

**Mary Taylor, CPA**  
Auditor of State



**KELLEYS ISLAND LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

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# Mary Taylor, CPA

Auditor of State

## 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, 2006, 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, 2006, and the respective changes in financial position thereof and the budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2008, 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.

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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 "Mary Taylor". The signature is written in a cursive, flowing style.

**Mary Taylor, CPA**  
Auditor of State

January 28, 2008

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
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, 2006. 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 2006 are as follows:

- In total, net assets of governmental activities increased \$101,057 which represents a 4.89% increase from 2005.
- General revenues accounted for \$1,049,927 in revenue or 95.81% of all revenues. Program specific revenues in the form of grants and contributions accounted for \$45,880 or 4.19% of total revenues of \$1,095,807.
- The District had \$994,750 in expenses related to governmental activities; only \$45,880 of these expenses was offset by program specific grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$1,049,927 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 \$878,999 in revenues and \$897,316 in expenditures. During fiscal 2006, the general fund's fund balance decreased \$18,317 from \$451,698 to \$433,381.
- The District's other major governmental fund is the debt service fund. The debt service fund had \$129,257 in revenues and \$136,536 in expenditures. During fiscal 2006, the debt service fund's fund balance decreased \$7,279 from \$31,997 to \$24,718.

**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, 2006  
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 2006?" 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* than 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, 2006  
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. A comparative analysis has been provided.

The table below provides a summary of the District's net assets for 2006 and 2005.

	<b>Governmental Activities 2006</b>	<b>Governmental Activities 2005</b>
<b><u>Assets</u></b>		
Current and other assets	\$ 1,504,881	\$ 1,378,725
Capital assets, net	<u>1,937,969</u>	<u>1,978,542</u>
Total assets	<u>3,442,850</u>	<u>3,357,267</u>
<b><u>Liabilities</u></b>		
Current liabilities	922,966	827,576
Long-term liabilities	<u>350,833</u>	<u>461,697</u>
Total liabilities	<u>1,273,799</u>	<u>1,289,273</u>
<b><u>Net Assets</u></b>		
Invested in capital assets, net of related debt	1,592,969	1,528,542
Restricted	111,707	69,807
Unrestricted	<u>464,375</u>	<u>469,645</u>
Total net assets	<u>\$ 2,169,051</u>	<u>\$ 2,067,994</u>

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

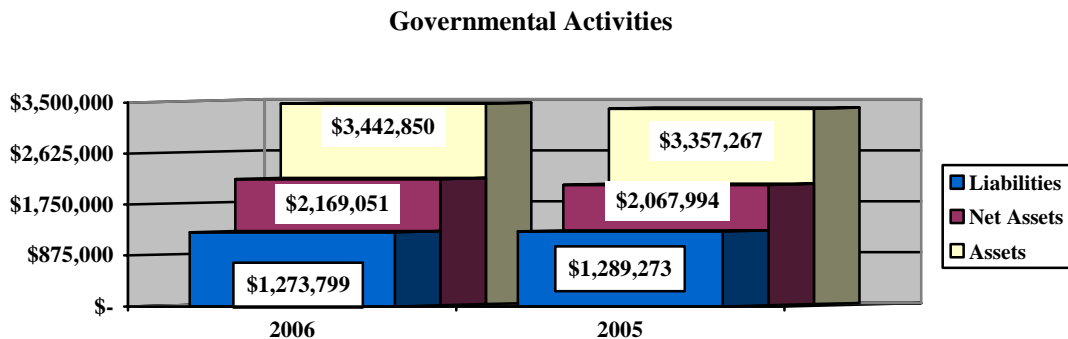
**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED  
(Continued)**

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the District's assets exceeded liabilities by \$2,169,051. At year-end, unrestricted net assets were \$464,375.

At year-end, capital assets represented 56.29% 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, 2006, were \$1,592,969. 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, \$111,707, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$464,375 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 2006 and 2005.

