



Dave Yost • Auditor of State



**KELLEYS ISLAND LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Kelleys Island Local School District, Erie County, Ohio (the District), as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Kelleys Island Local School District, Erie County, Ohio, as of June 30, 2011, and the respective changes in financial position thereof and the budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3 to the basic financial statements, the District adopted Government Accounting Standards Board Statement 54, "Fund Balance Reporting and Governmental Fund Type Definitions".

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2012, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping initial "D".

**Dave Yost**  
Auditor of State

October 18, 2012

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
UNAUDITED**

The management's discussion and analysis of the Kelleys Island Local School District's ("the District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2011. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

**Financial Highlights**

Key financial highlights for fiscal year 2011 are as follows:

- In total, net assets of governmental activities increased \$304,067 which represents an 11.63% increase from 2010.
- General revenues accounted for \$1,081,448 in revenue or 94.83% of all revenues. Program specific revenues in the form of grants and contributions accounted for \$59,003 or 5.17% of total revenues of \$1,140,451.
- The District had \$836,384 in expenses related to governmental activities; only \$59,003 of these expenses were offset by program specific grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$1,081,448 were adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$1,153,706 in revenues and other financing sources and \$754,360 in expenditures. During fiscal year 2011, the general fund's fund balance increased \$399,346 from \$551,174 to \$950,520.

**Using the Basic Financial Statements**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The statement of net assets and statement of activities provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the District, the general fund is by far the most significant fund and the only governmental fund reported as major a fund.

**Reporting the District as a Whole**

***Statement of Net Assets and the Statement of Activities***

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did the District do financially during 2011?" The statement of net assets and the statement of activities answer this question. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
UNAUDITED  
(Continued)**

These two statements report the District's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the financial position of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the statement of net assets and the statement of activities, the governmental activities include the District's programs and services, including instruction, support services, operation and maintenance and extracurricular activities.

**Reporting the District's Most Significant Funds**

***Fund Financial Statements***

Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the general fund, the District's most significant fund.

***Governmental Funds***

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

***Reporting the District's Fiduciary Responsibilities***

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals. These activities are reported in an agency fund. All of the District's fiduciary activities are reported in separate statements of fiduciary net assets and changes in fiduciary net assets. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

***Notes to the Basic Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**The District as a Whole**

The table below provides a summary of the District's net assets for at June 30, 2011 and June 30, 2010.



**KELLEYS ISLAND LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
UNAUDITED  
(Continued)**

	<b>Net Assets</b>	
	Governmental Activities 2011	Governmental Activities 2010
<b><u>Assets</u></b>		
Current and other assets	\$ 1,887,798	\$ 1,680,578
Capital assets, net	1,805,057	1,854,416
Total assets	3,692,855	3,534,994
<b><u>Liabilities</u></b>		
Current liabilities	764,204	920,141
Long-term liabilities	9,731	
Total liabilities	773,935	920,141
<b><u>Net Assets</u></b>		
Invested in capital assets	1,805,057	1,854,416
Restricted	38,528	176,218
Unrestricted	1,075,335	584,219
Total net assets	\$ 2,918,920	\$ 2,614,853

The increase in current and other assets resulted primarily from an increase in equity in pooled cash and cash equivalents of \$309,487 and intergovernmental receivables of \$36,893 over the prior year. This increase was partially offset by a decrease in property taxes receivable of \$132,078.

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2011, the District's assets exceeded liabilities by \$2,918,920. At year end, unrestricted net assets were \$1,075,335.

At year end, capital assets represented 48.88% of total assets. Capital assets include land improvements, buildings and improvements and furniture and equipment. Capital assets, net of accumulated depreciation, at June 30, 2011, were \$1,805,057. These capital assets are used to provide services to the students and are not available for future spending.

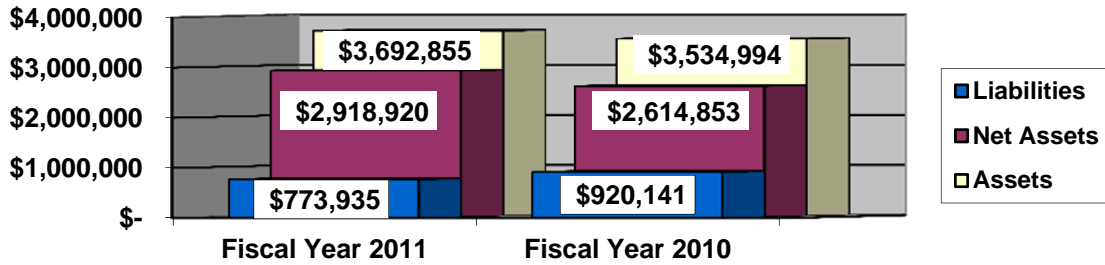
A portion of the District's net assets, \$38,528, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$1,075,335 may be used to meet the District's ongoing obligations to the students and creditors.

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

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
UNAUDITED  
(Continued)**

**Governmental Activities**



The table below shows the change in net assets for fiscal year 2011 and 2010.

**Change in Net Assets**

	Governmental Activities 2011	Governmental Activities 2010
<b>Revenues</b>		
Program revenues:		
Charges for services and sales		\$ 1
Operating grants and contributions	\$ 59,003	16,541
General revenues:		
Property taxes	946,668	936,898
Grants and entitlements	129,471	139,258
Investment earnings	5,294	5,010
Other	15	3,441
<b>Total revenues</b>	<b>1,140,451</b>	<b>1,101,149</b>

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
UNAUDITED  
(Continued)**

**Change in Net Assets**

	<u>Governmental Activities 2011</u>	<u>Governmental Activities 2010</u>
<b><u>Expenses</u></b>		
Program expenses:		
Instruction:		
Regular	435,162	493,496
Special	143	27,335
Support services:		
Pupil	22,692	37,302
Instructional staff	92,701	94,583
Board of education	25,839	36,744
Administration	96,096	85,905
Fiscal	36,136	46,732
Operations and maintenance	126,356	117,970
Extracurricular activities	<u>1,259</u>	<u>2,562</u>
Total expenses	<u>836,384</u>	<u>942,629</u>
Change in net assets	304,067	158,520
Net assets at beginning of year	<u>2,614,853</u>	<u>2,456,333</u>
Net assets at end of year	<u>\$ 2,918,920</u>	<u>\$ 2,614,853</u>

**Governmental Activities**

Net assets of the District's governmental activities increased \$304,067. Total governmental expenses of \$836,384 were offset by program revenues of \$59,003 and general revenues of \$1,081,448. Program revenues supported 7.05% of the total governmental expenses. Operating grants and contributions increased \$42,462 from 2010 due to additional rural school grant proceeds recognized by the District during the year.

