



**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED JUNE 30, 2001-2000



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Report of Independent Accountants	1
Combined Balance Sheet – All Fund Types and Account Groups	
Fiscal Year 2001	4
Fiscal Year 2000	6
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances – All Governmental and Similar Fiduciary Fund Types	
Fiscal Year 2001	8
Fiscal Year 2000	10
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual (Non-GAAP Budgetary Basis) – All Governmental and Similar Fiduciary Fund Types	
Fiscal Year 2001	12
Fiscal Year 2000	16
Notes to the General-Purpose Financial Statements	21
Report of Independent Accountants on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	41
Schedule of Findings	43

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STATE OF OHIO
OFFICE OF THE AUDITOR
JIM PETRO, AUDITOR OF STATE

One Government Center
Room 1420
Toledo, Ohio 43604-2246
Telephone 419-245-2811
800-443-9276
Facsimile 419-245-2484
www.auditor.state.oh.us

REPORT OF INDEPENDENT ACCOUNTANTS

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

To the Board of Education:

We have audited the accompanying general-purpose financial statements of Kelleys Island Local School District (the District) as of and for the years ended June 30, 2001 and 2000, as listed in the table of contents. These general-purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audits.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Kelleys Island Local School District, Erie County, as of June 30, 2001 and 2000, and the results of its operations 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 December 5, 2001, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

This report is intended solely for the information and use of the audit committee, management, the Board of Education and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

Jim Petro
Auditor of State

December 5, 2001

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**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2001**

	Governmental Fund Types	
	General	Special Revenue
ASSETS AND OTHER DEBITS		
Assets:		
Equity in pooled cash and cash equivalents	\$91,546	\$6,882
Cash with fiscal agent		41
Receivables (net of allowances of uncollectibles):		
Taxes - current and delinquent	667,951	
Due from other governments	1,392	
Prepayments	2,226	
Property, plant and equipment (net of accumulated depreciation where applicable)		
Other debits:		
Amount available in debt service fund		
Amount to be provided for retirement of general long-term obligations		
	\$763,115	\$6,923
Total assets and other debits	\$763,115	\$6,923
LIABILITIES, EQUITY AND OTHER CREDITS		
Liabilities:		
Accounts payable	\$697	\$23
Accrued wages and benefits	35,466	19
Compensated absences payable		
Pension obligation payable	5,108	
Due to other governments	419	
Deferred revenue	629,968	
General obligation bond payable		
	671,658	42
Total liabilities	671,658	42
Equity and other credits:		
Investment in general fixed assets		
Fund balances:		
Reserved for encumbrances	16,833	3,234
Reserved for prepayments	2,226	
Reserved for tax revenue unavailable for appropriation	37,983	
Reserved for debt service		
Unreserved-undesignated (deficit)	34,415	3,647
	91,457	6,881
Total equity and other credits	91,457	6,881
Total liabilities, equity and other credits	\$763,115	\$6,923

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

Governmental Fund Types		Fiduciary Fund Types	Account Groups		Total (Memorandum Only)
Debt Service	Capital Projects	Trust and Agency	General Fixed Assets	General Long-Term Obligations	
\$189	\$2,500	\$18,686			\$119,803 41
98,370		31,927			798,248 1,392 2,226
			\$2,242,775		2,242,775
				\$6,222	6,222
				825,235	825,235
\$98,559	\$2,500	\$50,613	\$2,242,775	\$831,457	\$3,995,942
					\$720 35,485
				\$6,457	6,457 5,108
\$92,337		\$31,927			32,346 722,305
				825,000	825,000
92,337		31,927		831,457	1,627,421
			\$2,242,775		2,242,775
		\$400			20,467 2,226
6,033 189	\$2,500	18,286			44,016 189
					58,848
6,222	2,500	18,686	2,242,775		2,368,521
\$98,559	\$2,500	\$50,613	\$2,242,775	\$831,457	\$3,995,942

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2000**

	Governmental Fund Types	
	General	Special Revenue
ASSETS AND OTHER DEBITS		
Assets:		
Equity in pooled cash and cash equivalents	\$115,432	\$9,366
Cash with fiscal agent		248
Receivables (net of allowances of uncollectibles):		
Taxes - current and delinquent	522,205	
Prepayments	7,905	
Restricted assets:		
Equity in pooled cash and cash equivalents	13,751	
Property, plant and equipment (net of accumulated depreciation where applicable)		
Other debits:		
Amount available in debt service fund		
Amount to be provided for retirement of general long-term obligations		
	\$659,293	\$9,614
Total assets and other debits	\$659,293	\$9,614
LIABILITIES, EQUITY AND OTHER CREDITS		
Liabilities:		
Accounts payable	\$3,094	\$6,130
Accrued wages and benefits	26,254	530
Compensated absences payable		
Pension obligation payable	6,236	
Due to other governments		
Deferred revenue	484,813	
General obligation bond payable		
	520,397	6,660
Total liabilities	520,397	6,660
Equity and other credits:		
Investment in general fixed assets		
Fund balances:		
Reserved for encumbrances	112,797	1,728
Reserved for prepayments	7,905	
Reserved for tax revenue unavailable for appropriation	37,392	
Reserved for debt service		
Reserved for budget stabilization	13,751	
Unreserved-undesignated (deficit)	(32,949)	1,226
	138,896	2,954
Total equity and other credits	138,896	2,954
Total liabilities, equity and other credits	\$659,293	\$9,614