**Change in Net Assets**

	Governmental Activities 2006	Governmental Activities 2005
<b>Revenues</b>		
Program revenues:		
Operating grants and contributions	\$ 45,880	\$ 27,403
General revenues:		
Property taxes	918,228	745,941
Grants and entitlements	110,526	109,345
Investment earnings	21,084	7,224
Other	89	1
Total revenues	<u>1,095,807</u>	<u>889,914</u>

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED  
(Continued)**

**Change in Net Assets**

	<u>Governmental Activities 2006</u>	<u>Governmental Activities 2005</u>
<b><u>Expenses</u></b>		
Program expenses:		
Instruction:		
Regular	535,511	454,474
Special	39,023	31,552
Support services:		
Pupil	57,137	55,784
Instructional staff	83,009	77,417
Board of education	25,180	21,113
Administration	96,216	62,525
Fiscal	41,380	33,162
Operations and maintenance	96,483	75,081
Pupil transportation	447	
Extracurricular activities	1,483	3,791
Interest and fiscal charges	<u>18,881</u>	<u>23,750</u>
Total expenses	<u>994,750</u>	<u>838,649</u>
Change in net assets	101,057	51,265
Net assets at beginning of year	<u>2,067,994</u>	<u>2,016,729</u>
Net assets at end of year	<u>\$ 2,169,051</u>	<u>\$ 2,067,994</u>

**Governmental Activities**

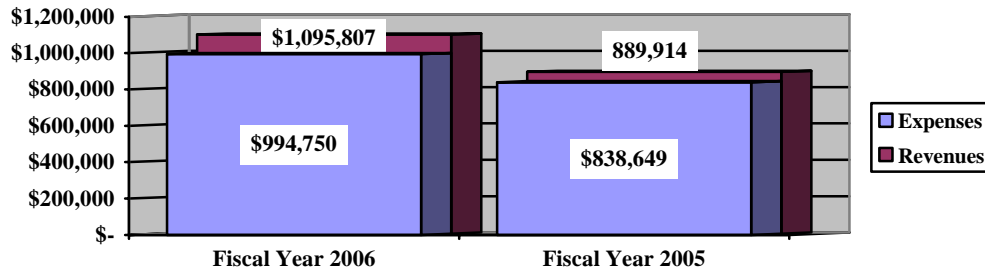
Net assets of the District's governmental activities increased \$101,057. Total governmental expenses of \$994,750 were offset by program revenues of \$45,880 and general revenues of \$1,049,927. Program revenues supported 4.61% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These revenue sources represent 93.88% of total governmental revenue. Real estate property is reappraised every six years. The District's taxpayers, as a whole, are by far the primary support for District's students.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED  
(Continued)**

**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 2005 have been presented below.

**Governmental Activities**

	Total Cost of Services 2006	Net Cost of Services 2006	Total Cost of Services 2005	Net Cost of Services 2005
<b>Program expenses</b>				
Instruction:				
Regular	\$ 535,511	\$ 496,581	\$ 454,474	\$ 433,260
Special	39,023	39,023	31,552	31,552
Support services:				
Pupil	57,137	56,575	55,784	55,724
Instructional staff	83,009	79,621	77,417	74,288
Board of education	25,180	25,180	21,113	21,113
Administration	96,216	96,216	62,525	62,525
Fiscal	41,380	38,380	33,162	30,162
Operations and maintenance	96,483	96,483	75,081	75,081
Pupil transportation	447	447		
Extracurricular activities	1,483	1,483	3,791	3,791
Interest and fiscal charges	18,881	18,881	23,750	23,750
<b>Total expenses</b>	<b>\$ 994,750</b>	<b>\$ 948,870</b>	<b>\$ 838,649</b>	<b>\$ 811,246</b>

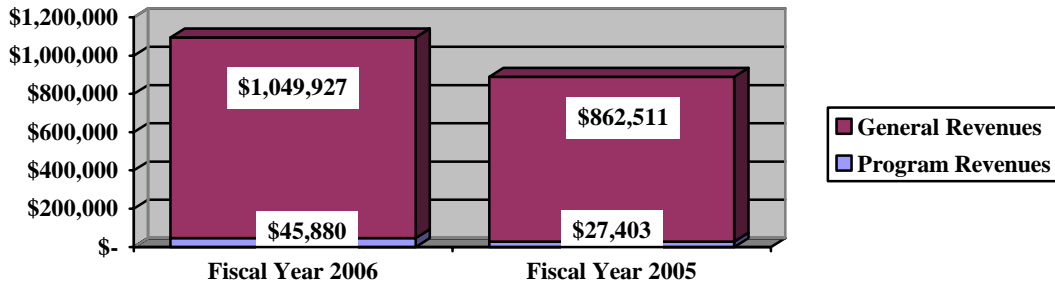
The dependence upon tax and other general revenues for governmental activities is apparent, 93.22% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 95.39%. The District's taxpayers, as a whole, are by far the primary support for District's students.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED  
(Continued)**

The graph below presents the District's governmental activities revenue for fiscal year 2006 and 2005.