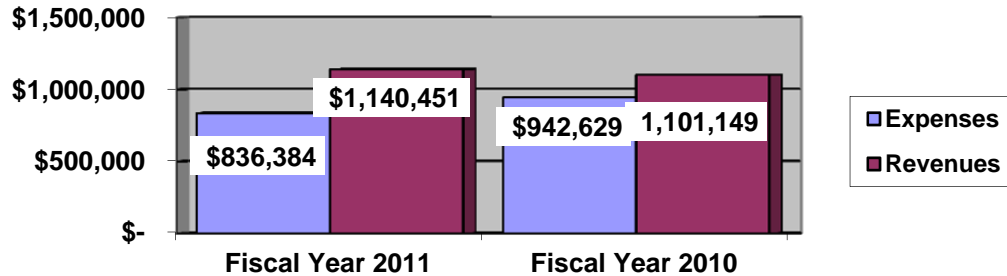
The primary sources of revenue for governmental activities are derived from property taxes and unrestricted grants and entitlements. These revenue sources represent 94.36% of total governmental revenue. Real estate property is reappraised every six years.

The graph below presents the District's governmental activities revenues and expenses for fiscal years 2010 and 2011.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
UNAUDITED  
(Continued)**

**Governmental Activities - Revenues and Expenses**



The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. Comparisons to 2010 have been presented below.

**Governmental Activities**

	Total Cost of Services 2011	Net Cost of Services 2011	Total Cost of Services 2010	Net Cost of Services 2010
<b>Program expenses</b>				
Instruction:				
Regular	435,162	\$ 385,552	493,496	\$ 484,985
Special	143	5	27,335	26,756
Support services:				
Pupil	22,692	19,224	37,302	37,084
Instructional staff	92,701	89,914	94,583	90,350
Board of education	25,839	25,839	36,744	36,744
Administration	96,096	96,096	85,905	85,905
Fiscal	36,136	33,136	46,732	43,732
Operations and maintenance	126,356	126,356	117,970	117,969
Extracurricular activities	1,259	1,259	2,562	2,562
<b>Total expenses</b>	<b>\$ 836,384</b>	<b>\$ 777,381</b>	<b>\$ 942,629</b>	<b>\$ 926,087</b>

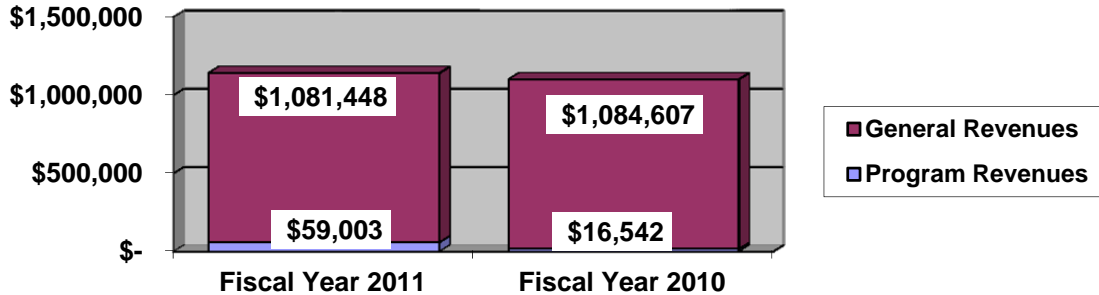
The dependence upon tax and other general revenues for governmental activities is apparent, 88.57% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 92.95%. The District's taxpayers and unrestricted grants and entitlements are by far the primary support for District's students.

The graph below presents the District's governmental activities revenues for fiscal year 2011 and 2010.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
UNAUDITED  
(Continued)**

**Governmental Activities - General and Program Revenues**



**The District's Funds**

The District's governmental funds reported a combined fund balance of \$1,060,507, which is higher than last year's total of \$717,182. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2011 and 2010.

	Fund Balance <u>June 30, 2011</u>	Fund Balance <u>June 30, 2010</u>	Increase <u>(Decrease)</u>
General	\$ 950,520	\$ 551,174	\$ 399,346
Other Governmental	<u>109,987</u>	<u>166,008</u>	<u>(56,021)</u>
Total	<u>\$ 1,060,507</u>	<u>\$ 717,182</u>	<u>\$ 343,325</u>

**General Fund**

The District's general fund balance increased \$399,346. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	2011 <u>Amount</u>	2010 <u>Amount</u>	Increase <u>(Decrease)</u>	Percentage <u>Change</u>
<b><u>Revenues</u></b>				
Property taxes	\$ 873,723	\$ 823,802	\$ 49,921	6.06 %
Earnings on investments	5,595	4,124	1,471	35.67 %
Intergovernmental	118,963	122,343	(3,380)	(2.76) %
Other revenues	<u>15</u>	<u>3,442</u>	<u>(3,427)</u>	(99.56) %
Total	<u>\$ 998,296</u>	<u>\$ 953,711</u>	<u>\$ 44,585</u>	4.67 %
<b><u>Expenditures</u></b>				
Instruction	\$ 381,950	\$ 466,532	\$ (84,582)	(18.13) %
Support services	371,151	398,010	(26,859)	(6.75) %
Extracurricular activities	<u>1,259</u>	<u>2,562</u>	<u>(1,303)</u>	(50.86) %
Total	<u>\$ 754,360</u>	<u>\$ 867,104</u>	<u>\$ (112,744)</u>	(13.00) %

Tax revenues in the general fund increased 6.06% due to advances available at June 30, 2011 higher than those of the previous year. Taxes are recognized when available from Erie County and may vary

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
UNAUDITED  
(Continued)**

depending on the timing of tax collections. Earnings on investments increased \$1,471 due to interest rate fluctuations during the year. Other local revenues fell by 99.56% to \$15 from 2010.