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

Governmental Fund Types		Fiduciary Fund Types	Account Groups		Total (Memorandum Only)
Debt Service	Capital Projects	Trust and Agency	General Fixed Assets	General Long-Term Obligations	
\$7,521	\$1,000	\$21,728			\$155,047 248
82,907		26,530			631,642 7,905
					13,751
			\$2,097,601		2,097,601
				\$13,460 902,899	13,460 902,899
\$90,428	\$1,000	\$48,258	\$2,097,601	\$916,359	\$3,822,553
					\$9,224 26,784
				\$6,359	6,359 6,236
\$76,968		\$26,530			26,530 561,781
				910,000	910,000
76,968		26,530		916,359	1,546,914
			\$2,097,601		2,097,601
					114,525 7,905
5,939 7,521					43,331 7,521
	\$1,000	\$21,728			13,751 (8,995)
13,460	1,000	21,728	2,097,601		2,275,639
\$90,428	\$1,000	\$48,258	\$2,097,601	\$916,359	\$3,822,553

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2001**

	Governmental Fund Types	
	General	Special Revenue
Revenues:		
From local sources:		
Taxes	\$571,364	
Earnings on investments	5,076	
Other local revenues	74	
Intergovernmental - State	72,745	\$31,227
Intergovernmental - Federal		2,211
	<u>649,259</u>	<u>33,438</u>
Expenditures:		
Current:		
Instruction:		
Regular	281,011	2,046
Special	22,659	
Support services:		
Pupil	29,659	166
Instructional staff	51,246	26,236
Board of education	5,226	
Administration	34,485	
Fiscal	23,800	1,472
Operations and maintenance	97,325	
Extracurricular activities	4,311	
Facilities acquisition and construction	116,546	
Debt service:		
Principal retirement		
Interest and fiscal charges	30,430	
	<u>696,698</u>	<u>29,920</u>
Excess of revenues over (under) expenditures	(47,439)	3,518
Fund balances, July 1	<u>138,896</u>	<u>3,363</u>
Fund balances, June 30	\$91,457	\$6,881

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

Governmental Fund Types		Fiduciary Fund Type	Total (Memorandum Only)
Debt Service	Capital Projects	Expendable Trust	
\$82,757			\$654,121
152		\$1,358	6,586
		600	674
10,001	\$12,500		126,473
			2,211
92,910	12,500	1,958	790,065
	11,000		294,057
			22,659
		5,000	34,825
			77,482
			5,226
			34,485
1,665			26,937
			97,325
			4,311
			116,546
85,000			85,000
13,483			43,913
100,148	11,000	5,000	842,766
(7,238)	1,500	(3,042)	(52,701)
13,460	1,000	21,728	178,447
\$6,222	\$2,500	\$18,686	\$125,746

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2000**

	Governmental Fund Types	
	General	Special Revenue
Revenues:		
From local sources:		
Taxes	\$434,080	
Earnings on investments	33,807	
Other local revenues	1,145	
Intergovernmental - State	61,668	\$28,227
Intergovernmental - Federal		2,307
Total revenue	530,700	30,534
Expenditures:		
Current:		
Instruction:		
Regular	273,694	2,039
Special	24,081	
Support services:		
Pupil	27,691	93
Instructional staff	30,053	33,801
Board of education	7,338	
Administration	37,635	2,000
Fiscal	22,111	2,529
Operations and maintenance	68,322	
Central		45
Extracurricular activities	5,662	
Facilities acquisition and construction	451,787	
Debt service:		
Principal retirement		
Interest and fiscal charges		
Total expenditures	948,374	40,507
Excess of revenues over (under) expenditures	(417,674)	(9,973)
Fund balances, July 1	556,570	12,927
Fund balances, June 30	\$138,896	\$2,954