**Governmental Activities - General and Program Revenues**



**The District's Funds**

The District's governmental funds reported a combined fund balance of \$538,535, which is higher than last year's total of \$526,823. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2006 and 2005.

	Fund Balance <u>June 30, 2006</u>	Fund Balance <u>June 30, 2005</u>	Increase <u>(Decrease)</u>
General	\$ 433,381	\$ 451,698	\$ (18,317)
Debt Service	24,718	31,997	(7,279)
Other Governmental	<u>80,436</u>	<u>43,128</u>	<u>37,308</u>
Total	<u>\$ 538,535</u>	<u>\$ 526,823</u>	<u>\$ 11,712</u>

**General Fund**

The District's general fund balance decreased \$18,317. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED  
(Continued)**

	<u>2006</u> <u>Amount</u>	<u>2005</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<b><u>Revenues</u></b>			
Taxes	\$ 766,003	\$ 771,319	(0.69) %
Earnings on investments	18,251	6,500	180.78 %
Intergovernmental	94,656	92,287	2.57 %
Other revenues	<u>89</u>	<u>1</u>	8,800.00 %
Total	<u>\$ 878,999</u>	<u>\$ 870,107</u>	1.02 %
<b><u>Expenditures</u></b>			
Instruction	\$ 517,321	\$ 432,050	19.74 %
Support services	378,512	307,463	23.11 %
Extracurricular activities	<u>1,483</u>	<u>3,791</u>	(60.88) %
Total	<u>\$ 897,316</u>	<u>\$ 743,304</u>	20.72 %

The most significant increase in revenues occurred in the earnings on investments, which was due to an increase in interest rates compared to the prior year. The decrease in tax revenue is due to a smaller amount being available for advance by the County. The most significant decrease in expenditures occurred in extracurricular activities, which was due to increases in other expenditures. The increases in instructional and support services are due to an increase in wages and benefits and an increase in services provided by the district.

***Debt Service Fund***

The debt service fund had \$129,257 in revenues and \$136,536 in expenditures. During fiscal 2006, the debt service fund's fund balance decreased \$7,279 from \$31,997 to \$24,718 due to the District prepaying fiscal year 2007 interest in fiscal year 2006.

***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 2006, the District amended its general fund budget numerous times. For the general fund, final budgeted revenues and other financing sources were \$913,850, which was decreased from the original budgeted revenues and other financing sources estimate of \$918,092. Actual revenues and other financing sources for fiscal 2006 was \$900,615. This represents a \$13,235 decrease from final budgeted revenues and other financing sources. This decrease is primarily due to overestimating tax revenues in the original and final budget.

General fund original appropriations (appropriated expenditures plus other financing uses) of \$1,315,283 were unchanged in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2006 totaled \$910,004, which was \$405,279 less than the final budget appropriations. The variance in appropriations was due to the District over budgeting salaries and benefits as well as operations and debt services.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED  
(Continued)**

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal 2006, the District had \$1,937,969 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 2006 balances compared to 2005:

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

	Governmental Activities	
	2006	2005
Land	\$ 3,804	\$ 3,804
Land improvements	28,666	31,839
Building and improvements	1,786,496	1,827,677
Furniture and equipment	119,003	115,222
Total	\$ 1,937,969	\$ 1,978,542

Total additions to capital assets for 2006 were \$31,278. The overall decrease in capital assets of \$40,573 is primarily due to the recording of \$71,851 in depreciation expense for fiscal 2006.

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

***Debt Administration***

At June 30, 2006, the District had \$345,000 in general obligation bonds outstanding. Of this total, \$110,000 is due within one year and \$235,000 is due within greater than one year. The following table summarizes the bonds outstanding.

**Outstanding Debt, at Year End**

	Governmental Activities 2006	Governmental Activities 2005
	General obligation bonds:	
School improvement bond	\$ 345,000	\$ 450,000
Total	\$ 345,000	\$ 450,000

At June 30, 2006, the District's overall legal debt margin was \$5,381,758 with an unvoted debt margin of \$63,356.

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

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED  
(Continued)**

**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 \$408,575 at June 30, 2006. 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 \$401,433, \$264,331, \$132,151, \$143,813, and \$91,546 at June 30 in fiscal years 2005, 2004, 2003, 2002, and 2001, 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 except for calendar year 2006 was to not to collect 1 mil. Projections show that these tax reductions 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.

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 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.



