



**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED JUNE 30, 1999-1998



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

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REPORT OF INDEPENDENT ACCOUNTANTS

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

To the Board of Education:

We have audited the accompanying general-purpose financial statements of the Kelleys Island Local School District, Erie County, Ohio, (the District) as of and for the years ended June 30, 1999 and 1998, as listed in the table of contents. These general-purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audits.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Kelleys Island Local School District, Erie County, as of June 30, 1999 and 1998, and the results of its operations for the years then ended in conformity with generally accepted accounting principles.

As described in Note 17 to the general-purpose financial statements, during fiscal year 1998 the District changed its method of accounting for investments.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 11, 2000 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Jim Petro
Auditor of State

February 11, 2000

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**COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 1999**

	Governmental Fund Types	
	General	Special Revenue
ASSETS AND OTHER DEBITS		
Assets		
Equity In Pooled Cash and Cash Equivalents	\$553,089	\$11,590
Cash with Fiscal Agent		1,202
Taxes Receivable	493,088	
Accounts Receivable	408	329
Intergovernmental Receivable	269	
Prepaid Items	3,903	
Restricted Assets:		
Equity In Pooled Cash and Cash Equivalents	7,979	
Fixed Assets		
Other Debits		
Amount Available in Debt Service Fund		
Amount to be Provided from General Government Resources		
Total Assets and Other Debits	\$1,058,736	\$13,121
 LIABILITIES, EQUITY AND OTHER DEBITS		
Liabilities		
Accounts Payable	\$5,564	\$17
Accrued Wages	31,351	177
Compensated Absences Payable		
Pension Obligation Payable	3,636	
Intergovernmental Payable		
Deferred Revenue	461,615	
Due to Students		
Total Liabilities	502,166	194
Equity and Other Credits		
Investment In General Fixed Assets		
Fund Balances		
Reserved For Encumbrances	26,122	879
Reserved For Prepaid Items	3,903	
Reserved For Taxes Unappropriated	31,473	
Reserved For Budget Stabilization	7,979	
Unreserved, Undesignated	487,093	12,048
Total Equity and Other Credits	556,570	12,927
Total Liabilities, Equity and Other Credits	\$1,058,736	\$13,121

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

<u>Governmental Fund Types</u>		<u>Fiduciary Fund Types</u>	<u>Account Groups</u>		<u>Totals (Memorandum Only)</u>
<u>Debt Service</u>	<u>Capital Projects</u>	<u>Trust and Agency</u>	<u>General Fixed Assets</u>	<u>General Long-term Debt</u>	
\$60,203	\$1,025,989	\$15,105			\$1,665,976
					1,202
68,936		23,169			585,193
					737
					269
					3,903
					7,979
			\$596,959		596,959
				\$61,822	61,822
				936,305	936,305
<u>\$129,139</u>	<u>\$1,025,989</u>	<u>\$38,274</u>	<u>\$596,959</u>	<u>\$998,127</u>	<u>\$3,860,345</u>
					\$5,581
					31,528
				\$5,896	5,896
				2,231	5,867
		\$23,169			23,169
\$67,317					528,932
				990,000	990,000
<u>67,317</u>		<u>23,169</u>		<u>998,127</u>	<u>1,590,973</u>
	\$22,295		\$596,959		646,255
					3,903
1,619					33,092
					7,979
60,203	1,003,694	15,105			1,578,143
61,822	1,025,989	15,105	596,959		2,269,372
<u>\$129,139</u>	<u>\$1,025,989</u>	<u>\$38,274</u>	<u>\$596,959</u>	<u>\$998,127</u>	<u>\$3,860,345</u>

**COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 1998**

	Governmental Fund Types		
	General	Special Revenue	Capital Projects
ASSETS AND OTHER DEBITS			
Assets			
Equity In Pooled Cash and Cash Equivalents	\$405,750	\$7,829	\$301,751
Taxes Receivable	624,091		
Intergovernmental Receivables	1,441		
Prepaid Items	3,287		
Restricted Assets:			
Equity In Pooled Cash and Cash Equivalents	1,432		
Fixed Assets			
Other Debits			
Amount to be Provided from General Government Resources			
Total Assets and Other Debits	\$1,036,001	\$7,829	\$301,751
 LIABILITIES, EQUITY AND OTHER DEBITS			
Liabilities			
Accounts Payable	\$2,085		
Accrued Wages	25,586		
Compensated Absences Payable			
Pension Obligation Payable			
Intergovernmental Payable	7,766		
Deferred Revenue	570,963		
Due to Students			
Total Liabilities	606,400		
Equity And Other Credits			
Investment In General Fixed Assets			
Fund Balances			
Reserved For Encumbrances	55,487	\$38	\$1,330
Reserved For Prepaid Items	3,287		
Reserved For Taxes Unappropriated	53,128		
Reserved For Budget Stabilization	1,432		
Unreserved, Undesignated	316,267	7,791	300,421
Total Equity And Other Credits	429,601	7,829	301,751
Total Liabilities, Equity and Other Credits	\$1,036,001	\$7,829	\$301,751

