<u>(13,063)</u>	
Total			<u>(575,618)</u>
Net assets of governmental activities		\$	<u><u>2,016,729</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Taxes	\$ 803,643	\$ 143,965	\$ 31,185	\$ 978,793
Earnings on investments.	613	23	46	682
Classroom materials and supplies	43			43
Other local revenues.	601			601
Intergovernmental - state	82,941	13,402	11,798	108,141
Intergovernmental - federal			6,388	6,388
Total revenue	<u>887,841</u>	<u>157,390</u>	<u>49,417</u>	<u>1,094,648</u>
Expenditures:				
Current:				
Instruction:				
Regular	355,963		8,742	364,705
Special.	20,134			20,134
Support services:				
Pupil.	41,108		216	41,324
Instructional staff	69,971		6,186	76,157
Board of education	15,323			15,323
Administration.	60,202			60,202
Fiscal	35,355	4,186	6,792	46,333
Operations and maintenance.	83,502			83,502
Extracurricular activities.	4,256			4,256
Facilities acquisition and construction	6,563		18,790	25,353
Debt service:				
Principal retirement		95,000		95,000
Interest and fiscal charges		30,637		30,637
Total expenditures	<u>692,377</u>	<u>129,823</u>	<u>40,726</u>	<u>862,926</u>
Net change in fund balances	195,464	27,567	8,691	231,722
Fund balances at beginning of year	130,423	12,201	18,980	161,604
Fund balances at end of year.	<u>\$ 325,887</u>	<u>\$ 39,768</u>	<u>\$ 27,671</u>	<u>\$ 393,326</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

(SEE ACCOUNTANT'S COMPILATION REPORT)

Net change in fund balances - total governmental funds	\$	231,722
 <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 cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$40,666) is less than depreciation expense (\$69,721) in the current period.		(29,055)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		43,322
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.		95,000
Governmental funds report expenditures for interest when it is due. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the statement of activities is due to the accrued interest on bonds.		2,256
Some expenses reported in the statement of activities, such as compensated absences and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		(1,655)
Change in net assets of governmental activities	\$	<u>341,590</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Taxes	\$ 539,572	\$ 732,625	\$ 735,744	\$ 3,119
Tuition.	9,574	13,000		(13,000)
Earnings on investments.	663	900	613	(287)
Classroom materials and fees			43	43
Other local revenues	147	200	601	401
Intergovernmental - state	57,888	78,600	82,941	4,341
Total revenue	<u>607,844</u>	<u>825,325</u>	<u>819,942</u>	<u>(5,383)</u>
Expenditures:				
Current:				
Instruction:				
Regular	341,850	437,428	349,010	88,418
Special.	24,907	30,525	20,235	10,290
Support services:				
Pupil.	38,900	60,450	40,545	19,905
Instructional staff	79,500	131,524	68,788	62,736
Board of education	18,950	29,484	19,294	10,190
Administration.	50,750	70,266	60,604	9,662
Fiscal	37,753	49,033	38,497	10,536
Operations and maintenance.	112,249	115,735	81,130	34,605
Pupil transportation	3,000			
Extracurricular activities.	3,560	7,710	4,458	3,252
Facilities acquisition and construction.	10,500	7,000	6,563	437
Debt service:				
Interest and fiscal charges	12,721	12,721		12,721
Total expenditures	<u>734,640</u>	<u>951,876</u>	<u>689,124</u>	<u>262,752</u>
Excess of revenues over (under) expenditures.	<u>(126,796)</u>	<u>(126,551)</u>	<u>130,818</u>	<u>257,369</u>
Other financing sources (uses):				
Refund of prior year expenditure.	4,400	4,400	4,447	47
Refund of prior year receipts.		(10,000)	(6,896)	3,104
Total other financing sources (uses)	<u>4,400</u>	<u>(5,600)</u>	<u>(2,449)</u>	<u>3,151</u>
Net change in fund balance	(122,396)	(132,151)	128,369	260,520
Fund balance at beginning of year.	119,196	119,196	119,196	
Prior year encumbrances appropriated	9,955	9,955	9,955	
Fund balance (deficit) at end of year	<u>\$ 6,755</u>	<u>\$ (3,000)</u>	<u>\$ 257,520</u>	<u>\$ 260,520</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2004