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

Governmental Fund Types		Fiduciary Fund Type	Total (Memorandum Only)
Debt Service	Capital Projects	Expendable Trust	
\$72,330			\$506,410
391	\$8,961	\$1,193	44,352
		5,680	6,825
8,559	1,750		100,204
			2,307
81,280	10,711	6,873	660,098
	750		276,483
			24,081
		250	28,034
			63,854
			7,338
1,242			39,635
			25,882
			68,322
			45
			5,662
	1,034,950		1,486,737
80,000			80,000
48,400			48,400
129,642	1,035,700	250	2,154,473
(48,362)	(1,024,989)	6,623	(1,494,375)
61,822	1,025,989	15,105	1,672,413
\$13,460	\$1,000	\$21,728	\$178,038

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2001**

	General		Variance: Favorable (Unfavorable)
	Revised Budget	Actual	
Revenues:			
From local sources:			
Taxes	\$574,500	\$570,773	(\$3,727)
Earnings on investments	6,000	5,076	(924)
Other local revenues		36	36
Intergovernmental - State	70,000	70,778	778
Intergovernmental - Federal			
Total revenues	<u>650,500</u>	<u>646,663</u>	<u>(3,837)</u>
Expenditures:			
Current:			
Instruction:			
Regular	301,749	281,725	20,024
Special	30,845	23,843	7,002
Support services:			
Pupil	41,190	32,852	8,338
Instructional staff	55,461	51,490	3,971
Board of Education	9,583	6,188	3,395
Administration	43,880	36,719	7,161
Fiscal	27,239	25,281	1,958
Operations and maintenance	100,588	90,755	9,833
Extracurricular activities	7,800	4,409	3,391
Facilities acquisition and construction	131,447	118,750	12,697
Debt service:			
Principal retirement			
Interest and fiscal charges	30,500	30,430	70
Total expenditures	<u>780,282</u>	<u>702,442</u>	<u>77,840</u>
Excess of revenues over (under) expenditures	<u>(129,782)</u>	<u>(55,779)</u>	<u>74,003</u>
Other financing sources:			
Refund of prior year's expenditures	600	613	13
Total other financing sources	<u>600</u>	<u>613</u>	<u>13</u>
Excess of revenues and other financing sources over (under) expenditures	<u>(129,182)</u>	<u>(55,166)</u>	<u>74,016</u>
Fund balances, July 1	13,441	13,441	
Prior year encumbrances appropriated	<u>115,741</u>	<u>115,741</u>	
Fund balances, June 30		<u><u>\$74,016</u></u>	<u><u>\$74,016</u></u>

Special Revenue			Debt Service		
Revised Budget	Actual	Variance: Favorable (Unfavorable)	Budget Revised	Actual	Variance: Favorable (Unfavorable)
			\$85,075	\$82,663	(\$2,412)
			150	152	2
\$31,227	\$31,227		8,300	10,001	1,701
3,229	1,679	(\$1,550)			
34,456	32,906	(1,550)	93,525	92,816	(709)
273	3,272	(2,999)			
39,078	33,903	5,175			
1,472	1,472		1,665	1,665	
			85,000	85,000	
			14,381	13,483	898
40,823	38,647	2,176	101,046	100,148	898
(6,367)	(5,741)	626	(7,521)	(7,332)	189
(6,367)	(5,741)	626	(7,521)	(7,332)	189
1,534	1,534		7,521	7,521	
7,832	7,832				
\$2,999	\$3,625	\$626		\$189	\$189

(Continued)

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

	Capital Projects		Variance: Favorable (Unfavorable)
	Budget Revised	Actual	
Revenues:			
From local sources:			
Taxes			
Earnings on investments			
Other local revenues			
Intergovernmental - State	\$10,000	\$12,500	\$2,500
Intergovernmental - Federal			
Total revenues	<u>10,000</u>	<u>12,500</u>	<u>2,500</u>
Expenditures:			
Current:			
Instruction:			
Regular	11,000	11,000	
Special			
Support services:			
Pupil			
Instructional staff			
Board of Education			
Administration			
Fiscal			
Operations and maintenance			
Extracurricular activities			
Facilities acquisition and construction			
Debt service:			
Principal retirement			
Interest and fiscal charges			
Total expenditures	<u>11,000</u>	<u>11,000</u>	
Excess of revenues over (under) expenditures	<u>(1,000)</u>	<u>1,500</u>	<u>2,500</u>
Other financing sources:			
Refund of prior year's expenditures			
Total other financing sources			
Excess of revenues and other financing sources over (under) expenditures	<u>(1,000)</u>	<u>1,500</u>	<u>2,500</u>
Fund balances, July 1	1,000	1,000	
Prior year encumbrances appropriated			
Fund balances, June 30		<u><u>\$2,500</u></u>	<u><u>\$2,500</u></u>

Total (Memorandum only)