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

<u>Fiduciary Fund Types</u>	<u>Account Groups</u>		<u>Totals (Memorandum Only)</u>
<u>Trust and Agency</u>	<u>General Fixed Assets</u>	<u>General Long-term Debt</u>	
\$10,869			\$726,199
24,559			648,650
			1,441
			3,287
			1,432
	\$163,851		163,851
		\$11,153	11,153
\$35,428	\$163,851	\$11,153	\$1,556,013

			\$2,085
			25,586
		\$9,507	9,507
		1,646	1,646
\$24,559			32,325
			570,963
953			953
25,512		11,153	643,065
	\$163,851		163,851
			56,855
			3,287
			53,128
			1,432
9,916			634,395
9,916	163,851		912,948
\$35,428	\$163,851	\$11,153	\$1,556,013

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

	Governmental Fund Types	
	General	Special Revenue
Revenues		
Taxes	\$561,796	
Intergovernmental	61,971	\$30,710
Earnings on Investments	49,439	
Miscellaneous	315	
	673,521	30,710
Total Revenues		
Expenditures		
Current:		
Instructional:		
Regular	291,460	911
Special	3,789	
Support Services:		
Pupils	13,270	118
Instructional Staff	29,997	21,339
Board of Education	7,210	
Administration	15,373	1,700
Fiscal	27,180	1,500
Central		44
Operations and Maintenance	44,955	
Extracurricular Activities	6,237	
Capital Outlay	7,081	
	446,552	25,612
Total Expenditures		
Excess of Revenues Over (Under) Expenditures	226,969	5,098
Other Financing Sources (Uses)		
Proceeds form Sale of Bonds		
Premium and Accrued Interest on Bonds Sold		
Operating Transfers In		
Operating Transfers Out	(100,000)	
	(100,000)	
Total Other Financing Sources (Uses)		
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	126,969	5,098
Fund Balance July 1, 1998	429,601	7,829
Fund Balance June 30, 1999	\$556,570	\$12,927

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

<u>Governmental Fund Types</u>		<u>Fiduciary Fund Types</u>	<u>Totals (Memorandum Only)</u>
<u>Debt Service</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>	
\$59,588			\$621,384
\$4,253	\$883		97,817
431	10,926	\$536	61,332
		4,903	5,218
<u>64,272</u>	<u>11,809</u>	<u>5,439</u>	<u>785,751</u>
	318		292,689
			3,789
		250	13,638
			51,336
			7,210
			17,073
2,450			31,130
	3,242		3,286
			44,955
			6,237
	376,623		383,704
<u>2,450</u>	<u>380,183</u>	<u>250</u>	<u>855,047</u>
<u>61,822</u>	<u>(368,374)</u>	<u>5,189</u>	<u>(69,296)</u>
	990,000		990,000
	2,613		2,613
	100,000		100,000
			(100,000)
	<u>1,092,613</u>		<u>992,613</u>
61,822	724,239	5,189	923,317
	301,750	9,916	749,096
<u>\$61,822</u>	<u>\$1,025,989</u>	<u>\$15,105</u>	<u>\$1,672,413</u>

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 1998**

	<u>Governmental Fund Types</u>		
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>
Revenues			
Taxes	\$570,341		
Intergovernmental	74,012	\$28,567	\$2,677
Extracurricular Activities			
Earnings on Investments	50,431		
Miscellaneous			
Total Revenues	694,784	28,567	2,677
Expenditures			
Current:			
Instructional:			
Regular	285,174		
Support Services:			
Pupils	5,465		
Instructional Staff	29,632	28,449	
Board of Education	7,223		
Administration	12,190	1,000	
Fiscal	26,536	1,000	
Operations and Maintenance	66,124		
Extracurricular Activities	730		
Capital Outlay			12,284
Total Expenditures	433,074	30,449	12,284
Excess of Revenues Over (Under) Expenditures	261,710	(1,882)	(9,607)
Other Financing Sources (Uses)			
Refund of Prior Year Expenditures	219		
Operating Transfers In			100,000
Operating Transfers Out	(100,000)		
Total Other Financing Sources (Uses)	(99,781)		100,000
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	161,929	(1,882)	90,393
Fund Balance July 1, 1997	267,672	9,711	211,358
Fund Balance June 30, 1998	\$429,601	\$7,829	\$301,751