The general fund did not have expenditures for special instruction during 2011, which contributed to the 18.13% decrease in instruction expenditures from the prior year. Expenditures for regular instruction also fell slightly due to staff reductions from the prior year. Additionally, extracurricular expenditures fell by 50.86% due to lower expenditures related to athletics.

***General Fund Budgeting Highlights***

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the general fund.

During the course of fiscal year 2011, the District amended its general fund budget numerous times. For the general fund, final budgeted revenues and other financing sources were \$1,116,326, which was an increase from the original budgeted revenues and other financing sources estimate of \$983,395. Actual revenues and other financing sources for fiscal year 2011 were \$1,120,075. This represents a \$3,749 increase from final budgeted revenues and other financing sources.

General fund original appropriations (appropriated expenditures plus other financing uses) of \$1,523,133 were increased to \$1,644,461 in the final budget. The actual budget basis expenditures for fiscal year 2011 totaled \$766,647, only 46.62% of the final budgeted appropriations. Appropriations were based on estimated receipts and anticipated activity however the declining enrollment has resulted in larger than anticipated declines in expenditures. The District evaluates financial needs annually and has a history of moratoriums on collection of voted outside millage to reflect these declines.

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal year 2011, the District had \$1,805,057 invested in land improvements, buildings and improvements and furniture and equipment. This entire amount is reported in governmental activities.

The following table shows fiscal year 2011 balances compared to 2010:

	<b>Capital Assets at June 30 (Net of Depreciation)</b>	
	<u>Governmental Activities</u>	
	<u>2011</u>	<u>2010</u>
Land improvements	\$ 12,557	\$ 15,670
Building and improvements	1,783,330	1,828,662
Furniture and equipment	<u>9,170</u>	<u>10,084</u>
Total	<u>\$1,805,057</u>	<u>\$1,854,416</u>

The district had no capital asset additions during fiscal year 2011, and the District recognized depreciation expense of \$49,359 on the statement of activities.

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

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
UNAUDITED  
(Continued)**

***Debt Administration***

At June 30, 2011, the District had no debt outstanding. The District's overall legal debt margin was \$7,220,221 with an unvoted debt margin of \$80,225.

**Current Financial Related Activities**

The District has carefully managed its general fund budget in order to optimize the dollars available for educating the students it serves. The general fund's unencumbered budgetary-basis balance cash balance was \$881,563 at June 30, 2011. Fiscal year-end general fund budgetary-basis unencumbered cash balances were \$524,431, \$383,151, and \$386,264 at June 30 in fiscal years 2010, 2009 and 2008, respectively. Sound fiscal management by the Board of Education and Administration has enabled the District to maintain a healthy cash balance, and continue a quality, comprehensive educational program.

The Board's five-year projection indicates that the natural budget cycle needs would not require additional operating income. With the triennial reappraisals and the nature of real estate on the Island, there has been a major increase in the real estate value within the district. Since the District is under the 20-mil floor this impacts revenue significantly. Since calendar year 2002, the Board of Education has requested that the budget commission not collect at least 2 mils of tax revenue on behalf of the District, with the exception of calendar year 2006, during which the Board requested that the commission not collect 1 mil. For 2009 and 2010, the District requested that budget commission not collect 3 mils of tax revenue, and increased this request to 4 mils for 2011. Projections show that these tax reductions could continue with current staff numbers and services.

Because of the District's small enrollment, any great increase or decrease in ADM could have a negative impact on the District and staff. Too many additional students would require additional staff members to continue to serve the needs of students, while too few students would find the District over-staffed. The Board of Education and administration realize the need to anticipate such changes in student enrollment. The district has declining enrollment; however, the board will continue to evaluate staffing needs and adjust staff if necessary.

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

**Contacting the District's Financial Management**

This financial report is designed to provide our citizens, taxpayers and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Betty Schwiefert, Treasurer, Kelleys Island Local School District, 2900 Columbus Avenue, Sandusky, Ohio 44870.

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**KELLEYS ISLAND LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

STATEMENT OF NET ASSETS  
JUNE 30, 2011

	<b>Governmental Activities</b>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents . . .	\$ 988,717
Cash with fiscal agent . . . . .	45
Receivables:	
Property taxes . . . . .	859,686
Intergovernmental . . . . .	38,483
Accrued interest . . . . .	867
Capital assets:	
Depreciable capital assets, net. . . . .	1,805,057
Capital assets, net . . . . .	1,805,057
 Total assets. . . . .	 3,692,855
 <b>Liabilities:</b>	
Accounts payable. . . . .	569
Accrued wages and benefits . . . . .	64,821
Pension obligation payable. . . . .	8,856
Intergovernmental payable . . . . .	6,727
Unearned revenue . . . . .	683,231
Long-term liabilities:	
Due in more than one year. . . . .	9,731
 Total liabilities . . . . .	 773,935
 <b>Net Assets:</b>	
Invested in capital assets . . . . .	1,805,057
Restricted for:	
Federally funded programs . . . . .	38,528
Unrestricted. . . . .	1,075,335
 Total net assets . . . . .	 \$ 2,918,920

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>Expenses</u>	<u>Program Revenues Operating Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Assets Governmental Activities</u>
<b>Governmental activities:</b>			
Instruction:			
Regular . . . . .	\$ 435,162	\$ 49,610	\$ (385,552)
Special . . . . .	143	138	(5)
Support services:			
Pupil. . . . .	22,692	3,468	(19,224)
Instructional staff . . . . .	92,701	2,787	(89,914)
Board of education . . . . .	25,839		(25,839)
Administration. . . . .	96,096		(96,096)
Fiscal. . . . .	36,136	3,000	(33,136)
Operations and maintenance . . . . .	126,356		(126,356)
Extracurricular activities. . . . .	1,259		(1,259)
<b>Total governmental activities . . . . .</b>	<b>\$ 836,384</b>	<b>\$ 59,003</b>	<b>(777,381)</b>