**KELLEYS ISLAND LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

STATEMENT OF NET ASSETS  
JUNE 30, 2006

		<b>Governmental Activities</b>
<b>Assets:</b>		
Equity in pooled cash and cash equivalents. . .	\$	483,131
Receivables:		
Taxes . . . . .		999,380
Intergovernmental. . . . .		14,733
Prepayments . . . . .		7,637
Capital assets:		
Land . . . . .		3,804
Depreciable capital assets, net . . . . .		1,934,165
Total capital assets, net. . . . .		1,937,969
 Total assets. . . . .		3,442,850
 <b>Liabilities:</b>		
Accounts payable. . . . .		673
Accrued wages and benefits . . . . .		54,394
Pension obligation payable. . . . .		10,282
Intergovernmental payable . . . . .		6,662
Deferred revenue . . . . .		850,955
Long-term liabilities:		
Due within one year. . . . .		110,000
Due in more than one year . . . . .		240,833
 Total liabilities . . . . .		1,273,799
 <b>Net Assets:</b>		
Invested in capital assets, net of related debt. . . . .		1,592,969
Restricted for:		
Capital projects . . . . .		66,642
Debt service. . . . .		29,960
State funded programs. . . . .		372
Federally funded programs . . . . .		14,733
Unrestricted. . . . .		464,375
 Total net assets . . . . .	\$	2,169,051

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, 2006

	<b>Expenses</b>	<b>Program Revenues Operating Grants and Contributions</b>	<b>Net (Expense) Revenue and Changes in Net Assets</b>
<b>Governmental activities:</b>			<b>Governmental Activities</b>
Instruction:			
Regular . . . . .	\$ 535,511	\$ 38,930	\$ (496,581)
Special . . . . .	39,023		(39,023)
Support services:			
Pupil . . . . .	57,137	562	(56,575)
Instructional staff . . . . .	83,009	3,388	(79,621)
Board of education . . . . .	25,180		(25,180)
Administration . . . . .	96,216		(96,216)
Fiscal . . . . .	41,380	3,000	(38,380)
Operations and maintenance . . . . .	96,483		(96,483)
Pupil transportation . . . . .	447		(447)
Extracurricular activities . . . . .	1,483		(1,483)
Interest and fiscal charges . . . . .	18,881		(18,881)
Total governmental activities . . . . .	\$ 994,750	\$ 45,880	(948,870)
<b>General Revenues:</b>			
Property taxes levied for:			
General purposes . . . . .			773,166
Debt service . . . . .			116,991
Capital projects . . . . .			28,071
Grants and entitlements not restricted to specific programs . . . . .			110,526
Investment earnings . . . . .			21,084
Miscellaneous . . . . .			89
Total general revenues . . . . .			1,049,927
Change in net assets . . . . .			101,057
<b>Net assets at beginning of year . . . . .</b>			<b>2,067,994</b>
<b>Net assets at end of year . . . . .</b>			<b>\$ 2,169,051</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2006

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>				
Equity in pooled cash and cash equivalents . . . . .	\$ 408,575	\$ 12,024	\$ 62,532	\$ 483,131
Receivables:				
Taxes . . . . .	850,506	119,159	29,715	999,380
Intergovernmental . . . . .			14,733	14,733
Prepayments . . . . .	<u>7,637</u>			<u>7,637</u>
Total assets . . . . .	<u>\$ 1,266,718</u>	<u>\$ 131,183</u>	<u>\$ 106,980</u>	<u>\$ 1,504,881</u>
<b>Liabilities:</b>				
Accounts payable . . . . .	\$ 673			\$ 673
Accrued wages and benefits . . . . .	54,394			54,394
Pension obligation payable. . . . .	10,282			10,282
Intergovernmental payable. . . . .	6,659			6,659
Deferred revenue. . . . .	<u>761,329</u>	<u>\$ 106,465</u>	<u>\$ 26,541</u>	<u>894,335</u>
Total liabilities . . . . .	<u>833,337</u>	<u>106,465</u>	<u>26,541</u>	<u>966,343</u>
<b>Fund Balances:</b>				
Reserved for encumbrances . . . . .	11,822		7,500	19,322
Reserved for prepayments . . . . .	7,637			7,637
Reserved for property tax unavailable for appropriation . . . . .	89,177	12,694	3,174	105,045
Unreserved, undesignated, reported in:				
General fund . . . . .	324,745			324,745
Special revenue funds. . . . .			15,105	15,105
Debt service fund . . . . .		12,024		12,024
Capital projects funds. . . . .			54,657	54,657
Total fund balances . . . . .	<u>433,381</u>	<u>24,718</u>	<u>80,436</u>	<u>538,535</u>
Total liabilities and fund balances . . . . .	<u>\$ 1,266,718</u>	<u>\$ 131,183</u>	<u>\$ 106,977</u>	<u>\$ 1,504,878</u>