Budget Revised	Actual	Variance: Favorable (Unfavorable)
\$659,575	\$653,436	(\$6,139)
6,150	5,228	(922)
	36	36
119,527	124,506	4,979
3,229	1,679	(1,550)
788,481	784,885	(3,596)
313,022	295,997	17,025
30,845	23,843	7,002
41,190	32,852	8,338
94,539	85,393	9,146
9,583	6,188	3,395
43,880	36,719	7,161
30,376	28,418	1,958
100,588	90,755	9,833
7,800	4,409	3,391
131,447	118,750	12,697
85,000	85,000	
44,881	43,913	968
933,151	852,237	80,914
(144,670)	(67,352)	77,318
600	613	13
600	613	13
(144,070)	(66,739)	77,331
23,496	23,496	
123,573	123,573	
\$2,999	\$80,330	\$77,331

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2000**

	General		Variance: Favorable (Unfavorable)
	Revised Budget	Actual	
Revenues:			
From local sources:			
Taxes	\$444,378	\$428,161	(\$16,217)
Earnings on investments	35,088	33,808	(1,280)
Other local revenues	364	351	(13)
Intergovernmental - State	64,004	61,668	(2,336)
Intergovernmental - Federal			
Total revenues	<u>543,834</u>	<u>523,988</u>	<u>(19,846)</u>
Expenditures:			
Current:			
Instruction:			
Regular	300,814	282,804	18,010
Special	24,176	23,879	297
Support services:			
Pupil	31,154	27,489	3,665
Instructional staff	35,264	30,049	5,215
Board of Education	8,924	6,981	1,943
Administration	38,123	36,544	1,579
Fiscal	22,471	22,196	275
Operations and maintenance	76,348	75,246	1,102
Extracurricular activities	6,460	5,988	472
Facilities services	562,565	561,780	785
Debt service:			
Principal retirement			
Interest and fiscal charges			
Total expenditures	<u>1,106,299</u>	<u>1,072,956</u>	<u>33,343</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(562,465)</u>	<u>(548,968)</u>	<u>13,497</u>
Other financing sources (uses):			
Refund of prior year's expenditures	1,526	1,470	(56)
Refund of prior year's (receipts)	(128)	(128)	
Total other financing sources (uses)	<u>1,398</u>	<u>1,342</u>	<u>(56)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing (uses)	<u>(561,067)</u>	<u>(547,626)</u>	<u>13,441</u>
Fund balances, July 1	529,381	529,381	
Prior year encumbrances appropriated	<u>31,686</u>	<u>31,686</u>	
Fund balances, June 30		<u>\$13,441</u>	<u>\$13,441</u>

Special Revenue			Debt Service		
Revised Budget	Actual	Variance: Favorable (Unfavorable)	Budget Revised	Actual	Variance: Favorable (Unfavorable)
			\$72,087	\$68,010 391	(\$4,077) 391
\$28,227	\$28,227		8,382	8,559	177
1,731	519	(\$1,212)			
29,958	28,746	(1,212)	80,469	76,960	(3,509)
1,731	1,728	3			
35,287	32,873	2,414			
2,000	2,000				
2,529	2,529		3,000	1,242	1,758
			80,000	80,000	
			57,672	48,400	9,272
41,547	39,130	2,417	140,672	129,642	11,030
(11,589)	(10,384)	1,205	(60,203)	(52,682)	7,521
	329	329			
	329	329			
(11,589)	(10,055)	1,534	(60,203)	(52,682)	7,521
10,711	10,711		60,203	60,203	
878	878				
	\$1,534	\$1,534		\$7,521	\$7,521

(Continued)

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2000
(Continued)**

	Capital Projects		Variance: Favorable (Unfavorable)
	Budget Revised	Actual	
Revenues:			
From local sources:			
Taxes			
Earnings on investments	\$9,007	\$8,961	(\$46)
Other local revenues			
Intergovernmental - State	1,587	1,750	163
Intergovernmental - Federal			
Total revenues	<u>10,594</u>	<u>10,711</u>	<u>117</u>
Expenditures:			
Current:			
Instruction:			
Regular	750	750	
Special			
Support services:			
Pupil			
Instructional staff			
Board of Education			
Administration			
Fiscal			
Operations and maintenance			
Extracurricular activities			
Facilities services	1,034,950	1,034,950	
Debt service:			
Principal retirement			
Interest and fiscal charges			
Total expenditures	<u>1,035,700</u>	<u>1,035,700</u>	
Excess (deficiency) of revenues over (under) expenditures	<u>(1,025,106)</u>	<u>(1,024,989)</u>	<u>117</u>
Other financing sources (uses):			
Refund of prior year's expenditures			
Refund of prior year's (receipts)			
Total other financing sources (uses)			
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing (uses)	(1,025,106)	(1,024,989)	117
Fund balances, July 1	1,003,694	1,003,694	
Prior year encumbrances appropriated	<u>22,295</u>	<u>22,295</u>	
Fund balances, June 30	<u>\$883</u>	<u>\$1,000</u>	<u>\$117</u>

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

Total (Memorandum only)

