



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, each 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, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Kelleys Island Local School District, Erie County, Ohio, as of June 30, 2012, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 12, 2014, 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

February 12, 2014

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(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, 2012. 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 2012 are as follows:

- In total, net assets of governmental activities decreased \$96,147 which represents a 3.29% decrease from 2011.
- General revenues accounted for \$669,568 in revenue or 96.78% of all revenues. Program specific revenues in the form of charges for sales and services, grants and contributions accounted for \$22,280 or 3.22% of total revenues of \$691,848.
- The District had \$787,995 in expenses related to governmental activities; only \$22,280 of these expenses were offset by program specific charges for sales and services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$669,568 were not adequate to provide for these programs.
- The District's major governmental funds are the general fund and the permanent improvement fund. The general fund had \$641,974 in revenues and \$695,518 in expenditures. During fiscal year 2012, the general fund's fund balance decreased \$53,544 from a balance of \$950,520 to \$896,976.
- The permanent improvement fund had \$41,630 in revenues and \$5,229 in expenditures. During 2012, the permanent improvement fund's fund balance increased \$36,401 from a balance of \$100,147 to \$136,548.

Using the Basic Financial Statements

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)

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 perform financially during 2012?" The statement of net assets and the statement of activities answer this question. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

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.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)

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, 2012 and June 30, 2011.

	Net Assets	
	Governmental Activities 2012	Governmental Activities 2011
<u>Assets</u>		
Current and other assets	\$ 1,537,140	\$ 1,887,798
Capital assets, net	<u>1,753,706</u>	<u>1,805,057</u>
Total assets	<u>3,290,846</u>	<u>3,692,855</u>
<u>Liabilities</u>		
Current liabilities	442,109	764,204
Long-term liabilities	<u>25,964</u>	<u>9,731</u>
Total liabilities	<u>468,073</u>	<u>773,935</u>
<u>Net Assets</u>		
Invested in capital assets	1,753,706	1,805,057
Restricted	37,172	38,528
Unrestricted	<u>1,031,895</u>	<u>1,075,335</u>
Total net assets	<u>\$ 2,822,773</u>	<u>\$ 2,918,920</u>

The decrease in current and other assets resulted primarily from a decrease in property taxes receivable of \$359,507 from the prior year. The amount of property tax collected and available for advance by the County auditor can vary depending upon when tax bills are sent.

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2012, the District's assets exceeded liabilities by \$2,822,773.

At year end, capital assets represented 53.29% of total assets. Capital assets include land improvements, buildings and improvements and furniture and equipment. Capital assets, net of accumulated depreciation, at June 30, 2012, were \$1,753,706. These capital assets are used to provide services to the students and are not available for future spending. For this reason, net assets in an amount equal to the carrying value of these assets is reported as invested in capital assets.

A portion of the District's net assets, \$37,172, represents resources that are subject to external restriction on how they may be used. Such restrictions may be imposed by the District's creditors, grantors, or legally by statutes or

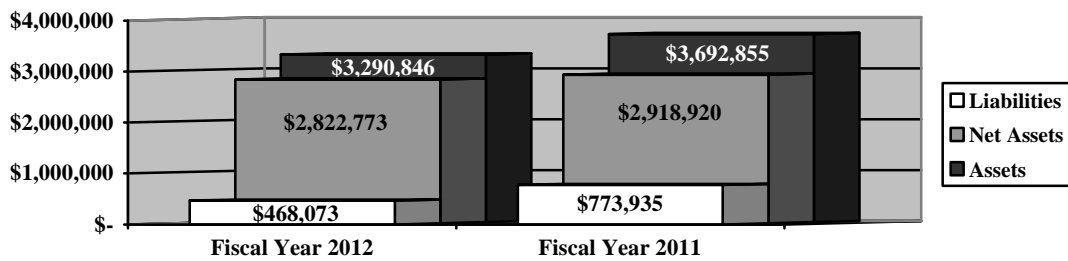
**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)

enabling legislation. The remaining balance of unrestricted net assets of \$1,031,895 may be used to meet the District's ongoing obligations to students, the community and creditors.