**General Revenues:**

Property taxes levied for:	
General purposes . . . . .	871,904
Debt service. . . . .	36,339
Capital projects. . . . .	38,425
Grants and entitlements not restricted	
to specific programs . . . . .	129,471
Investment earnings . . . . .	5,294
Miscellaneous . . . . .	15
<b>Total general revenues . . . . .</b>	<b>1,081,448</b>
Change in net assets . . . . .	304,067
<b>Net assets at beginning of year. . . . .</b>	<b>2,614,853</b>
<b>Net assets at end of year . . . . .</b>	<b>\$ 2,918,920</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2011

	<b>General</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Assets:</b>			
Equity in pooled cash and cash equivalents. . . . .	\$ 894,739	\$ 93,978	\$ 988,717
Cash with fiscal agent. . . . .		45	45
Receivables:			
Property taxes. . . . .	822,471	37,215	859,686
Accrued interest . . . . .	867		867
Intergovernmental. . . . .		38,483	38,483
Total assets . . . . .	\$ 1,718,077	\$ 169,721	\$ 1,887,798
<b>Liabilities:</b>			
Accounts payable . . . . .	\$ 569		\$ 569
Accrued wages and benefits. . . . .	64,821		64,821
Intergovernmental payable . . . . .	6,698	\$ 29	6,727
Pension obligation payable . . . . .	8,856		8,856
Deferred revenue . . . . .	32,958	30,129	63,087
Unearned revenue. . . . .	653,655	29,576	683,231
Total liabilities. . . . .	767,557	59,734	827,291
<b>Fund Balances:</b>			
Restricted:			
Special education . . . . .		45	45
Other purposes. . . . .		9,824	9,824
Committed:			
Capital improvements . . . . .		100,147	100,147
Assigned:			
Student instruction . . . . .	3,623		3,623
Student and staff support. . . . .	5,630		5,630
Unassigned (deficit) . . . . .	941,267	(29)	941,238
Total fund balances. . . . .	950,520	109,987	1,060,507
Total liabilities and fund balances . . . . .	\$ 1,718,077	\$ 169,721	\$ 1,887,798

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2011

<b>Total governmental fund balances</b>		\$ 1,060,507
<i>Amounts reported for governmental activities on the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		1,805,057
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Delinquent property taxes receivable	\$ 33,963	
Intergovernmental receivable	28,659	
Accrued interest receivable	465	
Total	<u>63,087</u>	63,087
Long-term liabilities such as compensated absences are not due and payable in the current period and therefore are not reported in the funds.		<u>(9,731)</u>
<b>Net assets of governmental activities</b>		<u>\$ 2,918,920</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>			
From local sources:			
Property taxes . . . . .	\$ 873,723	\$ 79,274	\$ 952,997
Earnings on investments . . . . .	5,595	607	6,202
Other local revenues . . . . .	15		15
Intergovernmental - state . . . . .	118,963	15,783	134,746
Intergovernmental - federal . . . . .	-	26,659	26,659
Total revenues . . . . .	<u>998,296</u>	<u>122,323</u>	<u>1,120,619</u>
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular . . . . .	381,950	8,487	390,437
Special . . . . .		143	143
Support services:			
Pupil . . . . .	17,472	5,087	22,559
Instructional staff . . . . .	84,827	2,836	87,663
Board of education . . . . .	25,839		25,839
Administration . . . . .	95,859		95,859
Fiscal . . . . .	31,630	4,506	36,136
Operations and maintenance . . . . .	115,524		115,524
Extracurricular activities . . . . .	1,259		1,259
Facilities acquisition and construction. . . . .		1,875	1,875
Total expenditures . . . . .	<u>754,360</u>	<u>22,934</u>	<u>777,294</u>
Excess of revenues over expenditures. . . . .	<u>243,936</u>	<u>99,389</u>	<u>343,325</u>
<b>Other financing sources (uses):</b>			
Transfers in. . . . .	155,410		155,410
Transfers (out) . . . . .		(155,410)	(155,410)
Total other financing sources (uses) . . . . .	<u>155,410</u>	<u>(155,410)</u>	
Net change in fund balances . . . . .	399,346	(56,021)	343,325
<b>Fund balances at beginning of year . . . . .</b>	<u>551,174</u>	<u>166,008</u>	<u>717,182</u>
<b>Fund balances at end of year. . . . .</b>	<u>\$ 950,520</u>	<u>\$ 109,987</u>	<u>\$ 1,060,507</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