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, 2006

<b>Total governmental fund balances</b>	\$	538,535
<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.		1,937,969
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		43,380
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	\$	(5,833)
General obligation bonds payable		<u>(345,000)</u>
Total		<u>(350,833)</u>
<b>Net assets of governmental activities</b>	<b>\$</b>	<b><u>2,169,051</u></b>

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, 2006

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 766,003	\$ 115,989	\$ 27,870	\$ 909,862
Earnings on investments. . . . .	18,251	572	2,261	21,084
Other local revenues. . . . .	89			89
Intergovernmental - state . . . . .	94,656	12,696	11,649	119,001
Intergovernmental - federal . . . . .			37,405	37,405
Total revenue . . . . .	<u>878,999</u>	<u>129,257</u>	<u>79,185</u>	<u>1,087,441</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	478,298		25,548	503,846
Special. . . . .	39,023			39,023
Support services:				
Pupil. . . . .	56,430		586	57,016
Instructional staff . . . . .	77,575		9,141	86,716
Board of education . . . . .	25,180			25,180
Administration. . . . .	96,001			96,001
Fiscal . . . . .	35,921	1,967	3,492	41,380
Operations and maintenance. . . . .	86,958			86,958
Pupil transportation . . . . .	447			447
Extracurricular activities. . . . .	1,483			1,483
Facilities acquisition and construction . . . . .			3,110	3,110
Debt service:				
Principal retirement . . . . .		105,000		105,000
Interest and fiscal charges . . . . .		29,569		29,569
Total expenditures . . . . .	<u>897,316</u>	<u>136,536</u>	<u>41,877</u>	<u>1,075,729</u>
Net change in fund balances . . . . .	(18,317)	(7,279)	37,308	11,712
<b>Fund balances at beginning of year . . . . .</b>	<b>451,698</b>	<b>31,997</b>	<b>43,128</b>	<b>526,823</b>
<b>Fund balances at end of year. . . . .</b>	<b><u>\$ 433,381</u></b>	<b><u>\$ 24,718</u></b>	<b><u>\$ 80,436</u></b>	<b><u>\$ 538,535</u></b>

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, 2006

**Net change in fund balances - total governmental funds** \$ 11,712

*Amounts reported for governmental activities in the statement of activities are different because:*

Government funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Capital asset additions	\$ 31,278	
Current year depreciation	<u>(71,851)</u>	
 Total		 (40,573)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		8,366
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Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement net assets.		105,000
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In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, interest is expenses when due.		10,688
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Some expenses reported in the statement of activities do not require the use of financial resources and therefore are not reported as expenditures in governmental funds.		<u>5,864</u>
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**Change in net assets of governmental activities** \$ 101,057

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, 2006

	<u>Budgeted Amounts</u>			<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 813,889	\$ 810,110	\$ 782,520	\$ (27,590)
Earnings on investments. . . . .	4,320	4,300	18,251	13,951
Other local revenues . . . . .			89	89
Intergovernmental - state . . . . .	<u>95,383</u>	<u>94,940</u>	<u>94,656</u>	<u>(284)</u>
Total revenue . . . . .	<u>913,592</u>	<u>909,350</u>	<u>895,516</u>	<u>(13,834)</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	519,479	520,903	487,533	33,370
Special. . . . .	47,050	44,940	39,491	5,449
Support services:				
Pupil. . . . .	90,015	80,015	56,830	23,185
Instructional staff . . . . .	109,347	109,347	78,619	30,728
Board of education . . . . .	31,825	33,328	25,369	7,959
Administration. . . . .	78,275	98,659	93,609	5,050
Fiscal . . . . .	49,464	46,559	40,428	6,131
Operations and maintenance. . . . .	141,411	133,115	86,492	46,623
Pupil transportation . . . . .	5,000	5,000	447	4,553
Extracurricular activities. . . . .	12,200	12,200	1,186	11,014
Debt service:				
Principal retirement . . . . .	<u>150,000</u>	<u>150,000</u>	<u>150,000</u>	<u>150,000</u>
Total expenditures . . . . .	<u>1,234,066</u>	<u>1,234,066</u>	<u>910,004</u>	<u>324,062</u>
Excess of expenditures over revenues. . . . .	<u>(320,474)</u>	<u>(324,716)</u>	<u>(14,488)</u>	<u>310,228</u>
<b>Other financing sources (uses):</b>				
Refund of prior year expenditure. . . . .	4,500	4,500	5,099	599
Other miscellaneous use of funds. . . . .	(76,217)	(76,217)		76,217
Transfers (out) . . . . .	<u>(5,000)</u>	<u>(5,000)</u>	<u>5,099</u>	<u>5,000</u>
Total other financing sources (uses) . . . . .	<u>(76,717)</u>	<u>(76,717)</u>	<u>5,099</u>	<u>81,816</u>
Net change in fund balance . . . . .	(397,191)	(401,433)	(9,389)	392,044
<b>Fund balance at beginning of year. . . . .</b>	<b>373,693</b>	<b>373,693</b>	<b>373,693</b>	
<b>Prior year encumbrances appropriated . . . . .</b>	<b>27,741</b>	<b>27,741</b>	<b>27,741</b>	
<b>Fund balance at end of year . . . . .</b>	<b><u>\$ 4,243</u></b>	<b><u>\$ 1</u></b>	<b><u>\$ 392,045</u></b>	<b><u>\$ 392,044</u></b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2006