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

<u>Fiduciary Fund Types</u>	<u>Totals (Memorandum Only)</u>
<u>Expendable Trust</u>	
	\$570,341
	105,256
\$138	138
332	50,763
<u>3,878</u>	<u>3,878</u>
<u>4,348</u>	<u>730,376</u>
	285,174
500	5,965
	58,081
	7,223
	13,190
	27,536
	66,124
	730
	<u>12,284</u>
<u>500</u>	<u>476,307</u>
<u>3,848</u>	<u>254,069</u>
	219
	100,000
	<u>(100,000)</u>
	<u>219</u>
3,848	254,288
<u>6,068</u>	<u>494,809</u>
<u>\$9,916</u>	<u>\$749,097</u>

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

	Governmental Fund Types					
	General Fund			Special Revenue Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues						
Taxes	\$430,500	\$583,451	\$152,951			
Intergovernmental	50,000	63,412	13,412	\$28,392	\$28,392	
Earnings On Investments	15,000	49,439	34,439			
Other		315	315			
Total Revenues	<u>495,500</u>	<u>696,617</u>	<u>201,117</u>	<u>28,392</u>	<u>28,392</u>	
Expenditures						
Current:						
Instructional:						
Regular	325,495	297,961	27,534			
Special	7,600	5,088	2,512			
Support Services:						
Pupils	23,553	16,867	6,686			
Instructional Staff	43,169	31,305	11,864	30,925	22,310	8,615
Board of Education	15,271	9,453	5,818			
Administration	20,450	16,415	4,035	2,000	1,700	300
Fiscal	30,843	28,829	2,014	2,729	1,500	1,229
Central						
Operations and Maintenance	100,600	51,497	49,103			
Extracurricular Activities	9,041	6,516	2,525			
Facilities Acquisition and Construction	13,000	11,971	1,029			
Debt Service:						
Interest and Fiscal Charges						
Total Expenditures	<u>589,022</u>	<u>475,902</u>	<u>113,120</u>	<u>35,654</u>	<u>25,510</u>	<u>10,144</u>
Excess Of Revenues Over (Under) Expenditures	<u>(93,522)</u>	<u>220,715</u>	<u>314,237</u>	<u>(7,262)</u>	<u>2,882</u>	<u>10,144</u>
Other Financing Sources (Uses)						
Proceeds form Sale of Bonds Premium and Accrued Interest on Bonds Sold						
Transfer - In						
Transfer - Out	(150,000)	(100,000)	50,000			
Refund of Prior Year Expenditures	1,600	1,484	(116)			
Total Other Financing Sources (Uses)	<u>(148,400)</u>	<u>(98,516)</u>	<u>49,884</u>			
Excess Of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>(241,922)</u>	<u>122,199</u>	<u>364,121</u>	<u>(7,262)</u>	<u>2,882</u>	<u>10,144</u>
Fund Balance July 1, 1998	349,610	349,610		7,791	7,791	
Prior Year Encumbrances Appropriated	57,572	57,572		38	38	
Fund Balance June 30, 1999	<u>\$165,260</u>	<u>\$529,381</u>	<u>\$364,121</u>	<u>\$567</u>	<u>\$10,711</u>	<u>\$10,144</u>

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

Governmental Fund Types								
Debt Service			Capital Projects			Totals (Memorandum only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$36,200	\$57,969	\$21,769				\$466,700	\$641,420	\$174,720
300	4,254	3,954	\$883	\$883		79,575	96,941	17,366
500	431	(69)	10,000	10,926	926	25,500	60,796	35,296
							315	315
37,000	62,654	25,654	10,883	11,809	926	571,775	799,472	227,697
			318	318		325,813	298,279	27,534
						23,553	16,867	6,686
						74,094	53,615	20,479
						15,271	9,453	5,818
						22,450	18,115	4,335
2,451	2,451					36,023	32,780	3,243
			3,243	3,243		3,243	3,243	
						100,600	51,497	49,103
						9,041	6,516	2,525
			1,039,072	398,917	640,155	1,052,072	410,888	641,184
34,549		34,549				34,549		34,549
37,000	2,451	34,549	1,042,633	402,478	640,155	1,696,709	901,253	795,456
	60,203	60,203	(1,031,750)	(390,669)	641,081	(1,124,934)	(101,781)	1,023,153
			990,000	990,000		990,000	990,000	
			2,156	2,156		2,156	2,156	
			100,000	100,000		100,000	100,000	
						(150,000)	(100,000)	50,000
						1,600	1,484	(116)
			1,092,156	1,092,156		943,756	993,640	49,884
	60,203	60,203	60,406	701,487	641,081	(181,178)	891,859	1,073,037
						357,401	357,401	
						57,610	57,610	
	\$60,203	\$60,203	\$60,406	\$701,487	\$641,081	\$233,833	\$1,306,870	\$1,073,037