<b>Net change in fund balances - total governmental funds</b>	\$	343,325
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of depreciation expense in the current period.		
		(49,359)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Property taxes	\$ (6,329)	
Earnings on investments	(908)	
Intergovernmental	27,069	
Total		19,832
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		(9,731)
<b>Change in net assets of governmental activities</b>	<b>\$</b>	<b>304,067</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>Budgeted Amounts</u>			<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues:</b>				
From local sources:				
Property taxes . . . . .	\$ 848,385	\$ 837,450	\$ 837,548	\$ 98
Earnings on investments . . . . .	4,151	4,200	5,193	993
Rental income . . . . .	1	1	1	
Other local revenues . . . . .	15	15	15	
Intergovernmental - state . . . . .	<u>127,878</u>	<u>116,250</u>	<u>118,963</u>	<u>2,713</u>
Total revenues . . . . .	<u>980,430</u>	<u>957,916</u>	<u>961,720</u>	<u>3,804</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	565,150	586,478	396,119	190,359
Special . . . . .	35,000	35,000	741	34,259
Support services:				
Pupil . . . . .	68,086	68,086	17,995	50,091
Instructional staff . . . . .	126,521	126,521	85,926	40,595
Board of education . . . . .	60,200	60,200	24,520	35,680
Administration . . . . .	111,059	111,059	94,491	16,568
Fiscal . . . . .	49,700	49,700	31,645	18,055
Operations and maintenance . . . . .	205,188	205,188	113,918	91,270
Extracurricular activities . . . . .	8,300	8,300	1,292	7,008
Facilities acquisition and construction . . . . .	40,000	140,000	-	140,000
Total expenditures . . . . .	<u>1,269,204</u>	<u>1,390,532</u>	<u>766,647</u>	<u>623,885</u>
Excess (deficiency) of revenues over (under) expenditures . . . . .	<u>(288,774)</u>	<u>(432,616)</u>	<u>195,073</u>	<u>627,689</u>
<b>Other financing sources (uses):</b>				
Refund of prior year's expenditures . . . . .	2,965	3,000	2,925	(75)
Transfers in . . . . .		155,410	155,410	
Sale of assets . . . . .			20	20
Voluntary contingency reserve . . . . .	<u>(253,929)</u>	<u>(253,929)</u>		<u>253,929</u>
Total other financing sources (uses) . . . . .	<u>(250,964)</u>	<u>(95,519)</u>	<u>158,355</u>	<u>253,874</u>
Net change in fund balance . . . . .	(539,738)	(528,135)	353,428	881,563
<b>Fund balance at beginning of year . . . . .</b>	524,431	524,431	524,431	
<b>Prior year encumbrances appropriated . . . . .</b>	3,704	3,704	3,704	
<b>Fund balance (deficit) at end of year . . . . .</b>	<u>\$ (11,603)</u>	<u>\$ 3,704</u>	<u>\$ 881,563</u>	<u>\$ 881,563</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2011

	<b>Private-Purpose Trust</b>	
	<b>Scholarship</b>	<b>Agency</b>
<b>Assets:</b>		
Equity in pooled cash and cash equivalents . . . . .	\$ 12,338	\$ 2,773
Receivables:		
Property taxes. . . . .		59,546
Total assets . . . . .	12,338	\$ 62,319
<b>Liabilities:</b>		
Intergovernmental payable . . . . .		\$ 59,546
Due to students. . . . .		2,773
Total liabilities . . . . .		\$ 62,319
<b>Net assets:</b>		
Held in trust for scholarships . . . . .	12,338	
Total net assets . . . . .	\$ 12,338	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



**KELLEYS ISLAND LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<b>Private-Purpose Trust</b>
	<b>Scholarship</b>
<b>Additions:</b>	
Interest. . . . .	\$ 62
Gifts and contributions. . . . .	1,000
Total additions. . . . .	1,062
<b>Deductions:</b>	
Scholarships awarded . . . . .	493
Change in net assets. . . . .	569
<b>Net assets at beginning of year . . . . .</b>	<b>11,769</b>
<b>Net assets at end of year. . . . .</b>	<b>\$ 12,338</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**KELLEYS ISLAND LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT**

The Kelleys Island Local School District (the "District") is located in Erie County, Ohio 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 smallest by enrollment among the 918 public and community schools in the State and 7<sup>th</sup> in Erie County. It currently operates 1 elementary school, 1 middle school, and 1 comprehensive high school. The District employs 2 non-certified and 8 certified employees to provide services to 10 students in grades K through 12 and various community groups.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) guidance issued on or before November 30, 1989, to its governmental activities provided it does not conflict with or contradict GASB pronouncements. The District's significant accounting policies are described below.

**A. Reporting Entity**

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government and component units. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's Governing Board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary governments financial statements incomplete or misleading. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government).

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(Continued)**

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

The following organizations are described due to their relationship to the District:

*PUBLIC ENTITY RISK POOLS*

Schools of Ohio Risk Sharing Authority

The District participates in the Schools of Ohio Risk Sharing Authority (SORSA), which was established in 2002 pursuant to Articles of Incorporation filed under Chapter 1702 of the Ohio Revised Code - Non-Profit Corporations and functioning under authority granted by Section 2744.081 of the Ohio Revised Code. SORSA's purpose is to provide a joint self-insurance pool and to assist member districts in preventing and reducing losses and injuries to property and persons that might result in claims being made against members of SORSA, their employees or officers.

Huron-Erie School Employees Insurance Association

The Huron-Erie School Employees Insurance Association is a shared risk pool, with participants from Erie and Huron Counties. The Association is governed by an assembly which consists of one representative from each participant. The assembly elects officers for two year terms to serve as the Board of Directors. The Assembly exercises control over the operation of the Association. All Association revenues are generated from charges for services. Financial information can be obtained by contacting the program administrator at the Huron-Erie School Employees Insurance Association, located at 2900 Columbus Avenue, Sandusky, Ohio 44870.

Ohio School Boards Association Workers' Compensation Group Rating Program

The District participates in a group rating program for workers' compensation as established in Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association (OSBA) Workers' Compensation Group Rating Program (GRP) was established as an insurance purchasing pool. The GRP is governed by a three-member Board of Directors. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program. Refer to Note 10 for further information on this group rating program.

*JOINTLY GOVERNED ORGANIZATION*

Northern Ohio Educational Computer Association (NOECA)

The NOECA is a jointly governed organization among 41 area school districts and service centers. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member school districts and service centers. Each of the governments of these schools supports the NOECA based upon a per pupil charge, dependent upon the software package utilized. The NOECA assembly consists of a superintendent from each participating service center and a representative from the fiscal agent. The NOECA is governed by a Board of Directors chosen from the general membership of the NOECA Assembly. The Board of Directors consists of a representative from the fiscal agent, the chairman of each of the operating committees, and two Assembly members from each county in which participating service centers are located. Each Service center's authority is limited to its representation on the Board. The District paid \$10,424 to NOECA for services during 2011. Financial information can be obtained by contacting Betty

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(Continued)**

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

Schwiefert, who serves as Controller, at 2900 South Columbus Avenue, Sandusky, Ohio 44870.