Budget Revised	Actual	Variance: Favorable (Unfavorable)
\$516,465	\$496,171	(\$20,294)
44,095	43,160	(935)
364	351	(13)
102,200	100,204	(1,996)
1,731	519	(1,212)
<u>664,855</u>	<u>640,405</u>	<u>(24,450)</u>
303,295	285,282	18,013
24,176	23,879	297
31,154	27,489	3,665
70,551	62,922	7,629
8,924	6,981	1,943
40,123	38,544	1,579
28,000	25,967	2,033
76,348	75,246	1,102
6,460	5,988	472
1,597,515	1,596,730	785
80,000	80,000	
57,672	48,400	9,272
<u>2,324,218</u>	<u>2,277,428</u>	<u>46,790</u>
<u>(1,659,363)</u>	<u>(1,637,023)</u>	<u>22,340</u>
1,526	1,799	273
(128)	(128)	
<u>1,398</u>	<u>1,671</u>	<u>273</u>
(1,657,965)	(1,635,352)	22,613
1,603,989	1,603,989	
54,859	54,859	
<u>\$883</u>	<u>\$23,496</u>	<u>\$22,613</u>

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**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001 AND 2000**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

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 Sections 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 670th largest by enrollment among the 682 public and community school districts in the State, and 7th in Erie County. It currently operates 1 elementary school, 1 middle school, and 1 comprehensive high school. The District employs 2 non-certified and 7 certified employees to provide services to 41 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

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001 AND 2000
(Continued)**

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)

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

GOVERNMENTAL FUNDS

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

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

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

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

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001 AND 2000
(Continued)**

Capital Projects Funds - The capital project 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).

PROPRIETARY FUNDS

The District does not have any proprietary funds.

FIDUCIARY FUNDS

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

ACCOUNT GROUPS

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

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

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 fund. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available to finance expenditures of the current period, which for the District is 60 days after the June 30 year-end. Revenues accrued at the end of the year include taxes, (to the extent they are intended to finance the current fiscal year), interest, and accounts (student fees and tuition). Current property taxes measurable as of June 30, 2001 and June 30, 2000, and which are intended to finance fiscal 2002 and 2001 operations respectively, have been recorded as deferred revenues. Delinquent property taxes measurable and available (received within 60 days) are recognized as revenue.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On the modified accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied and the

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001 AND 2000
(Continued)**

resources are available. Revenue from grants, entitlements and donations is recognized in fiscal year in which all eligibility requirements have been met and the resources are available.

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

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

D. Budgets

The District is required by State statute to adopt an annual appropriated cash basis budget for all funds except agency. The specific timetable for fiscal years 2001 and 2000 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 statement reflect the amounts set forth in the final Amended Certificate issued for fiscal years 2001 and 2000.
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.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001 AND 2000
(Continued)**

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.
7. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board during fiscal years 2001 and 2000; 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 13 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 2001 and 2000, 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 be sold for on June 30, 2001 or 2000.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. During fiscal 2001, interest revenue credited to the general fund amounted to \$5,076, which includes \$1,077 assigned from other District funds. During fiscal year 2000, interest revenue credited to the general fund amounted to \$33,807, which includes \$24,909 assigned from other District funds.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001 AND 2000
(Continued)**

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

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

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.

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
Connectivity Funding
Reducing Class Size

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001 AND 2000
(Continued)**

*Capital Projects Funds
SchoolNet Plus*

Grants and entitlements amounted to approximately 16% of the District's operating revenue during the 2001 and 2000 fiscal years.

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

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at the balance sheet date, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

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 debt service 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.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001 AND 2000
(Continued)**

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. There were no transfers made during fiscal years 2001 and 2000.
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.

M. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents that are restricted in use by State statute for the fiscal year 2000. A fund balance reserve has also been established. See Note 15 for details.

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 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 - COMPLIANCE

A. Compliance

At June 30, 2001, expenditures in the Special Revenue fund type was not limited to amounts appropriated at the legal level of control as required by the Ohio Revised Code. Expenditures and encumbrances exceeded appropriations at the legal level of control as follows:

<u>Fund Type / Fund / Account</u>	<u>Appropriations</u>	<u>Expenditures and Encumbrances</u>	<u>Variance</u>
<u>Special Revenue</u>			
Connectivity Fund:			
Regular Instruction	\$273	\$3,272	(\$2,999)

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001 AND 2000
(Continued)**

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS

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

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, Notes, Debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and that the term of the agreement must not exceed 30 days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001 AND 2000
(Continued)**

7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25% of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt 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, 2001 and 2000, the District had \$41 and \$248, respectively, in cash held by the Erie-Huron -Ottawa Educational Service Center, which is included on the combined balance sheet as "Cash with Fiscal Agent". The money is held in a pooled amount which is representative of numerous entities and therefore cannot be classified by risk under GASB Statement No. 3.