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 1998**

	<u>Governmental Fund Types</u>		
	<u>General Fund</u>		
	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues			
Taxes	\$430,500	\$550,327	\$119,827
Intergovernmental	50,000	72,572	22,572
Earnings On Investments	15,000	31,603	16,603
Total Revenues	<u>495,500</u>	<u>654,502</u>	<u>159,002</u>
Expenditures			
Current:			
Instructional:			
Regular	389,801	312,226	77,575
Support Services:			
Pupils	14,519	5,363	9,156
Instructional Staff	54,019	30,880	23,139
Board of Education	24,508	8,464	16,044
Administration	14,505	11,840	2,665
Fiscal	32,680	27,252	5,428
Operations and Maintenance	134,275	78,025	56,250
Extracurricular Activities	1,550	923	627
Capital Outlay			
Total Expenditures	<u>665,857</u>	<u>474,973</u>	<u>190,884</u>
Excess Of Revenues Over (Under) Expenditures	<u>(170,357)</u>	<u>179,529</u>	<u>349,886</u>
Other Financing Sources (Uses)			
Transfer - In			
Transfer - Out	(100,000)	(100,000)	
Refund of Prior Year Expenditures	500	224	(276)
Total Other Financing Sources (Uses)	<u>(99,500)</u>	<u>(99,776)</u>	<u>(276)</u>
Excess Of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>(269,857)</u>	<u>79,753</u>	<u>349,610</u>
Fund Balance July 1, 1997	255,269	255,269	
Prior Year Encumbrances Appropriated	14,588	14,588	
Fund Balance June 30, 1998	<u>\$0</u>	<u>\$349,610</u>	<u>\$349,610</u>

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

Governmental Fund Types								
Special Revenue Funds			Capital Project Funds			Totals (Memorandum only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
						\$430,500	\$550,327	\$119,827
\$28,000	\$28,567	\$567	\$2,677	\$2,677		80,677	103,816	23,139
						15,000	31,603	16,603
28,000	28,567	567	2,677	2,677		526,177	685,746	159,569
						389,801	312,226	77,575
						14,519	5,363	9,156
33,981	28,486	5,495				88,000	59,366	28,634
						24,508	8,464	16,044
1,500	1,000	500				16,005	12,840	3,165
2,229	1,000	1,229				34,909	28,252	6,657
						134,275	78,025	56,250
						1,550	923	627
			314,035	13,585	300,450	314,035	13,585	300,450
37,710	30,486	7,224	314,035	13,585	300,450	1,017,602	519,044	498,558
(9,710)	(1,919)	7,791	(311,358)	(10,908)	300,450	(491,425)	166,702	658,127
			100,000	100,000		100,000	100,000	
						(100,000)	(100,000)	
						500	224	(276)
			100,000	100,000		500	224	(276)
(9,710)	(1,919)	7,791	(211,358)	89,092	300,450	(490,925)	166,926	657,851
9,292	9,292	0	211,358	211,358		475,919	475,919	
418	418	0				15,006	15,006	
\$0	\$7,791	\$7,791	\$0	\$300,450	\$300,450	\$0	\$657,851	\$657,851

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NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

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

The District ranks as the 611th largest by enrollment among the 612 districts in the State, and 7th in Erie County. It currently operates one elementary school, one middle school, and one comprehensive high school. The District employs 2 non-certified and 5 certified employees to provide services to 31 students in grades K through 12 and various community groups.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

PUBLIC ENTITY RISK POOL

Ohio School Boards Association Workers' Compensation Group Rating Program

The District participates in a group rating plan for workers' compensation as established in § 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Program (GRP) was established as an insurance purchasing pool. The GRP is governed by a three-member Board of Directors. The Executive Director of the OSBA, or his designee, serves as

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
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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)

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

B. Fund Accounting

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

1. GOVERNMENTAL FUNDS

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

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

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

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

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

Capital Projects Funds - Capital projects funds are used to account for financial resources to be used for the acquisition of construction of major capital facilities (other than those financed by proprietary funds).

2. PROPRIETARY FUNDS

The District does not have any proprietary funds.

3. FIDUCIARY FUNDS

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

4. ACCOUNT GROUPS

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

General Fixed Assets Account Group - This group of accounts is established to account for all fixed assets of the District.

General Long-Term Obligations Account Group - This group of accounts is established to account for all long-term obligations of the District.

C. Measurement Focus/Basis of Accounting

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

The modified accrual basis of accounting is followed for governmental funds, the expendable trust fund, and agency funds. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available to finance expenditures of the current period, which for the District is sixty days after the June 30 year end. Revenues accrued at the end of the year include taxes, (to the extent they are intended to finance the current fiscal year), interest, and accounts (student fees and tuition). Current property taxes measurable as of June 30, and which are intended to finance the next fiscal year's operations, have been recorded as deferred revenues. Delinquent property taxes measurable and available (received within 60 days) are recognized as revenue.