**B. Fund Accounting**

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

*GOVERNMENTAL FUNDS*

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following is the District's major governmental fund:

General fund - The general fund is used to account for and report all financial resources not accounted for and reported in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

Other governmental funds of the District are used to account for (a) financial resources that are restricted, committed, or assigned to expenditures for capital outlays including the acquisition or construction of capital facilities and other capital assets and (b) specific revenue sources that are restricted or committed to an expenditure for specified purposes other than debt service or capital projects.

*PROPRIETARY FUNDS*

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

*FIDUCIARY FUNDS*

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's only trust fund is a private-purpose trust which accounts for a scholarship program for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency funds account for student activities and deposits held for outside entities.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(Continued)**

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

**C. Basis of Presentation and Measurement Focus**

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

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

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

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The private-purpose trust fund is reported using the economic resources measurement focus. Agency funds do not report a measurement focus as they do not report operations.

**D. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting.

Revenues - Exchange and Nonexchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(Continued)**

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

expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 6). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year end: property taxes available as an advance, interest, tuition, grants, student fees and rentals.

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2011, but which were levied to finance fiscal year 2012 operations, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at June 30, 2011 are recorded as deferred revenue on the governmental fund financial statements.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

**E. Budgets**

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(Continued)**

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

estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control has been established at the fund, function, and object level for all funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

Tax Budget:

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The purpose of this budget document is to reflect the need for existing (or increased) tax rates. By no later than January 20, the Board-adopted budget is filed with the Erie County Budget Commission for rate determination.

Estimated Resources:

By April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's certificate of estimated resources, which states the projected revenue of each fund. Prior to July 1, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts from the original and final certificate of estimated resources issued for fiscal year 2011.

Appropriations:

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution is enacted by the Board of Education. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the District. The appropriation resolution is legally enacted at the fund, function, and object level of expenditures, which is the legal level of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year.) Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.

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



**KELLEYS ISLAND LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(Continued)**

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

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

Lapsing of Appropriations:

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

**F. Cash and Investments**

To improve cash management, cash received by the District is pooled in a central bank account. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the basic financial statements.

During fiscal year 2011, investments were limited to investments in the State Treasury Asset Reserve of Ohio (STAR Ohio) and nonnegotiable certificates of deposit. Nonparticipating investment contracts such as nonnegotiable certificates of deposit are reported at cost.

The District had invested funds in STAR Ohio during fiscal year 2011. 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 shares price which is the price the investment could be sold for on June 30, 2011.

Under existing Ohio statutes all investment earning are assigned to the general fund unless statutorily required to be credited to a specific fund. The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2011 amounted to \$5,595, which includes \$396 assigned from other District funds.

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

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

**G. Capital Assets**

General capital assets are those assets specifically related to governmental activities. These assets result from expenditures in the governmental funds. These assets are reported in the

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

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

governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

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

**H. Compensated Absences**

Compensated absences of the District consist of vacation leave and sick leave to the extent that payment to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination (severance) payments. A liability for sick leave 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 sick leave 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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(Continued)**

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

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

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

The District had no liability for vacation at June 30, 2011.

**I. Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year.

**J. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2011, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year in which services are consumed. The District had no prepaid items at June 30, 2011.

**K. Fund Balance**

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

*Nonspendable* - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable.

*Restricted* - Fund balance is reported as restricted when constraints are placed on the use of resources that are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

*Committed* - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the District Board of Education (the highest level of decision making authority). Those committed amounts cannot be used for any other purpose unless the District Board of Education removes or changes the specified use by taking the same type of action (resolution) it

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

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

employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

*Assigned* - Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the District Board of Education, which includes giving the Treasurer the authority to constrain monies for intended purposes.

*Unassigned* - Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The District applies restricted resources first when expenditures are incurred for purposes for which restricted and unrestricted (committed, assigned, and unassigned) fund balance is available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

**L. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**M. Estimates**

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

**N. Interfund Activity**

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments

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

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

from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements. Transfers between governmental funds are eliminated for reporting on the government-wide statement of activities. Interfund services provided and used are not eliminated for reporting on the government-wide statement of activities.

**O. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2011.

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Change in Accounting Principles**

For fiscal year 2011, the District has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", and GASB Statement No. 59, "Financial Instruments Omnibus".

GASB Statement No. 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. GASB Statement No. 54 also clarifies the definitions of governmental fund types. The implementation of GASB Statement No. 54 did not have an effect on fund balances or net assets as previously reported at June 30, 2011.

GASB Statement No. 59 updates and improves guidance for financial reporting and disclosure requirements of certain financial instruments and external investment pools. The implementation of GASB Statement No. 59 did not have an effect on the financial statements of the District.

**B. Deficit Fund Balance**

Fund balance at June 30, 2011 included the following individual fund deficit:

<u>Nonmajor funds</u>	<u>Deficit</u>
IDEA Part-B	\$ 29

The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(Continued)**

**NOTE 4 - DEPOSITS AND INVESTMENTS**

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

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

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

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 or deposit accounts including passbook accounts.

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 and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

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

8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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.

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

**A. Cash with Fiscal Agent**

At fiscal year end, the District had \$45 on deposit with a fiscal agent. This amount is not included in the total amount of deposits reported below. This amount is not part of the internal cash pool and is reported separately on the financial statements as "cash with fiscal agent".

**B. Deposits with Financial Institutions**

At June 30, 2011, the carrying amount of all District deposits was \$731,028. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2011, \$608,128 of the District's bank balance of \$758,632 was covered by the FDIC, while \$150,504 was exposed to custodial risk as discussed below.

Custodial credit risk is the risk that, in the event of bank failure, the School District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the School District. The School District has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

**C. Investments**

As of June 30, 2011, the District had an investment in STAR Ohio of \$272,800 with a maturity of 6 months or less.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

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

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

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

*Custodial Credit Risk:* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investment policy does not specifically address custodial credit risk beyond the adherence to all relevant sections of the Ohio Revised Code.