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 19,143	
Receivables:		
Taxes		\$ 56,896
Total assets.	19,143	\$ 56,896
Liabilities:		
Intergovernmental payable		\$ 56,896
Total liabilities		\$ 56,896
Net Assets:		
Held in trust for scholarships	19,143	
Total net assets	\$ 19,143	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Private-Purpose Trust</u>	
	<u>Scholarship</u>	
Additions:		
Interest	\$	80
Gifts and contributions.		600
		<hr/>
Total additions.		680
		<hr/>
Deductions:		
Scholarships awarded		220
		<hr/>
Change in net assets		460
Net assets at beginning of year.		18,683
		<hr/>
Net assets at end of year	\$	<u>19,143</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 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 611th largest by enrollment among the 613 public school districts in the state, and 7th in Erie County. It currently operates 1 elementary school, 1 middle school, and 1 comprehensive high school. The District employs 2 non-certified and 9 certified employees to provide services to 30 students in grades K through 12 and various community groups.

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) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities provided they do 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". The reporting entity is composed of the primary government, component units and other organization that are included to ensure that the basic financial statements of the District are not misleading. 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 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 organizations' 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 organizations 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; (4) or 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. Based upon the application of these criteria, the District has no component units. The following organizations are described due to their relationship to the District:

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

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

PUBLIC ENTITY RISK POOLS

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 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 contacting the program administrator at the Huron-Erie School Employees Insurance Association, located at 2900 Columbus Avenue, Sandusky, Ohio 44870.

Ohio School Boards Association Workers' Compensation Group Rating Program

The District participates in a group rating program for workers' compensation as established in Section 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)

The 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 the NOECA based upon a per pupil charge, dependent upon the software package utilized. The NOECA assembly consists of a superintendent from each participating service center and a representative from the fiscal agent. The 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 to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

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

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets 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 all financial resources except those required to be accounted for 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.

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

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities; and (b) for grants and other resources whose use is restricted to a particular purpose.

PROPRIETARY FUNDS

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no proprietary funds.

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency 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's only trust fund is a private-purpose trust which accounts for a scholarship program for students. 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 and deposits held for outside entities.

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.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

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 governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of 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 not classified as program revenues are presented as general revenues of the District.

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

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

The private-purpose trust fund is reported using the economic resources measurement focus. 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. Fiduciary funds also use the accrual basis of accounting.

Revenues - Exchange and Non-exchange 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.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 5). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the 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.

Deferred Revenue - Deferred revenue arises 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, 2004, but which were levied to finance fiscal year 2005 operation, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities received during the year is reported in the fund financial statements as an expenditure 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. Allocation 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 legal level of budgetary control has been established at the fund, function, and object level for all funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

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 express purpose of this budget document is to reflect the need for existing (or increased tax rates). By no later than January 20, the Board-adopted budget is filed with the Erie 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 Commissions' 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 the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts from the original and final certificates of amended resources that were issued for 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 expenses of the District. The appropriation resolution is legally enacted at the fund, function, and object level of expenditures, which is the legal level 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.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the year, all supplemental appropriations were legally enacted.

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

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

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

Lapsing of Appropriations:

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

F. Cash and Investments

To improve cash management, cash received by the District is pooled in a central bank account. 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 basic financial statements.

During fiscal year 2004, investments were limited to a repurchase agreement and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Nonparticipating investment contracts, such as repurchase agreements, are reported at cost.

The District had invested funds in STAR Ohio during fiscal 2004. 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, 2004.

Under existing Ohio statutes all investment earning are assigned to the general fund unless statutorily required to be credited to a specific fund. The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$613, which includes \$36 assigned from other District funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents.

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

G. Capital Assets

General capital assets are those assets specifically related to governmental activities. These 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.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements 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 \$500. 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 capitalized.

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:

Description	Governmental Activities <u>Estimated Lives</u>
Land improvements	7 - 30 years
Buildings and improvements	5 - 50 years
Furniture and equipment	5 - 30 years

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.

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.

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

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

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

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements.

I. 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, and contractually required pension contributions that will be paid from governmental funds 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 loans are recognized on the fund financial statements when due.

J. Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, prepayments, and property taxes unavailable for appropriation. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute.

K. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist 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 District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

L. Estimates

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

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

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

M. 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 basic financial statements. The District had no interfund transactions during fiscal 2004.

N. 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 2004.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

Changes in Accounting Principle

For fiscal year 2004, the District has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 41, "Budgetary Comparison Schedule - Perspective Differences", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". At June 30, 2003, there was no effect on fund balance as a result of implementing GASB Statements Nos. 37, 38 and 41.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38, modifies, establishes and rescinds certain financial statement note disclosures.