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

Governmental Activities



Governmental Activities

Net assets of the District's governmental activities decreased \$96,147. Total governmental expenses of \$787,995 were offset by program revenues of \$22,280 and general revenues of \$669,568. Program revenues supported 2.83% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes and unrestricted grants and entitlements. These revenue sources represent 96.34% of total governmental revenue. Property tax revenue recognized by the District during 2012 fell 38.26% from 2011 due to lower collections from the Erie County Auditor. The District had previously requested that the Erie County Auditor not collect 4 mills of property taxes on the District's behalf for fiscal year 2012; however, for fiscal year 2012 the Erie County Auditor collected and remitted to the District only .75 mills of property taxes in error, rather than the full amount requested by the District. The District considered the .75 mills in collections sufficient for its operations. The decision to accept these lower tax collections is the primary factor in the decrease in property tax revenues from the prior year.

Operating grant and contributions program revenues fell 62.24% from fiscal year 2011. The largest component of this variance is attributable to lower Rural Energy for America Program grant revenue received from the federal government.

The table below shows the change in net assets for fiscal year 2012 and 2011.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)

Change in Net Assets

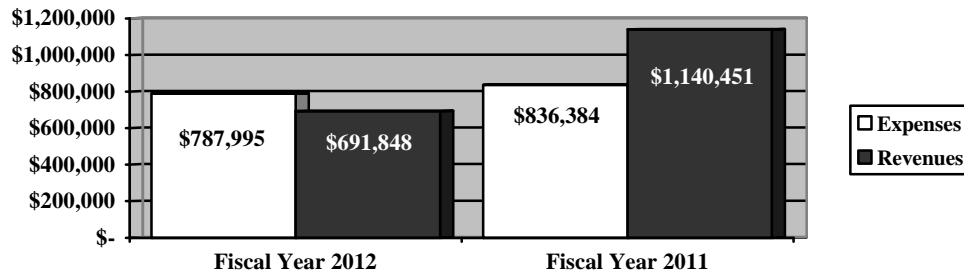
	Governmental Activities <u>2012</u>	Governmental Activities <u>2011</u>
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 1	\$ -
Operating grants and contributions	22,279	59,003
General revenues:		
Property taxes	584,458	946,668
Grants and entitlements	82,053	129,471
Investment earnings	2,697	5,294
Other	<u>360</u>	<u>15</u>
Total revenues	<u>691,848</u>	<u>1,140,451</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	394,782	435,162
Special	36	143
Support services:		
Pupil	24,909	22,692
Instructional staff	47,402	92,701
Board of education	21,052	25,839
Administration	109,869	96,096
Fiscal	44,511	36,136
Operations and maintenance	145,250	126,356
Extracurricular activities	<u>184</u>	<u>1,259</u>
Total expenses	<u>787,995</u>	<u>836,384</u>
Change in net assets	(96,147)	304,067
Net assets at beginning of year	<u>2,918,920</u>	<u>2,614,853</u>
Net assets at end of year	<u>\$ 2,822,773</u>	<u>\$ 2,918,920</u>

The graph below presents the District's governmental activities revenues and expenses for fiscal years 2012 and 2011.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)

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. The total and net costs of services for fiscal years 2012 and 2011 are presented below.

Governmental Activities

	Total Cost of Services 2012	Net Cost of Services 2012	Total Cost of Services 2011	Net Cost of Services 2011
Program expenses				
Instruction:				
Regular	\$ 394,782	\$ 374,899	\$ 435,162	\$ 385,552
Special	36	3	143	5
Support services:				
Pupil	24,909	24,909	22,692	19,224
Instructional staff	47,402	45,039	92,701	89,914
Board of education	21,052	21,052	25,839	25,839
Administration	109,869	109,869	96,096	96,096
Fiscal	44,511	44,511	36,136	33,136
Operations and maintenance	145,250	145,249	126,356	126,356
Extracurricular activities	184	184	1,259	1,259
Total expenses	<u>\$ 787,995</u>	<u>\$ 765,715</u>	<u>\$ 836,384</u>	<u>\$ 777,381</u>