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

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

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

D. Budgets

The District is required by State statute to adopt an annual appropriated cash basis budget for all funds., except agency funds. The specific timetable for fiscal year 1999 is as follows:

1. Prior to January 15 of the preceding year, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Erie County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statements reflect the amounts set forth in the final Amended Certificates issued for fiscal years 1999 and 1998.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund, function, and object level of expenditures, which are the legal levels of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year.) Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund appropriation or alter total function appropriations within a fund, or alter object appropriations within functions must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All departments/functions and funds completed the year within the amount of their legally authorized cash basis appropriation.

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

7. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations which either reallocated or increased the original appropriated amounts. Supplemental appropriations were legally enacted by the Board during fiscals 1999 and 1998; however, none of the amendments were significant.
8. Unencumbered appropriations lapse at year end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund, function and/or object level.

Encumbrance accounting is utilized with District funds in the normal course of operations, for purchase orders and contract related expenditures. An encumbrance is a reserve on the available spending authority due to commitment for a future expenditure and does not represent a liability. For governmental fund types, encumbrances outstanding at year end appear as a reserve to the fund balance on a GAAP basis and as the equivalent of expenditures on a non-GAAP budgetary basis in order to demonstrate legal compliance. Note 14 provides a reconciliation of the budgetary and GAAP basis of accounting and disclosure of the encumbrances outstanding for the governmental funds.

E. Cash and Investments

To improve cash management, cash received by the District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the combined balance sheet.

During fiscal years 1999 and 1998, investments were limited to repurchase agreements and investments in the State Asset Treasury Reserve of Ohio (STAR Ohio).

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

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could have been sold for on June 30, 1999 and 1998.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the general fund during 1999 amounted to \$49,439, which includes \$24,712 assigned from other District funds. Interest revenue credited to the general fund during 1998 amounted to \$50,431, which includes \$22,375 assigned from other District funds.

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

An analysis of the Treasurer's investment account at year end is provided in Note 3.

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

F. Prepayments

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

G. Fixed Assets

General Fixed Assets Account Group

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

H. Intergovernmental Revenues

In governmental funds, entitlements and non-reimbursable grants (to the extent such grants and entitlements relate to the current fiscal year) are recorded as receivables and revenue when measurable and available. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred. The District currently participates in various state and federal programs categorized as follows:

Entitlements

General Fund

State Foundation Program
State Property Tax Relief

Non-Reimbursable Grants

Special Revenue Funds

Management Information Systems
Venture Capital
Teacher Development Block Grant
Drug-Free Schools
Title VI
Education for Economic Security Act (EESA)

Capital Projects Funds

SchoolNet Plus

Grants and entitlements amounted to approximately 12% and 14% of the District's operating revenue during the fiscal years 1999 and 1998, respectively.

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

I. 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 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 fifty or greater with at least ten years of service and all employees with at least twenty years of service regardless of their age were considered expected to become eligible to retire in accordance with GASB Statement No. 16. The District has no vacation benefits.

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

J. Long-Term Obligations

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

K. Fund Equity

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

L. Interfund Transactions

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

1. Transfers of resources from one fund to another fund. The resources transferred are to be expended for operations by the receiving fund and are recorded as operating transfers, with the exception of agency funds, which do not show transfers of resources as operating transfers.

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

2. Reimbursements from one fund to another are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditures/expenses in the reimbursed fund. Quasi-external transactions are accounted for as revenues, expenditures or expenses.

An analysis of interfund transactions is presented in Note 4.

M. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents set aside to establish a budget stabilization reserve. These reserves are required by the State statute. The budget stabilization reserve can be used only after receiving approval from the State Superintendent of Public Instruction. A schedule of statutory reserves is presented in Note 15.

N. Estimates

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

O. Memorandum Only - Total Columns

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

NOTE 3 - EQUITY IN POOLED CASH AND INVESTMENTS

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

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

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

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

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
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(Continued)

deposited with the treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, Notes, Debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 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 Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days 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 instruments rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Cash with fiscal agent: At June 30, 1999, the District had \$1,202 in cash held by the Erie-Ottawa-Huron Educational Service Center which is included on the combined balance sheet as "Cash with Fiscal Agent". The money is held in a pooled amount which is representative of numerous entities and therefore cannot be classified by risk under GASB Statement No. 3.