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

Deposits: At year-end 2001 and 2000, the carrying amount of the District's deposits was \$(13,155) and \$(10,550), respectively, and the bank balance was \$8,009 and \$1,220, respectively. A liability was not recorded for the negative carrying amount of deposits because there was no actual overdraft, due to the "zero-balance" nature of the District's bank accounts. The negative carrying amount of deposits is due to the sweeping of monies into overnight repurchase agreements which are reported as "investments." The entire bank balance was covered by federal deposit insurance. Although all state statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

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

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

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001 AND 2000
(Continued)**

<u>At June 30, 2001</u>	<u>Category 3</u>	<u>Reported Amount</u>	<u>Fair Value</u>
Repurchase Agreement	\$32,958	\$32,958	\$32,958
STAR Ohio		100,000	100,000
		<u>\$132,958</u>	<u>\$132,958</u>

<u>At June 30, 2000</u>	<u>Category 3</u>	<u>Reported Amount</u>	<u>Fair Value</u>
Repurchase Agreement	\$19,000	\$19,000	\$19,000
STAR Ohio		160,348	160,348
		<u>\$179,348</u>	<u>\$179,348</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:

<u>At June 30, 2001</u>	<u>Cash and Cash Equivalents Deposits</u>	<u>Investments</u>
Per GASB Statement No. 9	\$119,844	
Investments of the Cash Investment Pool		
Repurchase Agreement	(32,958)	\$32,958
Investment in STAR Ohio	(100,000)	100,000
Cash with Fiscal Agent	(41)	
	<u>(\$13,155)</u>	<u>\$132,958</u>

<u>At June 30, 2000</u>	<u>Cash and Cash Equivalents Deposits</u>	<u>Investments</u>
Per GASB Statement No. 9	\$169,046	
Investments of the Cash Investment Pool		
Repurchase Agreement	(19,000)	\$19,000
Investment in STAR Ohio	(160,348)	160,348
Cash with Fiscal Agent	(248)	
	<u>(\$10,550)</u>	<u>\$179,348</u>

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001 AND 2000
(Continued)**

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.

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 2000 taxes were collected was \$44,192,263. Agricultural/Residential and public utility real estate represented 83.77% or \$37,019,690 of this total; Commercial and Industrial real estate represented 9.86% or \$4,356,990 of this total, public utility tangible represented 2.11% or \$933,280 of this total and general tangible property represented 4.26% or \$1,882,303 of this total. The voted general tax rate for the fiscal years ended June 30, 2001 and 2000, 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 County Treasurer collects property tax on behalf of the District. The Erie County Auditor periodically remits to the District its portion of the taxes collected. These tax "advances" are based on statutory cash flow collection rates. Final "settlements" are made each February and August.

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes, which became measurable as of June 30, 2001 and 2000. 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, 2001 and 2000, a total of \$44,016 and \$43,331, 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 Ohio Revised Code § 5705.35, since an advance of revenue was not requested or received prior to June 30, 2001 or 2000.

NOTE 6 - RECEIVABLES

Receivables at June 30, 2001 and 2000, consisted of taxes, 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.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001 AND 2000
(Continued)**

A summary of the principal items of receivables follows:

	June 30, 2001	June 30, 2000
General Fund:		
Taxes Receivable	\$667,951	\$522,205
Due From Other Governments	1,392	
Debt Service Fund:		
Taxes Receivable	98,370	82,907
Agency Funds:		
Taxes Receivable	31,927	26,530
	\$799,640	\$631,642

NOTE 7 - FIXED ASSETS

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

	Balance June 30, 2000	Additions	Deductions	Balance June 30, 2001
Land and Improvements	\$3,804			\$3,804
Buildings	42,178	\$1,959,467		2,001,645
Furniture and Equipment	207,125	30,201		237,326
Construction In Progress	1,844,494	114,973	(\$1,959,467)	
Total General Fixed Assets	\$2,097,601	\$2,104,641	(\$1,959,467)	\$2,242,775

	Balance June 30, 1999	Additions	Deductions	Balance June 30, 2000
Land and Improvements	\$3,804			\$3,804
Buildings	42,178			42,178
Furniture and Equipment	180,285	\$26,840		207,125
Construction In Progress	370,692	1,473,802		1,844,494
Total General Fixed Assets	\$596,959	\$1,500,642		\$2,097,601

NOTE 8 - COMPENSATED ABSENCES

Sick Leave

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

Service Retirement

Certified employees are eligible for service retirement pay after the Board of Education accepts the employee's resignation. Service retirement pay is 25% 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

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001 AND 2000
(Continued)**

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.