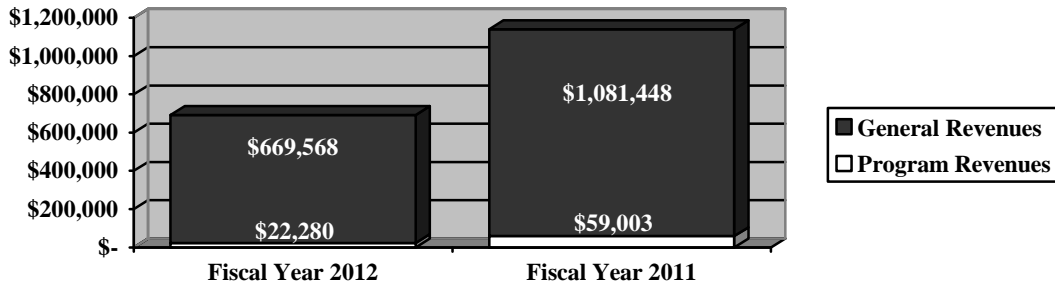
The dependence upon tax and other general revenues for governmental activities is apparent, 94.96% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 97.17%. The District's taxpayers and unrestricted grants and entitlements are by far the primary support for District's students.

The graph below presents the District's governmental activities revenues for fiscal year 2012 and 2011.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds reported a combined fund balance of \$1,033,524, which is lower than last year's total of \$1,060,507.

The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2012 and 2011.

	Fund Balance <u>June 30, 2012</u>	Fund Balance <u>June 30, 2011</u>	Increase <u>(Decrease)</u>
General	\$ 896,976	\$ 950,520	\$ (53,544)
Permanent improvement	136,548	100,147	36,401
Other governmental	-	9,840	(9,840)
Total	<u>\$ 1,033,524</u>	<u>\$ 1,060,507</u>	<u>\$ (26,983)</u>

General Fund

The District's general fund balance decreased \$53,544. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	2012 <u>Amount</u>	2011 <u>Amount</u>	Increase <u>(Decrease)</u>	Percentage <u>Change</u>
<u>Revenues</u>				
Property taxes	\$ 561,258	\$ 873,723	\$ (312,465)	(35.76) %
Earnings on investments	2,364	5,595	(3,231)	(57.75) %
Intergovernmental	77,991	118,963	(40,972)	(34.44) %
Other revenues	361	15	346	2,306.67 %
Total	<u>\$ 641,974</u>	<u>\$ 998,296</u>	<u>\$ (356,322)</u>	(35.69) %
<u>Expenditures</u>				
Instruction	\$ 327,603	\$ 381,950	\$ (54,347)	(14.23) %
Support services	367,731	371,151	(3,420)	(0.92) %
Extracurricular activities	184	1,259	(1,075)	(85.39) %
Total	<u>\$ 695,518</u>	<u>\$ 754,360</u>	<u>\$ (58,842)</u>	(7.80) %

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)

Tax revenues in the general fund decreased 35.76% due to lower collections during the year and lower advances available at June 30, 2012. The District had previously requested that the Erie County Auditor not collect 4 mills of property taxes on the District's behalf for fiscal year 2012; however, for fiscal year 2012 the Erie County Auditor collected and remitted to the District only .75 mills of property taxes in error, rather than the full amount requested by the District. The District considered the .75 mills in collections sufficient for its operations. The decision to accept these lower tax collections is the primary factor in the decrease in property tax revenues from the prior year.

Further, earnings on investments decreased by \$3,231 and intergovernmental revenues decreased 34.44% due to lower rollback and tangible personal property tax loss reimbursement from the State of Ohio. Other revenues did not vary significantly from the prior year.

The District's primary programs are for student instruction and support services. During 2012, the District reduced its spending for instruction by \$54,347, or 14.23%. This decrease in instruction expenditures resulted primarily from lower salaries and benefits earned by employees during the year following a reduction in staff. Expenditures for support services during 2012 were only slightly lower than in 2011.

Permanent Improvement Fund

The permanent improvement fund had \$41,630 in revenues and \$5,229 in expenditures. During fiscal year 2012, the permanent improvement fund's fund balance increased \$36,401 from \$100,147 to \$136,548. Higher expenditures during fiscal year 2012 for building automation upgrades and HVAC services were offset by property taxes levied for permanent improvements.