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the school district not being able to present budgetary comparison for the general and each major special revenue fund.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE – (Continued)

GASB No. 34 creates new basic financial statements for reporting on the District's financial activities. The basic financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements show the District's programs for governmental activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2003, caused by the conversion to the accrual basis of accounting.

The transition from governmental fund balance to net assets of the governmental activities is presented as follows:

	Total
Fund balance, June 30, 2003	\$ 161,604
GASB 34 adjustments:	
Long-term (deferred) assets	153,825
Capital assets	2,030,929
Long-term liabilities	(655,900)
Accrued interest payable	(15,319)
Governmental activities net assets, June 30, 2003	\$ 1,675,139

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the basic financial statements 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.

Inactive deposits are public deposits 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.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS – (Continued)

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 finance 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% 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 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% of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instrument rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS – (Continued)

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.

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

Deposits: At fiscal year-end, the carrying amount of the District's deposits was \$(29,119) and the bank balance was \$8,628. The entire bank balance was covered by federal depository insurance. 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 is covered by federal depository insurance.

Collateral is required for demand deposits and certificates of deposit 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: The District's investments are categorized below to give an indication of the level of custodial credit risk assumed by the entity at fiscal 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. STAR Ohio is not categorized because it is not evidenced by securities that exist in physical or book entry form.

	<u>Category 3</u>	<u>Reported Amount</u>	<u>Fair Value</u>
Repurchase agreements	\$ 271,000	\$ 271,000	\$ 271,000
Investment in STAR Ohio	-	88,430	88,430
Total investments	<u>\$ 271,000</u>	<u>\$ 359,430</u>	<u>\$ 359,430</u>

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

The classification of cash and cash equivalents on the basic financial statements 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".

The classification of cash and cash equivalents and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the basic financial statements and the classification per GASB Statement No. 3 is as follows:

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 330,311	\$ -
Investments of the cash management pool:		
Repurchase agreement	(271,000)	271,000
Investment in STAR Ohio	<u>(88,430)</u>	<u>88,430</u>
GASB Statement No. 3	<u>\$ (29,119)</u>	<u>\$ 359,430</u>

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, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed value listed as of January 1, 2003, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. 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. Under certain circumstances, state statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 2002, were levied after April 1, 2003, and are collected in 2004 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

NOTE 5 - PROPERTY TAXES – (Continued)

Tangible personal property tax revenue received during calendar 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2003, on the value as of December 31, 2002. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Erie County. The County Auditor periodically advances to the District the portion of the taxes collected. Second-half real property tax payments collected by the County Auditor by June 30, 2004, are available to finance fiscal year 2004 operations. The amount available as an advance at June 30, 2004 was \$107,546 in the general fund, \$16,482 in the debt service fund, \$4,120 in the Permanent Improvement capital projects fund (a nonmajor governmental fund). The amounts available for advance at fiscal year end can vary depending upon when tax bills are sent by the County Auditor.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2004, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

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

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

NOTE 5 - PROPERTY TAXES – (Continued)

The assessed values upon which the fiscal year 2004 taxes were collected are:

	2003 Second Half Collections		2004 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential real estate	\$ 39,227,240	85.33	\$ 56,995,250	88.79
Commercial/industrial real estate	4,119,850	8.96	4,879,130	7.6
Public utility tangible	1,001,840	2.18	999,790	1.56
General tangible personal property	<u>1,624,525</u>	<u>3.53</u>	<u>1,316,180</u>	<u>2.05</u>
Total	<u>\$ 45,973,455</u>	<u>100.00</u>	<u>\$ 64,190,350</u>	<u>100.00</u>

Tax rate per \$1,000 of
assessed valuation for:

Operations	\$ 13.05	\$ 13.05
Permanent improvements	0.50	0.50
Debt Service	2.80	2.00

NOTE 6 - RECEIVABLES

Receivables at June 30, 2004, consisted of taxes. Taxes receivable are considered collectible in full due to the ability to foreclose for the nonpayment of taxes. A summary of the receivables reported on the statement of net assets follows:

Governmental Activities:	
Taxes	<u>\$ 1,093,707</u>

Taxes receivable are expected to be collected within the subsequent year.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

NOTE 7 - CAPITAL ASSETS

- A. The capital asset balances of the governmental activities have been restated due to errors and omissions in the amounts reported in the prior year and to record accumulated depreciation in accordance with GASB Statement No. 34.