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

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

Deposits: At fiscal year end 1999 and 1998, the carrying amount of the District's deposits were \$(188,014) and \$(8,753), respectively, and the bank balances were \$6,801 and \$4,907, respectively. The District did not record a liability due to the "zero balance" nature of the account. The entire bank balance was covered by federal deposit insurance. Although all state statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

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

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

<u>At June 30, 1999</u>	<u>Category 3</u>	<u>Reported Amount</u>	<u>Fair Value</u>
Repurchase Agreement	\$ 233,000	\$ 233,000	\$ 233,000
STAR Ohio		1,628,969	1,628,969
		<u>\$ 1,861,969</u>	<u>\$ 1,861,969</u>

<u>At June 30, 1998</u>	<u>Category 3</u>	<u>Reported Amount</u>	<u>Fair Value</u>
Repurchase Agreement	\$ 148,000	\$ 148,000	\$ 148,000
STAR Ohio		588,384	588,384
		<u>\$ 736,384</u>	<u>\$ 736,384</u>

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

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

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

At June 30, 1999	Cash and Cash Equivalents Deposits	Investments
Per GASB Statement No. 9	\$ 1,675,157	
Investments of the Cash Investment Pool		
Repurchase Agreement	(233,000)	\$ 233,000
Investment in STAR Ohio	(1,628,969)	1,628,969
Cash with Fiscal Agent	(1,202)	1,202
	\$ (188,014)	\$ 1,863,171

At June 30, 1998	Cash and Cash Equivalents Deposits	Investments
Per GASB Statement No. 9	\$ 727,631	
Investments of the Cash Investment Pool		
Repurchase Agreement	(148,000)	\$ 148,000
Investment in STAR Ohio	(588,384)	588,384
	\$ (8,753)	\$ 736,384

NOTE 4 - INTERFUND TRANSACTIONS

The following is a summarized breakdown of the District's operating transfers:

Fiscal Year 1999	Transfers In	Transfers Out
General Fund		\$ (100,000)
Capital Projects Funds		
Permanent Improvement Fund	\$ 100,000	
	\$ 100,000	\$ (100,000)

Fiscal Year 1998	Transfers In	Transfers Out
General Fund		\$ (100,000)
Capital Projects Funds		
Permanent Improvement Fund	\$ 100,000	
	\$ 100,000	\$ (100,000)

NOTE 5 - PROPERTY TAXES

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

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
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(Continued)

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

Tangible personal property taxes attach as a lien and are levied on January 1 of the current year. Tangible personal property assessments are 25% of true value. The assessed value upon which the 1998 taxes were collected was \$32,578,021. Agricultural/Residential and public utility real estate represented 83.1% or \$27,063,500 of this total; Commercial and Industrial real estate represented 8.7% or \$2,815,040 of this total, public utility tangible represented 2.4% or \$793,820 of this total and general tangible property represented 5.8% or \$1,905,661 of this total. The voted general tax rate at the fiscal year ended June 30, 1999 was \$15.55 per \$1,000.00 of assessed valuation for operations and \$2.47 per \$1,000.00 of assessed valuation for debt service.

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

The Erie and Lorain County Treasurers collect property tax on behalf of the District. The Erie and Lorain County Auditors periodically remit to the District its portion of the taxes collected. These tax "advances" are based on statutory cash flow collection rates. Final "settlements" are made each February and August.

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes which became measurable as of June 30, 1999 and 1998. Although total property tax collections for the next fiscal year are measurable, they are not (exclusive of advances) intended to finance current year operations. The net receivable (total receivable less amount available intended to finance the current year) is therefore offset by a credit to deferred revenue. At June 30, 1999 and 1998, a total of \$33,092 and \$53,128, respectively, was available to the District as an advance and is recognized as revenue.

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

NOTE 6 - RECEIVABLES

Receivables at June 30, 1999, consisted of taxes, accounts (billings for user charged services and student fees) and intergovernmental grants and entitlements (to the extent such grants and entitlements relate to the current fiscal year). Intergovernmental receivables have been reported as "due from other governments" on the combined balance sheet. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes and the stable condition of State programs.

A summary of the principal items of receivables follows:

	<u>June 30, 1999</u>	<u>June 30, 1998</u>
General Fund:		
Taxes Receivable	\$ 493,088	\$ 624,091
Accounts Receivable	408	
Intergovernmental Receivables	269	1,441

(Continued)

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
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(Continued)

	<u>June 30, 1999</u>	<u>June 30, 1998</u>
(Continued)		
Special Revenue Funds:		
Accounts Receivable	329	
Debt Service Fund:		
Taxes Receivable	68,936	
Agency Funds:		
Taxes Receivable	<u>23,169</u>	<u>24,559</u>
	<u>\$ 586,199</u>	<u>\$ 650,091</u>

NOTE 7 - FIXED ASSETS

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

	<u>Balance</u> <u>June 30, 1998</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 1999</u>
Land and Improvements	\$ 3,804			\$ 3,804
Buildings	42,178			42,178
Furniture and Equipment	117,869	\$ 62,416		180,285
Construction In Progress		<u>370,692</u>		<u>370,692</u>
Total General Fixed Assets	<u>\$ 163,851</u>	<u>\$ 433,108</u>	<u>\$ 0</u>	<u>\$ 596,959</u>