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 2012, the District amended its general fund budget one time. For the general fund, final budgeted revenues and other financing sources were \$720,902, which was a decrease from the original budgeted revenues and other financing sources estimate of \$1,031,177 due to lower projected property tax collections and receipts of intergovernmental entitlements. Actual revenues and other financing sources for fiscal year 2012 were \$705,107, a decrease of \$15,795 from the final budget. The primary component of this variance was related to unrestricted grants and entitlements recorded as intergovernmental revenue, of which the District received less than anticipated during the year.

General fund original appropriations (appropriated expenditures plus other financing uses) of \$1,925,850 were decreased to \$1,615,575 in the final budget due to lower anticipated resources from a reduction in estimated property tax revenues and intergovernmental entitlements. For fiscal year 2012, the District's actual budgetary basis expenditures totaled \$786,024 and were \$829,551 less than in the final budget. The District's general fund did not expend all available resources and budgeted revenues, as had been the basis for final appropriations.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2012, the District had \$1,753,706 invested in land improvements, buildings and improvements and furniture and equipment. This entire amount is reported in governmental activities.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)

The following table shows fiscal year 2012 balances compared to 2011:

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

	Governmental Activities	
	2012	2011
Land improvements	\$ 9,444	\$ 12,557
Building and improvements	1,737,997	1,783,330
Furniture and equipment	6,265	9,170
Total	\$ 1,753,706	\$ 1,805,057

The District had no capital asset additions or disposals during fiscal year 2012, and the District recognized depreciation expense of \$51,351 on the statement of activities; this amount is included as function expenses.

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

Debt Administration

At June 30, 2012, the District had no debt outstanding. The District's overall legal debt margin was \$7,260,798 with an unvoted debt margin of \$80,676.

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 \$813,756 at June 30, 2012. Fiscal year-end general fund budgetary-basis unencumbered cash balances were \$881,563, \$524,431, and \$383,151 at June 30 in fiscal years 2011, 2010, and 2009, 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 the budget commission not collect 3 mils of tax revenue, and increased this request to 4 mils for 2011. In 2012, only .75 of a mil was collected by the County Auditor due to a miscalculation. 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 of Education will continue to evaluate staffing needs and adjust staff if necessary.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)**

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, 1210 E. Bogart Road, Sandusky, Ohio 44870.

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

STATEMENT OF NET ASSETS
JUNE 30, 2012

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents . . .	\$ 995,912
Receivables:	
Property taxes	500,179
Accounts.	1,713
Accrued interest	614
Intergovernmental	37,172
Prepayments	1,550
Depreciable capital assets, net	1,753,706
 Total assets.	 3,290,846
 Liabilities:	
Accounts payable.	493
Accrued wages and benefits	38,780
Pension obligation payable.	4,189
Intergovernmental payable	1,411
Unearned revenue	397,236
Long-term liabilities:	
Due within one year.	3,942
Due in more than one year.	22,022
 Total liabilities	 468,073
 Net Assets:	
Invested in capital assets	1,753,706
Restricted for:	
Federally funded programs	37,172
Unrestricted.	1,031,895
 Total net assets	 \$ 2,822,773

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, 2012

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Assets Governmental Activities</u>
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	
Governmental activities:				
Instruction:				
Regular	\$ 394,782	\$ -	\$ 19,883	\$ (374,899)
Special	36	-	33	(3)
Support services:				
Pupil	24,909	-	-	(24,909)
Instructional staff	47,402	-	2,363	(45,039)
Board of education	21,052	-	-	(21,052)
Administration	109,869	-	-	(109,869)
Fiscal	44,511	-	-	(44,511)
Operations and maintenance	145,250	1	-	(145,249)
Extracurricular activities	184	-	-	(184)
Total governmental activities	\$ 787,995	\$ 1	\$ 22,279	(765,715)

General Revenues:

Property taxes levied for:	
General purposes	547,035
Capital projects	37,423
Grants and entitlements not restricted	
to specific programs	82,053
Investment earnings	2,697
Miscellaneous	360
Total general revenues	669,568
Change in net assets	(96,147)
Net assets at beginning of year	2,918,920
Net assets at end of year	\$ 2,822,773