	<u>Balance 6/30/03</u>	<u>Adjustments</u>	<u>Restated Balance 07/01/03</u>
Governmental Activities:			
<i>Capital assets, not being depreciated:</i>			
Land	\$ 3,804	\$ -	\$ 3,804
Total capital assets, not being depreciated	<u>3,804</u>	<u>-</u>	<u>3,804</u>
<i>Capital assets, being depreciated:</i>			
Land improvements		47,597	47,597
Buildings and improvement	2,027,380		2,027,380
Furniture and equipment	290,504	3,957	294,461
Total capital assets, being depreciated	<u>2,317,884</u>	<u>51,554</u>	<u>2,369,438</u>
<i>Less: accumulated depreciation</i>	<u>-</u>	<u>(342,313)</u>	<u>(342,313)</u>
Governmental activities capital assets, net	<u>\$ 2,321,688</u>	<u>\$ (290,759)</u>	<u>\$ 2,030,929</u>

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

NOTE 7 - CAPITAL ASSETS – (Continued)

B. Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	Restated Balance 07/01/03	Additions	Deductions	Balance 06/30/04
Governmental Activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 3,804	\$ -	\$ -	\$ 3,804
Total capital assets, not being depreciated	<u>3,804</u>	<u>-</u>	<u>-</u>	<u>3,804</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	47,597			47,597
Buildings and improvements	2,027,380	23,328		2,050,708
Furniture and equipment	<u>294,461</u>	<u>17,338</u>	<u>(12,349)</u>	<u>299,450</u>
Total capital assets, being depreciated	<u>2,369,438</u>	<u>40,666</u>	<u>(12,349)</u>	<u>2,397,755</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(9,412)	(3,173)		(12,585)
Buildings and improvements	(153,082)	(41,058)		(194,140)
Furniture and equipment	<u>(179,819)</u>	<u>(25,490)</u>	<u>12,349</u>	<u>(192,960)</u>
Total accumulated depreciation	<u>(342,313)</u>	<u>(69,721)</u>	<u>12,349</u>	<u>(399,685)</u>
Governmental activities capital assets, net	<u>\$ 2,030,929</u>	<u>\$ (29,055)</u>	<u>\$ -</u>	<u>\$ 2,001,874</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 61,025
<u>Support Services:</u>	
Pupil	121
Instructional staff	768
Administration	214
Operations and maintenance	7,502
Central	<u>91</u>
Total depreciation expense	<u>\$ 69,721</u>

NOTE 8 - 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 on the statement of net assets. Payments of principal and interest relating to the bond are recorded as expenditures in the debt service fund on the fund financial statements.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

NOTE 8 - LONG-TERM OBLIGATIONS – (Continued)

A. The following is a description of the District's bond outstanding as of June 30, 2004:

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance 07/01/03</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance 06/30/04</u>	<u>Amount Due in One Year</u>
School improvement bond	4.75%	1/1/2009	<u>\$ 645,000</u>	<u>\$ -</u>	<u>\$ (95,000)</u>	<u>\$ 550,000</u>	<u>\$ 100,000</u>

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

<u>Fiscal Year Ending June 30</u>	<u>Principal on Bond</u>	<u>Interest on Bond</u>	<u>Total</u>
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	<u>120,000</u>	<u>5,700</u>	<u>125,700</u>
Total	<u>\$ 550,000</u>	<u>\$ 80,751</u>	<u>\$ 630,751</u>

C. During the fiscal year ended June 30, 2004, the following changes occurred in the governmental activities long-term obligations. Compensated absences will be paid from the fund in which the employee was paid.

	<u>Balance 07/01/03</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 06/30/04</u>	<u>Amount Due in One Year</u>
Governmental Activities:					
Compensated absences payable	\$ 10,900	\$ 663	\$ -	\$ 11,563	\$ -
General obligation bond payable	<u>645,000</u>	<u>-</u>	<u>(95,000)</u>	<u>550,000</u>	<u>100,000</u>
Total governmental activities long-term liabilities	<u>\$ 655,900</u>	<u>\$ 663</u>	<u>\$ (95,000)</u>	<u>\$ 561,563</u>	<u>\$ 100,000</u>

D. 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 effects of these debt limitations at June 30, 2004 are a voted debt margin of \$5,266,900 (including available funds of \$39,768) and an unvoted debt margin of \$64,190.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

NOTE 9 – COMPENSATED ABSENCES

A. 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.

B. 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 service or have at least 20 years of service.

NOTE 10 - RISK MANAGEMENT

A. 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 2004, the District has contracted with various insurance commercial carriers to provide insurance coverage for the following risks:

- Commercial property.
- Inland Marine.
- Business liability.
- Business personal property.
- Business auto.
- Education liability.

Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant reduction in coverage from the prior year.

B. Health Insurance

The District provides employee health care benefits through the Erie-Huron-Ottawa Educational Service Center. The Erie-Huron-Ottawa Educational Service Center has contracted with the Huron-Erie School Employees Insurance Association (Association) to provide medical/surgical, dental, vision, and life insurance benefits for its employees and their covered dependents. The Association is a shared risk pool comprised of 14 school districts that provide public education within Erie and Huron Counties. The District pays monthly contributions that are placed in a common fund from which eligible claims and expenses are paid for employees of participating school districts and their covered dependents. Claims are paid for all participants regardless of claims flow.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

NOTE 10 - RISK MANAGEMENT – (Continued)

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 than 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.

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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 the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, or by calling (614) 222-5853.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% 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 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. 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 pension contributions to SERS for the fiscal years ended June 30, 2004, 2003, and 2002, were \$4,513, \$3,702, and \$1,995, respectively; 100% has been contributed for fiscal year 2004, 2003 and 2002.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

NOTE 11 - DEFINED BENEFIT PENSION PLANS – (Continued)

B. State Teachers Retirement System

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 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 43215-3371, 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% 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 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% 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 2004, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$37,607, \$36,736, and \$34,722, respectively; 100% has been contributed for fiscal year 2004, 2003 and 2002.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

NOTE 11 - DEFINED BENEFIT PENSION PLANS – (Continued)

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose Social Security or SERS/STRS. As of June 30, 2004, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

NOTE 12 - POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers 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. Most 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% of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$2,893 during fiscal 2004.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.1 billion at June 30, 2004. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$268.379 million and STRS had 111,853 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. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on year of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced for those who apply.

For this fiscal year, employer contributions to fund health care benefits were 4.91% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$25,400. The surcharge, added to the unallocated portion of the 14% 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% of annual health care expenses, before premium reduction. Gross expenses for health care at June 30, 2004 were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the District, the amount to fund health care benefits including surcharge equaled \$3,491 during the 2004 fiscal year.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

NOTE 13 - 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 a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP 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	\$ 128,369
Net adjustment for revenue accruals	67,899
Net adjustment for expenditure accruals	(10,064)
Net adjustment for other sources/uses	2,449
Adjustment for encumbrances	6,811
GAAP basis	\$ 195,464

NOTE 14 - 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.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

NOTE 14 – CONTINGENCIES – (Continued)

B. Litigation

The District is not a party to legal proceedings that would have a material effect on the financial condition of the District.

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

NOTE 15 - 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, 2004, the reserve activity was as follows:

	<u>Textbooks/ Instructional Materials</u>	<u>Capital Acquisition</u>
Set-aside cash balance as of June 30, 2003	\$ (63,172)	\$ -
Current year set-aside requirement	3,860	3,860
Current year offsets		(27,742)
Qualifying disbursements	<u>(29,968)</u>	<u>(6,563)</u>
Total	<u>\$ (89,280)</u>	<u>\$ (30,445)</u>
Balance carried forward to FY 2005	<u>\$ (89,280)</u>	<u>\$ -</u>

The District had offsets and qualifying disbursements during the year that reduced the textbooks/instructional materials set-aside amount below zero; this extra amount is being carried forward to reduce the set-aside requirements of future years. Although the District had offsets and qualifying disbursements during the year that reduced the set-aside amount below zero for the capital improvement 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.

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**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
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 financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Kelleys Island Local School District, Erie County (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated June 28, 2006, wherein we noted the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. 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 to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated June 28, 2006, we reported a matter involving internal control over financial reporting we did not deem a reportable condition.

Compliance and Other Matters

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

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www.auditor.state.oh.us

Kelleys Island Local School District
Erie County
Independent Accountants' Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Required by Government Auditing Standards
Page 2

We intend this report solely for the information and use of the audit committee, management, and the Board of Education. It is not intended for 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

June 28, 2006



**Auditor of State
Betty Montgomery**

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P.O. Box 1140
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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
JULY 25, 2006**