	<u>Balance</u> <u>June 30, 1997</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 1998</u>
Land and Improvements	\$ 3,804			\$ 3,804
Buildings	40,808	\$ 1,370		42,178
Furniture and Equipment	85,049	32,820		117,869
Construction In Progress				<u>0</u>
Total General Fixed Assets	<u>\$ 129,661</u>	<u>\$ 34,190</u>	<u>\$ 0</u>	<u>\$ 163,851</u>

NOTE 8 - COMPENSATED ABSENCES

Sick Leave

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

Service Retirement

Certified employees are eligible for service retirement pay after the Board of Education accepts the employee's resignation. Service retirement pay is twenty-five percent (25%) 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 thirty (30) days. Criteria used to recognize the liability as being probable of payment was that employees must be fifty years old.

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

NOTE 9 - LONG-TERM OBLIGATIONS

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

A. The following is a description of the District's bonds outstanding as of June 30, 1999:

	Interest Rate	Maturity Date	Bonds Outstanding 07/01/98	Bonds Issued FY 99	Bond Outstanding 06/30/99
School Improvement	4.75%	01/01/09	\$ 0	\$ 990,000	\$990,000

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

Year Ending June 30	Principal	Interest	Total
2000	\$ 80,000	\$ 47,025	\$ 127,025
2001	85,000	43,225	128,225
2002	90,000	39,188	129,188
2003	90,000	34,913	124,913
2004	95,000	30,638	125,638
2005 - 2009	550,000	80,749	630,749
Totals	\$ 990,000	\$ 275,738	\$ 1,265,738

C. During the years ended June 30, 1999 and 1998, the following changes occurred in the liabilities reported in the general long-term obligations account group. Compensated absences and the pension obligations will be paid from the fund in which the employee was paid.

Fiscal Year 1999	Balance 07/01/98	Additions	Deductions	Balance 06/30/99
Compensated Absences	\$ 9,507		\$ (3,611)	\$ 5,896
Pension Obligation Payable	1,646	\$ 2,231	(1,646)	2,231
General Obligation Bond Payable		990,000		990,000
Totals	\$ 11,153	\$ 992,231	\$ (5,257)	\$ 998,127

Fiscal Year 1998	Balance 07/01/97	Additions	Deductions	Balance 06/30/98
Compensated Absences	\$ 13,808		\$ (4,301)	\$ 9,507
Pension Obligation Payable	1,025	\$ 621		1,646
Totals	\$ 14,833	\$ 621	\$ (4,301)	\$ 11,153

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

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, 1999 are a voted debt margin of \$2,003,844 (including available funds of \$61,822) and an unvoted debt margin of \$32,578.

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:	Nationwide		
Each occurrence		\$ 1,000,000	\$ 0
Aggregate		\$ 5,000,000	
Building and contents	Indiana Nationwide	\$ 15,000,000	\$ 500
Boiler and machinery	Cincinnati Nationwide	\$ 2,000,000	\$ 1,000

B. Health Insurance

The District provides employee health care benefits through the Erie County Educational Service Center. Monthly payments are made to the Center for health and life insurance coverage.

C. Worker's Compensation

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

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

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and the District is required to contribute 14 percent for 1999; 9.02 percent was the portion to fund pension obligations. The contribution rates are not determined actuarially, but are established by the School Employees Retirement Board within the rates allowed by State statute. The adequacy of the contribution rates is determined annually. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 1999, 1998, and 1997 were \$3,655, \$4,709, and \$3,883, respectively. 100 percent has been contributed for fiscal years 1999, 1998 and 1997.

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

Plan members are required to contribute 9.3 percent of their annual covered salary and the District is required to contribute 14 percent; 6 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. The District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 1999, 1998, and 1997 were \$23,854, \$21,064, and \$19,964, respectively. 85 percent has been contributed for fiscal year 1999 and 100 percent for fiscal years 1998 and 1997. \$3,636, representing the unpaid contribution for fiscal year 1999, is recorded as a liability of the general fund.

NOTE 12 - POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through the STRS, and to retired non-certified employees and their dependents through the 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.

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For this fiscal year, the Board allocated employer contributions equal to eight percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$13,631 during fiscal 1999.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$2.156 billion at June 30, 1998 (the latest information available). For the year ended June 30, 1998 (the latest information available), net health care costs paid by STRS were \$219.224 million and STRS had 91,999 eligible benefit recipients.