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012

	<u>General</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents.	\$ 865,712	\$ 130,200	\$ -	\$ 995,912
Receivables:				
Property taxes.	462,724	37,455	-	500,179
Accounts	1,713	-	-	1,713
Accrued interest	614	-	-	614
Intergovernmental.	-	-	37,172	37,172
Prepayments.	1,550	-	-	1,550
Total assets	<u>\$ 1,332,313</u>	<u>\$ 167,655</u>	<u>\$ 37,172</u>	<u>\$ 1,537,140</u>
Liabilities:				
Accounts payable	\$ 493	\$ -	\$ -	\$ 493
Accrued wages and benefits.	38,780	-	-	38,780
Compensated absences payable	3,942	-	-	3,942
Intergovernmental payable	1,411	-	-	1,411
Pension obligation payable	4,189	-	-	4,189
Deferred revenue	18,884	1,509	37,172	57,565
Unearned revenue.	367,638	29,598	-	397,236
Total liabilities.	<u>435,337</u>	<u>31,107</u>	<u>37,172</u>	<u>503,616</u>
Fund Balances:				
Nonspendable:				
Prepayments	1,550	-	-	1,550
Committed:				
Capital improvements	-	136,548	-	136,548
Assigned:				
Student instruction	41,858	-	-	41,858
Student and staff support.	6,955	-	-	6,955
Subsequent year appropriations	846,613	-	-	846,613
Total fund balances.	<u>896,976</u>	<u>136,548</u>	<u>-</u>	<u>1,033,524</u>
Total liabilities and fund balances	<u>\$ 1,332,313</u>	<u>\$ 167,655</u>	<u>\$ 37,172</u>	<u>\$ 1,537,140</u>

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, 2012

Total governmental fund balances		\$	1,033,524
<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.			1,753,706
Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds.			
Delinquent property taxes receivable	\$	19,779	
Intergovernmental receivable		37,172	
Accrued interest receivable		614	
Total		<u>614</u>	57,565
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>(22,022)</u>
Net assets of governmental activities		<u>\$</u>	<u>2,822,773</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, 2012

	<u>General</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Property taxes	\$ 561,258	\$ 37,384	\$ -	\$ 598,642
Earnings on investments	2,364	184	-	2,548
Rental income	1	-	-	1
Contributions and donations	360	-	-	360
Intergovernmental - State	77,991	4,062	1,800	83,853
Intergovernmental - federal	-	-	11,966	11,966
Total revenues	<u>641,974</u>	<u>41,630</u>	<u>13,766</u>	<u>697,370</u>
Expenditures:				
Current:				
Instruction:				
Regular	327,603	-	21,165	348,768
Special	-	-	36	36
Support services:				
Pupil	21,563	-	-	21,563
Instructional staff	49,561	-	2,405	51,966
Board of education	21,052	-	-	21,052
Administration	97,667	-	-	97,667
Fiscal	43,779	732	-	44,511
Operations and maintenance	134,109	-	-	134,109
Extracurricular activities	184	-	-	184
Facilities acquisition and construction	-	4,497	-	4,497
Total expenditures	<u>695,518</u>	<u>5,229</u>	<u>23,606</u>	<u>724,353</u>
Net change in fund balances	(53,544)	36,401	(9,840)	(26,983)
Fund balances at beginning of year	<u>950,520</u>	<u>100,147</u>	<u>9,840</u>	<u>1,060,507</u>
Fund balances at end of year	<u>\$ 896,976</u>	<u>\$ 136,548</u>	<u>\$ -</u>	<u>\$ 1,033,524</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, 2012

Net change in fund balances - total governmental funds	\$	(26,983)
 <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.		
		(51,351)
 Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Property taxes	\$ (14,184)	
Earnings on investments	149	
Intergovernmental	8,513	
Total	(5,522)	(5,522)
 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 the governmental funds.		
Increase in compensated absences		(12,291)
Change in net assets of governmental activities	\$	(96,147)