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

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

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2011:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 731,028
Cash with fiscal agent	45
Investments	<u>272,800</u>
Total	<u><u>\$ 1,003,873</u></u>

<u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 988,762
Private-purpose trust fund	12,338
Agency funds	<u>2,773</u>
Total	<u><u>\$ 1,003,873</u></u>



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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(Continued)**

**NOTE 5 - INTERFUND TRANSACTIONS**

Interfund transfers for the year ended June 30, 2011, consisted of the following, as reported on the fund financial statement:

<u>Transfers from a nonmajor governmental fund to:</u>	<u>Amount</u>
General fund	<u>\$ 155,410</u>

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. The transfer from the debt service fund (a nonmajor governmental fund) to the general fund was a residual equity transfer.

Interfund transfers between governmental funds are eliminated on the government-wide financial statements; therefore, no transfers are reported on the statement of activities.

**NOTE 6 - PROPERTY TAXES**

Property taxes are levied and assessed on a calendar year basis while the District fiscal year runs from July through June. First half tax collections are received by the District in the second half of the fiscal year. Second half tax distributions occur in the first half of the following fiscal year.

Property taxes include amounts levied against all real property, public utility property, and certain tangible personal (used in business) property located in the District. Real property tax revenues received in calendar year 2011 represent the collection of calendar year 2010 taxes. Real property taxes received in calendar year 2011 were levied after April 1, 2010, on the assessed values as of January 1, 2010, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Public utility property tax revenues received in calendar year 2011 represent the collection of calendar year 2010 taxes. Public utility real and tangible personal property taxes received in calendar year 2011 became a lien on December 31, 2009, were levied after April 1, 2010, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in the District's fiscal year ended June 30, 2011 (other than public utility property) generally represent the collection of calendar year 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property taxes received from telephone companies in calendar year 2010 were levied after October 1, 2009 on the value as of December 31, 2009. Amounts paid by multi-county taxpayers were due September 20, 2010. Single county taxpayers could pay annually or semiannually. If paid semiannually, the first payment was due April 30, 2010, with the remainder payable by September 20, 2010.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**NOTE 6 - PROPERTY TAXES - (Continued)**

The District receives property taxes from Erie County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2011, are available to finance fiscal year 2011 operations. The amount available as an advance at June 30, 2011 was \$136,324 in the general fund and \$6,169 in the capital projects fund (a nonmajor governmental fund). This amount is recorded as revenue. The amount available for advance at June 30, 2010 was \$100,149 in the general fund, \$13,298 in the debt service fund (a nonmajor governmental fund) and \$4,156 in the capital projects fund (a nonmajor governmental fund). The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and delinquent tangible personal property taxes which are measurable as of June 30, 2011 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to unearned revenue.

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

The assessed values upon which the fiscal year 2011 taxes were collected are:

	2010 Second Half Collections		2011 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 72,993,960	91.25	\$ 73,336,630	91.42
Commercial/industrial real estate	6,175,830	7.72	6,058,450	7.55
Public utility personal	797,810	1.00	829,600	1.03
Tangible personal property	<u>22,350</u>	<u>0.03</u>	<u>-</u>	<u>-</u>
<b>Total</b>	<b><u>\$ 79,989,950</u></b>	<b><u>100.00</u></b>	<b><u>\$ 80,224,680</u></b>	<b><u>100.00</u></b>

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

Operations	\$12.05	\$11.05
Permanent improvement	0.50	0.50
Debt service	1.60	-

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(Continued)**

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2011 consisted of taxes, accrued interest and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable conditions of State programs and the current year guarantee of federal funds.

**Governmental activities:**

Property taxes	\$ 859,686
Intergovernmental	38,483
Accrued interest	<u>867</u>
<b>Total</b>	<b><u>\$ 899,036</u></b>

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

**NOTE 8 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	Balance 06/30/10	Additions	Deductions	Balance 06/30/11
<b>Governmental activities:</b>				
<i>Capital assets, being depreciated:</i>				
Land improvements	\$ 46,698			\$ 46,698
Buildings and improvements	2,266,554			2,266,554
Furniture and equipment	<u>111,633</u>			<u>111,633</u>
<b>Total capital assets, being depreciated</b>	<b><u>2,424,885</u></b>			<b><u>2,424,885</u></b>
<i>Less: accumulated depreciation:</i>				
Land improvements	(31,028)	\$ (3,113)		(34,141)
Buildings and improvements	(437,892)	(45,332)		(483,224)
Furniture and equipment	<u>(101,549)</u>	<u>(914)</u>		<u>(102,463)</u>
<b>Total accumulated depreciation</b>	<b><u>(570,469)</u></b>	<b><u>(49,359)</u></b>		<b><u>(619,828)</u></b>
<b>Governmental activities capital assets, net</b>	<b><u>\$ 1,854,416</u></b>	<b><u>\$ (49,359)</u></b>		<b><u>\$ 1,805,057</u></b>

Depreciation expense was charged to governmental functions as follows:

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(Continued)**

**NOTE 8 - CAPITAL ASSETS – (Continued)**

<u>Instruction:</u>	
Regular	\$ 44,725
<u>Support services:</u>	
Pupil	133
Instructional staff	237
Administration	237
Operations and maintenance	<u>4,027</u>
Total depreciation expense	<u>\$ 49,359</u>

**NOTE 9 - 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 code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2011, are a voted debt margin of \$7,220,221 and an unvoted debt margin of \$80,225.

**NOTE 10 - LONG-TERM OBLIGATIONS**

During fiscal year 2011, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding <u>06/30/10</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/11</u>	Amounts Due in <u>One Year</u>
Compensated absences	\$ -	\$ 9,731	\$ -	\$ 9,731	\$ -

Compensated absences will be paid from the fund from which employees' salaries are paid (See Note 11 for further details).