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

For this fiscal year, employer contributions to fund health care benefits were 4.98 percent of covered payroll, an increase from 4.21 percent for fiscal year 1998. 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 1999, the minimum pay has been established at \$12,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 125 percent of annual health care expenses. Expenses for health care at June 30, 1998 (the latest information available), were \$111.9 million and the target level was \$139.9 million. At June 30, 1998 (the latest information available), SERS had net assets available for payment of health care benefits of \$160.3 million and SERS had approximately 50,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$3,300 during the 1999 fiscal year.

NOTE 13 - BUDGETARY BASIS OF ACCOUNTING

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

The Combined Statement of Revenue, Expenditures, and Changes in Fund Balances -Budget and Actual - All Governmental Fund Types 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 are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, encumbrances are recorded as the equivalent of an expenditure (budget basis) as opposed to a reservation of fund balance for governmental funds (GAAP basis).

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

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

Fiscal Year 1999	General	Special Revenue	Debt Service	Capital Project
Budget Basis	\$ 122,199	\$ 2,882	\$ 60,203	\$ 701,487
Adjustment:				
Revenue Accruals	(23,096)	2,318	1,618	
Expenditure Accruals	(2,336)	(981)	1	
Other Financing Sources/Uses	(1,484)			457
Encumbrances	31,686	879		22,295
GAAP Basis	<u>\$ 126,969</u>	<u>\$ 5,098</u>	<u>\$ 61,822</u>	<u>\$ 724,239</u>

Fiscal Year 1998	General	Special Revenue	Capital Project
Budget Basis	\$ 79,753	\$ (1,919)	\$ 89,092
Adjustment:			
Revenue Accruals	40,277		
Expenditure Accruals	(15,673)		
Other Financing Sources/Uses			
Encumbrances	57,572	37	1,301
GAAP Basis	<u>\$ 161,929</u>	<u>\$ (1,882)</u>	<u>\$ 90,393</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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District at June 30, 1999 or 1998.

B. Litigation

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

C. State School Funding Decision

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the State's legislature to design a plan to remedy the perceived defects in that system. Declared unconstitutional was the State's "school foundation program", which provides significant amounts of monetary support to this District. During the fiscal year ended June 30, 1999, the District received \$5,687 of school foundation support for its general fund.

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

Since the Supreme Court ruling, numerous pieces of legislation have been passed by the State legislature in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County has reviewed the new laws and, in a decision issued on February 26, 1999, determined they are not sufficiently responsive to the constitutional issues raised under the "thorough and efficient" clause of the Ohio Constitution. The State has appealed the decision made by the Court of Common Pleas to the Ohio Supreme Court. At this time, the Ohio Supreme Court has not rendered an opinion on this issue. The decision of the Court of Common Pleas in Perry County has been stayed by the Ohio Supreme Court, and, as such, school districts are still operating under the laws that the Common Pleas Court declared unconstitutional.

As of the date of these financial statements, the District is unable to determine that effect, if any, this ongoing litigation will have on its future State funding under this program and on its financial operations.

NOTE 15 - STATUTORY RESERVES

The District is required by state law to set aside certain general fund revenue amounts, as defined by Statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 1999, the reserve activity was as follows:

	Textbook Reserve	Capital Maintenance Reserve	Budget Stabilization Reserve
Balance 07/01/98	\$	\$	\$ 1,432
Required Set-Aside	13,095	13,095	6,547
Offset Credits		(100,000)	
Qualifying Expenditures	(27,151)		
Balance 06/30/99	\$ (14,056)	\$ (86,905)	\$ 7,979

Although the District had offsets and qualifying disbursements during the year that reduced the set-aside amounts below zero, these extra amounts may not be used to reduce the set-aside requirements of future years. Negative amounts are therefore not presented as being carried forward to the next fiscal year.

A schedule of the restricted assets at June 30, 1999 follows:

Amount restricted for budget stabilization	\$ 7,979
Total restricted assets	\$ 7,979

NOTE 16 - SIGNIFICANT SUBSEQUENT EVENTS

Mr. Ralph Roshong became Superintendent of the District effective July 1, 1999.

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

NOTE 17 - CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 1998, the District has implemented GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools". This statement established accounting and reporting guidelines for government investments and investment pools. Under this statement, certain investments at cost are reported at fair value. The implementation of GASB Statement No. 31 had no effect on fund balances/retained earnings as previously reported as of June 30, 1997.



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

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

To the Board of Education:

We have audited the financial statements of the Kelleys Island Local School District, Erie County, Ohio, (the District) as of and for the years ended June 30, 1999 and 1998, and have issued our report thereon dated February 11, 2000. We conducted our audits in accordance with generally accepted auditing standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the District, in a separate letter dated February 11, 2000.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District, in a separate letter dated February 11, 2000.

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

Jim Petro
Auditor of State

February 11, 2000



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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 14, 2000**