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, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		<u>Actual</u>
Revenues:				
From local sources:				
Property taxes	\$ 903,638	\$ 621,118	\$ 620,765	\$ (353)
Earnings on investments	5,000	3,000	2,766	(234)
Rental income	1	1	1	-
Contributions and donations	-	-	360	360
Intergovernmental - State	120,538	93,383	77,991	(15,392)
Total revenues	<u>1,029,177</u>	<u>717,502</u>	<u>701,883</u>	<u>(15,619)</u>
Expenditures:				
Current:				
Instruction:				
Regular	580,658	429,499	393,113	36,386
Special	700	700	-	700
Support services:				
Pupil	57,375	50,534	23,993	26,541
Instructional staff	123,159	123,159	61,345	61,814
Board of education	41,600	41,600	26,679	14,921
Administration	120,400	120,400	101,148	19,252
Fiscal	63,015	63,015	43,794	19,221
Operations and maintenance	189,748	192,748	135,726	57,022
Extracurricular activities	6,325	6,325	190	6,135
Total expenditures	<u>1,182,980</u>	<u>1,027,980</u>	<u>785,988</u>	<u>241,992</u>
Excess of expenditures over revenues	<u>(153,803)</u>	<u>(310,478)</u>	<u>(84,105)</u>	<u>226,373</u>
Other financing sources (uses):				
Refund of prior year's expenditures	2,000	2,000	1,808	(192)
Refund of prior year's receipts	(1,000)	(1,000)	(36)	964
Sale of assets	-	1,400	1,416	16
Voluntary contingency reserve	(741,870)	(586,595)	-	586,595
Total other financing sources (uses)	<u>(740,870)</u>	<u>(584,195)</u>	<u>3,188</u>	<u>587,383</u>
Net change in fund balance	(894,673)	(894,673)	(80,917)	813,756
Fund balance at beginning of year	881,563	881,563	881,563	-
Prior year encumbrances appropriated	13,110	13,110	13,110	-
Fund balance at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 813,756</u>	<u>\$ 813,756</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, 2012

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 9,809	\$ 2,773
Receivables:		
Property taxes.	-	59,929
Total assets	\$ 9,809	\$ 62,702
Liabilities:		
Intergovernmental payable	\$ -	\$ 59,929
Due to students.	-	2,773
Total liabilities	-	\$ 62,702
Net assets:		
Held in trust for scholarships	9,809	
Total net assets	\$ 9,809	

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, 2012

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$ 17
Gifts and contributions.	254
Total additions.	271
Deductions:	
Scholarships awarded	2,800
Change in net assets.	(2,529)
Net assets at beginning of year	12,338
Net assets at end of year.	\$ 9,809

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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 operates 1 comprehensive school to provide services to students and various community groups. The District employs 1 non-certified and 4 certified personnel.

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, 2012

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 1210 E. Bogart Road, 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 11 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 various 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 \$16,079 to NOECA for services during 2012. Financial information can be obtained by contacting the North Point Educational Service Center, which serves as fiscal agent, at 1210 E. Bogart Road, Sandusky, Ohio 44870.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

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 are the District's major governmental funds:

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.

Permanent improvement fund - The permanent improvement fund is used to account for financial resources that are committed to expenditures for the acquisition or construction of capital facilities and other assets.

Other governmental funds of the District are used to account for specific revenue sources that are restricted to an expenditure for specified purposes other than 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.

C. Basis of Presentation and Measurement Focus

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational 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 expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year end.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 5). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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, 2012, but which were levied to finance fiscal year 2013 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, 2012 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 estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control has been established at the fund, function, and object level for all funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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

Tax Budget:

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

Estimated Resources:

By April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commissions' certificate of estimated resources, which states the projected revenue of each fund. Prior to 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 2012.

Appropriations:

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

Lapsing of Appropriations:

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

F. Cash and Investments

To improve cash management, cash received by the District is pooled. 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 2012, 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 2012. 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, 2012.

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 2012 amounted to \$2,364, which includes \$134 assigned from other District funds.

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

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

G. Capital Assets

General capital assets are those assets specifically related to governmental activities. These assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

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.

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, 2012.

I. Accrued Liabilities and Long-Term Obligations

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

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

J. Prepaid Items

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed. At fiscal year-end, because prepayments are not available to finance future governmental fund expenditures, the funds balance is nonspendable on the fund financial statements by an amount equal to the carrying amount of the asset.

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 in the general fund.

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 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

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 had no net assets restricted for enabling legislation.

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 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.

The District had no interfund activity during the current fiscal year.

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 2012.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

Change in Accounting Principles

For fiscal year 2012, the District has implemented GASB Statement No. 57, "*OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*", and GASB Statement No. 64, "*Derivative Instruments: Application of Hedge Accounting Termination Provisions - an Amendment of GASB Statement No. 53*".