	<u>Private-Purpose Trust</u>	
	<u>Scholarship</u>	<u>Agency</u>
<b>Assets:</b>		
Equity in pooled cash and cash equivalents . . . . .	\$ 18,922	
Receivables:		
Taxes . . . . .		\$ 47,464
Total assets. . . . .	<u>18,922</u>	<u>\$ 47,464</u>
<b>Liabilities:</b>		
Intergovernmental payable . . . . .		\$ 47,464
Total liabilities . . . . .		<u>\$ 47,464</u>
<b>Net Assets:</b>		
Held in trust for scholarships . . . . .	<u>18,922</u>	
Total net assets . . . . .	<u>\$ 18,922</u>	

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, 2006

	<b>Private-Purpose Trust</b>
	<b>Scholarship</b>
<b>Additions:</b>	
Interest . . . . .	\$ 767
Total additions. . . . .	767
<b>Deductions:</b>	
Scholarships awarded . . . . .	401
Change in net assets . . . . .	366
<b>Net assets at beginning of year. . . . .</b>	<b>18,556</b>
<b>Net assets at end of year . . . . .</b>	<b>\$ 18,922</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**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 612<sup>th</sup> largest by enrollment among the 615 public school districts in the state and 7<sup>th</sup> in Erie County. It currently operates 1 elementary school, 1 middle school, and 1 comprehensive high school. The District employs 2 non-certified and 8 certified employees to provide services to 25 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" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government, component units and other organizations 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, food service, preschool 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 organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; (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, 2006  
(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 (OSBA) 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 10 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, 2006  
(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 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, 2006  
(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, 2006  
(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, 2006 but which were levied to finance fiscal year 2007 operations, 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, 2006  
(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, 2006  
(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 2006, investments were limited to an investment in the State Treasury Asset Reserve of Ohio (STAR Ohio).

The District had invested funds in STAR Ohio during fiscal 2006. 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, 2006.

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 2006 amounted to \$18,251, which includes \$769 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 District'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.

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.



**KELLEYS ISLAND LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

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

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land improvements	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.

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.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

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

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 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 contractually required pension contributions 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.

**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 2006.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

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

**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 2006.

**NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES**

For fiscal year 2006, the District has implemented GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries", GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation", and GASB Statement No. 47, "Accounting for Termination Benefits".

GASB Statement No. 42 amends GASB Statement No. 34 and establishes accounting and financial reporting standards for impairment of capital assets and accounting requirements for insurance recoveries.

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

GASB Statement No. 47 establishes accounting standards for termination benefits.

The implementation of GASB Statement No. 42, GASB Statement No. 46 and GASB Statement No. 47 did not have an effect on the fund balances/net assets of the District as previously reported at June 30, 2005.

**NOTE 4 - DEPOSITS AND INVESTMENTS**

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

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

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

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

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

Interim deposits are deposits of interim monies. Interim moneys are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

Protection of District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in 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 Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time: and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**NOTE 4 - DEPOSITS AND INVESTMENTS – (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, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

**A. Deposits with Financial Institutions**

At June 30, 2006, the carrying amount of all District deposits was \$7,408 Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2006, the District's entire bank balance of \$18,361 was covered by Federal Deposit Insurance Corporation.

**B. Investments**

As of June 30, 2006, the District had an investment in STAR Ohio of \$494,645 that has investment maturities of 6 months or less.

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

*Credit Risk:* Standard & Poor's has assigned STAR Ohio an AAAM money market rating. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard ratings service. The District's investment policy does not address investment credit risk beyond the requirements of state statutes.