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**NOTE 11 - COMPENSATED ABSENCES**

**A. Sick Leave**

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

**B. Service Retirement**

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

**NOTE 12 - RISK MANAGEMENT**

**A. Comprehensive**

The District maintains comprehensive insurance coverage through SORSA, an insurance purchasing pool (see note 2.A.) for liability, real property, building contents and equipment. In addition, real property contents are 90% coinsured. The following is a description of the District's insurance coverage:

<u>Coverage</u>	<u>Limits of Coverage</u>
General liability:	
Each occurrence	\$12,000,000
Aggregate	14,000,000
Building and contents	7,698,000
Equipment	50,000,000
Crime	100,000

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

**B. Health Insurance**

The District provides employee health care benefits through the North Point Educational Service Center. The North Point Educational Service Center is a member district with the Huron-Erie School Employees Insurance Association (Association) to provide medical/surgical, dental, vision, and life insurance benefits for its employees and their covered dependents. The Association is a shared risk pool comprised of 13 school districts that provide public education within Erie and Huron Counties (See note 2.A.). The District pays monthly contributions that are placed in a common fund from which eligible claims and

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(Continued)**

**NOTE 12 - RISK MANAGEMENT - (Continued)**

expenses are paid for employees of participating school districts and their covered dependents. Claims are paid for all participants regardless of claims flow.

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

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

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

**NOTE 13 - PENSION PLANS**

**A. School Employees Retirement System**

Plan Description - The District contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, [www.ohsers.org](http://www.ohsers.org), under "Media/Financial Reports".

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2011, 11.77 percent and 0.04 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(Continued)**

**NOTE 13 - PENSION PLANS - (Continued)**

authority for member and employer contributions. The District's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2011, 2010 and 2009 were \$7,851, \$8,369 and \$5,745, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

**B. State Teachers Retirement System of Ohio**

Plan Description - The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at [www.strsoh.org](http://www.strsoh.org), under "Publications".

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor.

The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Funding Policy - For fiscal year 2011, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(Continued)**

**NOTE 13 - PENSION PLANS - (Continued)**

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2011, 2010 and 2009 were \$41,880, \$50,206 and \$50,508, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2011, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

**NOTE 14 - POSTEMPLOYMENT BENEFITS**

**A. School Employees Retirement System**

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2011 was \$96.40 and SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, [www.ohsers.org](http://www.ohsers.org), under "*Media/Financial Reports*".

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2011, 1.43 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2011, the actuarially determined amount was \$35,800.



**KELLEYS ISLAND LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(Continued)**

**NOTE 14 - POSTEMPLOYMENT BENEFITS - (Continued)**

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2011, 2010 and 2009 were \$1,837, \$1,561 and \$3,840, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2011, this actuarially required allocation was 0.76 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2011, 2010, and 2009 were \$505, \$498 and \$474, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

**B. State Teachers Retirement System of Ohio**

Plan Description - The District contributes to the cost sharing, multiple employer defined benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting [www.strsoh.org](http://www.strsoh.org), under "Publications" or by calling (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2011, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2011, 2010 and 2009 were \$3,222, \$3,862 and \$3,885, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

**NOTE 15 - BUDGETARY BASIS OF ACCOUNTING**

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

The statement of revenue, expenditures and changes in fund balance - budget and actual (non-GAAP budgetary basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(Continued)**

**NOTE 15 - BUDGETARY BASIS OF ACCOUNTING - (Continued)**

- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis); and,
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to assigned or committed fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

**Net Change in Fund Balance**

	<u>General fund</u>
Budget basis	\$ 353,428
Net adjustment for revenue accruals	36,576
Net adjustment for expenditure accruals	(823)
Net adjustment for other sources/uses	(2,945)
Adjustment for encumbrances	13,110
GAAP basis	\$ 399,346

**NOTE 16 - CONTINGENCIES**

**A. Grants**

The District receives significant financial assistance from numerous federal, State and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

**B. Litigation**

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

**NOTE 17 - SET-ASIDES**

The District is required by State statute to annually set-aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at fiscal year-end. These amounts must be carried forward to be used for the same purposes in future years.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(Continued)**

**NOTE 17 - SET-ASIDES - (Continued)**

The following cash basis information describes the change in the fiscal year-end set-aside amounts for textbooks and capital improvements. Disclosure of this information is required by State statute.

	<u>Textbooks</u>	<u>Capital Improvements</u>
Set-aside balance June 30, 2010		
Current year set-aside requirement	\$ 2,235	\$ 2,235
Contributions in excess of the current fiscal year set-aside requirement		
Current year qualifying expenditures	(2,638)	
Excess qualified expenditures from prior years	(260,631)	
Current year offsets		\$ (2,235)
Waiver granted by ODE		
Prior year offset from bond proceeds	_____	_____
Total	<u>\$ (261,034)</u>	_____
Balance carried forward to fiscal year 2012	_____	_____

The District had current year qualifying disbursements and excess qualified expenditures from prior years that reduced the textbook set-aside amount to below zero. Effective July 1, 2011, the textbook set-aside is no longer required and has been removed from existing law. This negative balance is therefore not being presented as being carried forward to the future fiscal year.

The District had offsets during the fiscal year that reduced the set-aside amount to zero for the capital improvements set-aside.

**NOTE 18 - COMMITMENTS**

The District utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year-end may be reported as part of restricted, committed, or assigned classifications of fund balance. At year end, the District's commitments for encumbrances in the governmental funds were as follows:

	Year-End
<u>Fund</u>	<u>Encumbrances</u>
General fund	\$ <u>9,253</u>

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

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

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Kelleys Island Local School District, Erie County, Ohio (the District), as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 18, 2012, wherein we noted the District adopted Government Accounting Standards Board Statement 54. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

### **Compliance and Other Matters**

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

We intend this report solely for the information and use of management, the audit committee, Board of Education, and others within the District. We intend it for no one other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

**Dave Yost**  
Auditor of State

October 18, 2012



# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

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

To the Board of Education:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether the Kelleys Island Local School District (the District) has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Board. Consequently, we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

We noted the District amended its anti-harassment policy at its meeting on August 17, 2011, to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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

A handwritten signature in black ink that reads "Dave Yost".

**Dave Yost**  
Auditor of State

October 18, 2012

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# Dave Yost • Auditor of State

**KELLEY'S 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  
NOVEMBER 8, 2012**