GASB Statement No. 57 addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans. The implementation of GASB Statement No. 57 did not have an effect on the financial statements of the District.

GASB Statement No. 64 clarifies the circumstances in which a hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of GASB Statement No. 64 did not have an effect on the financial statements of the District.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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,
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. Deposits with Financial Institutions

At June 30, 2012, the carrying amount of all District deposits was \$651,127. Based on the criteria described in GASB Statement No. 40, "*Deposits and Investment Risk Disclosures*", as of June 30, 2012, \$548,121 of the District's entire bank balance of \$656,091 was covered by the Federal Deposit Insurance Corporation, while the remaining balance of \$107,970 was collateralized by eligible securities as discussed below.

Custodial credit risk is the risk that, in the event of bank failure, the 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 District. The 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 District to a successful claim by the FDIC.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

B. Investments

As of June 30, 2012, the District had an investment in STAR Ohio of \$357,367 with a maturity of 6 months or less.

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

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

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

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2012:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 651,127
Investments	357,367
Total	<u>\$ 1,008,494</u>
 <u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 995,912
Private-purpose trust fund	9,809
Agency funds	2,773
Total	<u>\$ 1,008,494</u>

NOTE 5 - PROPERTY TAXES

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

Property taxes include amounts levied against all real property and public utility property. Real property tax revenues received in calendar year 2012 represent the collection of calendar year 2011 taxes. Real property taxes received in calendar year 2012 were levied after April 1, 2011, on the assessed values as of January 1, 2011, 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 2012 represent the collection of calendar year 2011 taxes. Public utility real and personal property taxes received in calendar year 2012 became a lien on December 31, 2010, were levied after April 1, 2011, 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 5 - 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, 2012, are available to finance fiscal year 2012 operations. The amount available as an advance at June 30, 2012 was \$76,817 in the general fund and \$6,348 in the permanent improvement fund. This amount is recorded as revenue. The amount available for advance at June 30, 2011 was \$136,324 in the general fund and \$6,169 in the permanent improvement 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, 2012 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 2012 taxes were collected are:

	2011 Second Half Collections		2012 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 73,336,630	91.42	\$ 73,807,870	91.49
Commercial/industrial real estate	6,058,450	7.55	6,041,070	7.49
Public utility personal	<u>829,600</u>	<u>1.03</u>	<u>826,590</u>	<u>1.02</u>
Total	<u>\$ 80,224,680</u>	<u>100.00</u>	<u>\$ 80,675,530</u>	<u>100.00</u>

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

Operations	\$11.05	\$6.05
Permanent improvement	0.50	0.50

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 6 - RECEIVABLES

Receivables at June 30, 2012 consisted of property taxes, accounts, 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	\$ 500,179
Accounts	1,713
Accrued interest	614
Intergovernmental	<u>37,172</u>
Total	<u>\$ 539,678</u>

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

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	<u>Balance</u> <u>06/30/11</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>06/30/12</u>
Governmental activities:				
<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>-</u>	<u>-</u>	<u>111,633</u>
Total capital assets, being depreciated	<u>2,424,885</u>	<u>-</u>	<u>-</u>	<u>2,424,885</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(34,141)	(3,113)	-	(37,254)
Buildings and improvements	(483,224)	(45,333)	-	(528,557)
Furniture and equipment	<u>(102,463)</u>	<u>(2,905)</u>	<u>-</u>	<u>(105,368)</u>
Total accumulated depreciation	<u>(619,828)</u>	<u>(51,351)</u>	<u>-</u>	<u>(671,179)</u>
Governmental activities capital assets, net	<u>\$ 1,805,057</u>	<u>\$ (51,351)</u>	<u>\$ -</u>	<u>\$ 1,753,706</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 7 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 44,726
<u>Support services:</u>	
Pupil	133
Instructional staff	237
Administration	237
Operations and maintenance	<u>6,018</u>
Total depreciation expense	<u>\$ 51,351</u>

NOTE 8 - 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, 2012, are a voted debt margin of \$7,260,798 and an unvoted debt margin of \$80,676.

During fiscal year 2012, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding <u>06/30/11</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/12</u>	Amounts Due in <u>One Year</u>
Compensated absences	\$ 9,731	\$ 16,233	\$ -	\$ 25,964	\$ 3,942

Compensated absences will be paid from the fund from which employees' salaries are paid (See Note 9 for further details).