*Concentration of Credit Risk:* The District places no limit on the amount that may be invested in any one issuer.

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

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2006:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 7,408
Investments	<u>494,645</u>
Total	<u><u>\$ 502,053</u></u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 483,131
Private-purpose trust funds	<u>18,922</u>
Total	<u><u>\$ 502,053</u></u>

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**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 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1,

2005, on the assessed value listed as of January 1, 2005, 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 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien December 31, 2004, were levied after April 1, 2005 and are collected in 2006 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.

Tangible personal property tax revenue received during calendar 2006 (other than public utility property) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value as of December 31, 2005. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-three 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.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the District due to the phasing out of the tax. In calendar years 2006-2010, the District will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

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

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, 2006, are available to finance fiscal year 2007 operations. The amount available as an advance at June 30, 2006, was \$89,177 in the general fund, \$12,694 in the debt service fund, \$3,174 in the Permanent Improvement capital projects fund (a nonmajor governmental fund). The amounts that were available as an advance at June 30, 2005 was \$105,694 in the general fund, \$16,189 in the debt service fund and \$4,050 in the Permanent Improvements 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, 2006 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.

The assessed values upon which the fiscal year 2006 taxes were collected are:

	2005 Second Half Collections		2006 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential real estate	\$ 56,995,250	88.79	\$ 57,375,860	90.42
Commercial/industrial real estate	4,879,130	7.60	4,479,650	7.06
Public utility tangible	999,790	1.56	876,540	1.38
General tangible personal property	<u>1,316,180</u>	<u>2.05</u>	<u>721,880</u>	<u>1.14</u>
Total	<u>\$ 64,190,350</u>	<u>100.00</u>	<u>\$ 63,453,930</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation for:				
Operations	\$ 13.05		\$ 14.05	
Permanent improvements	0.50		0.50	
Debt Service	2.00		2.00	

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**NOTE 6 - RECEIVABLES**

Receivables at June 30, 2006, consisted of taxes and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

**Governmental Activities:**

Taxes	\$ 999,380
Intergovernmental	<u>14,733</u>
Total	<u>\$ 1,014,113</u>

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

**NOTE 7 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	<u>Balance 06/30/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 06/30/06</u>
<b>Governmental Activities:</b>				
<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	2,062,998			2,062,998
Furniture and equipment	<u>336,099</u>	<u>31,278</u>	<u>-</u>	<u>367,377</u>
Total capital assets, being depreciated	<u>2,446,694</u>	<u>31,278</u>	<u>-</u>	<u>2,477,972</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(15,758)	(3,173)		(18,931)
Buildings and improvements	(235,321)	(41,181)		(276,502)
Furniture and equipment	<u>(220,877)</u>	<u>(27,497)</u>	<u>-</u>	<u>(248,374)</u>
Total accumulated depreciation	<u>(471,956)</u>	<u>(71,851)</u>	<u>-</u>	<u>(543,807)</u>
Governmental activities capital assets, net	<u>\$ 1,978,542</u>	<u>\$ (40,573)</u>	<u>\$ -</u>	<u>\$ 1,937,969</u>



**KELLEYS ISLAND LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**NOTE 7 - CAPITAL ASSETS – (Continued)**

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 60,848
<u>Support Services:</u>	
Pupil	121
Instructional staff	1,218
Administration	215
Operations and maintenance	<u>9,449</u>
Total depreciation expense	<u>\$ 71,851</u>

**NOTE 8 - LONG-TERM OBLIGATIONS**

A. The following is a description of the District's bond outstanding as of June 30, 2006:

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance 06/30/05</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance 06/30/06</u>	<u>Amount Due in One Year</u>
School improvement bond	4.75%	1/1/2009	<u>\$ 450,000</u>	<u>\$ -</u>	<u>\$ (105,000)</u>	<u>\$ 345,000</u>	<u>\$ 110,000</u>

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.

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>
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>\$ 345,000</u>	<u>\$ 33,251</u>	<u>\$ 378,251</u>

C. During the fiscal year ended June 30, 2006, 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 which includes the general fund.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**NOTE 8 - LONG-TERM OBLIGATIONS – (Continued)**

	Balance			Balance	Amount
	<u>06/30/05</u>	<u>Additions</u>	<u>Reductions</u>	<u>06/30/06</u>	<u>Due in</u> <u>One Year</u>
<b>Governmental Activities:</b>					
Compensated absences payable	\$ 11,697	\$ 5,842	\$ (11,706)	\$ 5,833	\$ -
General obligation bond payable	<u>450,000</u>	<u>-</u>	<u>(105,000)</u>	<u>345,000</u>	<u>110,000</u>
Total governmental activities long-term liabilities	<u>\$ 461,697</u>	<u>\$ 5,842</u>	<u>\$ (116,706)</u>	<u>\$ 350,833</u>	<u>\$ 110,000</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, 2006 are a voted debt margin of \$5,381,758 (including available funds of \$24,718) and an unvoted debt margin of \$63,356.