NOTE 9 - LONG-TERM OBLIGATIONS

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

A. The following is a description of the District's bond outstanding as of June 30, 2001 and 2000:

	Interest Rate	Maturity Date	Bonds Outstanding 07/01/00	Bonds Retired in 2001	Bond Outstanding 06/30/01
School Improvement	4.75%	01/01/09	<u>\$910,000</u>	<u>(\$85,000)</u>	<u>\$825,000</u>
	Interest Rate	Maturity Date	Bonds Outstanding 07/01/99	Bonds Retired in 2000	Bond Outstanding 06/30/01
School Improvement	4.75%	01/01/09	<u>\$990,000</u>	<u>(\$80,000)</u>	<u>\$910,000</u>

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
2002	\$90,000	\$39,188	\$129,188
2003	90,000	34,913	124,913
2004	95,000	30,638	125,638
2005	100,000	26,125	126,125
2006	105,000	21,375	126,375
2007 - 2009	<u>345,000</u>	<u>33,249</u>	<u>378,249</u>
Totals	<u>\$825,000</u>	<u>\$185,488</u>	<u>\$1,010,488</u>

C. During the years ended June 30, 2001 and 2000, the following changes occurred in the liabilities reported in the general long-term obligations account group. Compensated absences will be paid from the fund in which the employee was paid.

Fiscal Year 2001	Balance 07/01/00	Additions	Deductions	Balance 06/30/01
Compensated Absences	\$6,359	\$98		\$6,457
General Obligation Bond Payable	910,000		(\$85,000)	825,000
Totals	<u>\$916,359</u>	<u>\$98</u>	<u>(\$85,000)</u>	<u>\$831,457</u>

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001 AND 2000
(Continued)**

<u>Fiscal Year 2000</u>	<u>Balance 07/01/99</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 06/30/00</u>
Compensated Absences	\$5,896	\$463		\$6,359
Pension Obligation Payable	2,231		(2,231)	
General Obligation Bond Payable	990,000		(80,000)	910,000
Totals	<u>\$998,127</u>	<u>\$463</u>	<u>(\$82,231)</u>	<u>\$916,359</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, 2001 are a voted debt margin of \$3,158,526 (including available funds of \$6,222) and an unvoted debt margin of \$44,192. The effects of these debt limitations at June 30, 2000 are a voted debt margin of \$2,035,482 (including available funds of \$13,460) 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		\$2,000,000	
Aggregate		5,000,000	
Building and contents	Indiana Insurance	15,000,000	\$500
Boiler and machinery	Cincinnati Nationwide	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.

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

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001 AND 2000
(Continued)**

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 Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the School Employees Retirement Board. 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. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634, or by calling (614) 222-5853.

Plan members are required to contribute 9% of their annual covered salary and the District is required to contribute 14%; 4.2% and 5.55% was the portion to fund pension obligations in 2001 and 2000, respectively. 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 to SERS for the fiscal years ended June 30, 2001, 2000 and 1999 were \$5,104, \$3,338, and \$3,655, respectively; 100 percent has been contributed for fiscal years 2001, 2000 and 1999.

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

Plan members are required to contribute 9.3% of their annual covered salary and the District is required to contribute 14%; 9.5% and 6% was the portion used to fund pension obligations in 2001 and 2000, respectively. Contribution rates are established by the State Teachers Retirement Board,

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001 AND 2000
(Continued)**

upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The District's required contributions to STRS for the fiscal years ended June 30, 2001, 2000, and 1999 were \$28,924, \$28,316, and \$23,854, respectively; 82.34 percent has been contributed for fiscal year 2001; 78 percent has been contributed fiscal year 2000; and 100% for the fiscal year 1999. \$5,108, representing the unpaid contribution for fiscal year 2001, is recorded as a liability within the respective funds. As of June 30, 2000, \$3,118, representing the unpaid contribution for fiscal year 2000, is recorded as a liability within the respective funds.

NOTE 12 - POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For 2001, the Board allocated employer contributions equal to 4.5% of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$9,297. For 2000, the Board allocated employer contributions equal to 8% of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$16,181.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Health Care Reserve Fund was \$3.419 billion at June 30, 2000 (the latest information available). For the year ended June 30, 2000 (the latest information available), net health care costs paid by STRS were \$283.137 million and STRS had 99,011 eligible benefit recipients.

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

For fiscal year 2001, employer contributions to fund health care benefits were 9.8% of covered payroll. For fiscal year 2000, employer contributions to fund health care benefits were 8.45 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal years 2001 and 2000, the minimum pay has been established at \$12,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2000 (the latest information available), were \$140.7 million and the target level was \$211.0 million. At June 30, 2000 (the latest information available), SERS had net assets available for payment of health care benefits of \$252.3 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 \$4,306 and \$4,003 during the 2001 and 2000 fiscal years, respectively.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001 AND 2000
(Continued)**

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).