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 9 - COMPENSATED ABSENCES

A. Sick Leave

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

B. Service Retirement

Certified employees are eligible for service retirement pay after the Board of Education accepts the employee's resignation. The Board authorizes the payment to retiring or retired, certified and non-certified employees of 25 percent of his/her 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 70 days. Criteria used to recognize the liability as being probable of payment was that employees must be 50 years old or greater with at least 10 years of service or have at least 20 years of service.

NOTE 10 - RISK MANAGEMENT

A. 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 various 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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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

NOTE 10 - RISK MANAGEMENT - (Continued)

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 CompManagement, Inc. provides administrative, cost control and actuarial services to the GRP.

NOTE 11 - 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, under "Employers/Audit Resources".

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 2012, 12.65 percent and 0.05 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 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, 2012, 2011 and 2010 were \$7,041, \$7,851 and \$8,369, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 11 - PENSION PLANS - (Continued)

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, 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 2012, 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.

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2012, 2011 and 2010 were \$35,905, \$41,880 and \$50,206, respectively; 92.92 percent has been contributed for fiscal year 2012 and 100 percent has been contributed for fiscal years 2011 and 2010.

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, 2012, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 12 - 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 (latest information available) was \$96.40 for most participants, but could be as high as \$369.10 per month depending on their income and the 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, under "Employers/Audit Resources".

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 2012, 0.55 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 2012, the actuarially determined amount was \$35,800.

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, 2012, 2011 and 2010 were \$1,361, \$1,837 and \$1,561, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2012, this actuarially required allocation was 0.75 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010 were \$416, \$505 and \$498, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 12 - POSTEMPLOYMENT BENEFITS - (Continued)

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, 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 2012, 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, 2012, 2011 and 2010 were \$2,762, \$3,222 and \$3,862, respectively; 92.92 percent has been contributed for fiscal year 2012 and 100 percent has been contributed for fiscal years 2011 and 2010.

NOTE 13 - BUDGETARY BASIS OF ACCOUNTING

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

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

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis); 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).

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 13 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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:

	<u>General fund</u>
Budget basis	\$ (80,917)
Net adjustment for revenue accruals	(59,909)
Net adjustment for expenditure accruals	38,514
Net adjustment for other sources/uses	(3,188)
Adjustment for encumbrances	<u>51,956</u>
GAAP basis	<u>\$ (53,544)</u>

NOTE 14 - CONTINGENCIES

A. Grants

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

B. Litigation

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 15 - SET-ASIDES

The District is required by State law to annually set-aside certain general fund revenue amounts, as defined by statutory formula, 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. This amount must be carried forward to be used for the same purpose in future years. Expenditures exceeding the set-aside requirement may not be carried forward to the next fiscal year.

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

	<u>Capital Improvements</u>
Set-aside balance June 30, 2011	\$ -
Current year set-aside requirement	2,235
Current year qualifying expenditures	4,184
Current year offsets	<u>(41,751)</u>
Total	<u>\$ (35,332)</u>
Balance carried forward to fiscal year 2013	<u>\$ -</u>
Set-aside balance June 30, 2012	<u><u>\$ -</u></u>

Although the District had offsets and qualifying disbursements during the year that reduced the capital improvements set-aside amount to below zero, the excess of current year offsets and qualifying disbursements over the set-aside requirement may not be used to reduce the set-aside requirements of future years. This negative amount is therefore not presented as being carried forward to the next fiscal year.

Effective July 1, 2011, the set-aside requirement for textbooks and instructional materials was removed from existing law.

NOTE 16 - 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:

	<u>Year-End Encumbrances</u>
<u>Fund</u>	
General	\$ 48,813
Permanent improvement	<u>10,996</u>
Total	<u><u>\$ 59,809</u></u>



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S 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, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each 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, 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 12, 2014.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the District's internal control. Accordingly, we have not opined on it.

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 a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the District's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

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, opining 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*.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Columbus, Ohio

February 12, 2014



Dave Yost • Auditor of State

KELLEYS ISLAND LOCAL SCHOOL DISTRICT

ERIE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 6, 2014**