**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.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**NOTE 10 - RISK MANAGEMENT**

**A. Comprehensive**

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

<u>Coverage</u>	<u>Insurer</u>	<u>Limits of Coverage</u>	<u>Deductible</u>
General liability: Each occurrence Aggregate	Mutual Insurance	\$ 1,000,000 1,000,000	\$ -
Building and contents	Westfield Insurance	3,268,200	2,500
Boiler and machinery	Cincinnati Insurance	2,000,000	1,000

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. There has been no significant reduction in coverage from the prior fiscal 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.

**C. Workers' Compensation Group Rating Program**

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.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**NOTE 10 - RISK MANAGEMENT – (Continued)**

The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of GatesMcDonald & Co. provides administrative, cost control and actuarial services to the GRP.

**NOTE 11 - PENSION PLANS**

**A. School Employees Retirement System**

The District contributes to the School Employees Retirement System (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 Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853. It is also posted on SERS' website, [www.ohsers.org](http://www.ohsers.org), under Forms and Publications.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent 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 statutory maximum amounts, by the SERS' Retirement Board. The District's required contribution for pension obligations to SERS for fiscal years ended 2006, 2005, and 2004 were \$5,867, \$6,116, and \$4,513, respectively. 100 percent has been contributed for fiscal years 2006, 2005 and 2004.

**B. State Teachers Retirement System**

The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**NOTE 11 - PENSION PLANS – (Continued)**

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

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

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for fund pension obligations to the DB Plan for the fiscal years ended June 30, 2006, 2005, and 2004, were \$50,448, \$43,078 and \$37,607, respectively. 100 percent has been contributed for fiscal years 2005 and 2004, and 81.08 percent has been contributed for fiscal year 2006. \$9,548 represents the unpaid pension contribution for fiscal year 2006 and is recorded as a liability within the respective funds.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS have an option to choose Social Security or the SERS/ STRS. As of June 30, 2006, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**NOTE 12 - POSTEMPLOYMENT BENEFITS**

The District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$3,881 for fiscal year 2006.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, the balance in the Health Care Stabilization Fund was \$3.5 billion. For the fiscal year ended June 30, 2006, net health care costs paid by STRS were \$284,743 million and STRS had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, a decrease of 0.01 percent from fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2006 fiscal year, the District paid \$4,972 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2006, were \$158,751 million. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million, which is about 221 percent of next years projected net health care costs. On the basis of actuarial projections, the allocated contributions will be insufficient in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has 59,492 participants currently receiving health care benefits.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(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:

<b>Net Change in Fund Balance</b>	<u>General Fund</u>
Budget basis	\$ (9,389)
Net adjustment for revenue accruals	(16,517)
Net adjustment for expenditure accruals	(3,842)
Net adjustment for other sources/uses	(5,099)
Adjustment for encumbrances	<u>16,530</u>
GAAP basis	<u>\$ (18,317)</u>

**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, 2006  
(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.

**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, 2006, the reserve activity was as follows:

	<u>Textbooks/ Instructional Materials</u>	<u>Capital Acquisition</u>
Set-aside cash balance as of June 30, 2005	\$ (118,977)	\$ -
Current year set-aside requirement	3,470	3,470
Current year offset		(28,746)
Qualifying disbursements	<u>(28,382)</u>	<u>-</u>
Total	<u>\$ (143,889)</u>	<u>\$ (25,276)</u>
Balance carried forward to FY 2007	<u>\$ (143,889)</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.





# Mary Taylor, CPA

Auditor of State

## 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, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 28, 2008. 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 to express our opinion 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.

### **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*.

One Government Center / Room 1420 / Toledo, OH 43604-2246  
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[www.auditor.state.oh.us](http://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  
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We intend this report solely for the information and use of the audit committee, management, and the Board of Education. We intend it for no one other than these specified parties.

A handwritten signature in black ink that reads "Mary Taylor". The script is cursive and fluid.

**Mary Taylor, CPA**  
Auditor of State

January 28, 2008



**Mary Taylor, CPA**  
Auditor of State

**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  
MARCH 6, 2008**