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 2001	General	Special Revenue	Debt Service	Capital Project
Budget Basis	(\$55,166)	(\$5,741)	(\$7,332)	\$1,500
Adjustment:				
Revenue Accruals	2,596	532	94	
Expenditure Accruals	(11,786)	5,470		
Other Financing Sources/Uses	(613)			
Encumbrances	17,530	3,257		
GAAP Basis	<u>(\$47,439)</u>	<u>\$3,518</u>	<u>(\$7,238)</u>	<u>\$1,500</u>

Fiscal Year 2000	General	Special Revenue	Debt Service	Capital Project
Budget Basis	(\$547,626)	(\$10,055)	(\$52,682)	(\$1,024,989)
Adjustment:				
Revenue Accruals	6,712	1,788	4,320	
Expenditure Accruals	8,840	(9,209)		
Other Financing Sources/Uses	(1,342)	(329)		
Encumbrances	115,742	7,832		
GAAP Basis	<u>(\$417,674)</u>	<u>(\$9,973)</u>	<u>(\$48,362)</u>	<u>(\$1,024,989)</u>

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001 AND 2000
(Continued)**

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, 2001 or 2000.

B. Litigation

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

C. State School Funding Decision

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- ▶ A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
- ▶ Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of December 5, 2001, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts. Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

On November 2, 2001, the Court granted this motion for reconsideration. The Court may re-examine and redetermine any issue upon such reconsideration.

As of the date of these financial statements, the Service Center 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.

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, 2000, the reserve activity was as follows:

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001 AND 2000
(Continued)**

	<u>Textbook Reserve</u>	<u>Capital Maintenance Reserve</u>	<u>Budget Stabilization Reserve</u>
Balance 07/01/99			\$7,979
Required Set-Aside	\$17,347	\$17,347	5,782
Offset Credits			
Qualifying Expenditures	<u>(23,528)</u>	<u>(1,631,348)</u>	
Balance 06/30/00	<u>(\$6,181)</u>	<u>(\$1,614,001)</u>	<u>\$13,761</u>
Carried Forward to FY 2001	<u>(\$6,181)</u>		

During the fiscal year ended June 30, 2001, the reserve activity was as follows:

	<u>Textbook Reserve</u>	<u>Capital Maintenance Reserve</u>	<u>Budget Stabilization Reserve</u>
Balance 07/01/00	(\$6,181)		\$13,761
Required Set-Aside	12,721	\$12,721	
Elimination of Budget Stabilization Reserve			(13,761)
Offset Credits			
Qualifying Expenditures	<u>(27,735)</u>	<u>(114,972)</u>	
Balance 06/30/01	<u>(\$21,195)</u>	<u>(\$102,251)</u>	
Carried Forward to FY 2002	<u>(\$21,195)</u>		

Effective April 10, 2001, Am. Sub. Senate Bill 345 amended Ohio Revised Code § 5705.29 effectively eliminating the requirement for the District to establish and maintain a budget stabilization reserve. As of June 30, 2001, the School Board has not taken action to designate these funds for a specific use. All remaining monies previously reported in the budget stabilization reserve are now reported as part of the unreserved and undesignated fund balance in the general fund as of June 30, 2001. The District is still required by state law to maintain the textbook reserve and capital acquisition reserve.

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



STATE OF OHIO
OFFICE OF THE AUDITOR
JIM PETRO, AUDITOR OF STATE

One Government Center
Room 1420
Toledo, Ohio 43604-2246
Telephone 419-245-2811
800-443-9276
Facsimile 419-245-2484
www.auditor.state.oh.us

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

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

To the Board of Education:

We have audited the financial statements of Kelleys Island Local School District (the District) as of and for the years ended June 30, 2001 and 2000. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2001-10522-001. We also noted a certain immaterial instance of noncompliance that we have reported to the management of the District in a separate letter dated December 5, 2001.

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 the management of the District in a separate letter dated December 5, 2001.

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

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

December 5, 2001

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2001 AND 2000**

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

FINDING NUMBER 2001-10522-001

Noncompliance Citation

Ohio Revised Code § 5705.41(B) states that no subdivision or taxing unit is to expend money unless it has been appropriated. In fiscal year 2001, expenditures and encumbrances exceeded appropriations at the legal level of control as follows:

<u>Fund / Account</u>	<u>Appropriations</u>	<u>Expenditures and Encumbrances</u>	<u>Variance</u>
Connectivity Fund: Regular Instruction	<u>\$273</u>	<u>\$3,272</u>	<u>(\$2,999)</u>

Revenues were sufficient to permit the District to increase appropriations. The failure to limit expenditures and encumbrances to amounts appropriated could result in expenditures exceeding available resources resulting in deficit fund balances.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

KELLEYS ISLAND LOCAL SCHOOL DISTRICT

ERIE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 3, 2002**