



Dave Yost • Auditor of State

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the District's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

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, 2013, and the respective changes in financial position thereof and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 3 to the financial statements, during the year ended June 30, 2013, the District adopted the provisions of Governmental Accounting Standard No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and No. 65, *Items Previously Reported as Assets and Liabilities*. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, 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 applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Dave Yost
Auditor of State

Columbus, Ohio

February 12, 2014

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(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, 2013. 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 2013 are as follows:

- In total, net position of governmental activities increased \$38,804 which represents a 1.37% increase from net position at June 30, 2012.
- General revenues accounted for \$529,083 in revenue or 95.72% of all revenues. Program specific revenues in the form of charges for services and sales, grants, or contributions accounted for \$23,681 or 4.28% of total revenues of \$552,764.
- The District had \$513,960 in expenses related to governmental activities; only \$23,681 of these expenses were offset by program specific charges for services and sales, grants, or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$529,083 were sufficient to provide for these programs.
- The District's major governmental funds are the general fund and the permanent improvement fund. The general fund had \$492,204 in revenues and \$391,081 in expenditures. During fiscal year 2013, the general fund's fund balance increased \$101,123 from a balance of \$896,976 to \$998,099.
- The permanent improvement fund had \$41,146 in revenues and \$157,184 in expenditures. During 2013, the permanent improvement fund's fund balance decreased \$116,038 from a balance of \$136,548 to \$20,510. This was decrease due to expenditures for an interior alterations project in the District's school building.

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 position 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 non-major 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, 2013
(UNAUDITED)**

Reporting the District as a Whole

Statement of Net Position 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 2013?" The statement of net position and the statement of activities answer this question. These statements include all assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues and expenses using the accrual basis of accounting, similar to the accounting used by most private-sector companies. This basis of accounting considers 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 position and changes in net position. This change in net position 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, educational programs and other factors.

In the statement of net position and the statement of activities, the governmental activities include the District's programs and services, including instruction and support services.

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 the modified accrual basis of accounting, which measures cash and all other financial assets that 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 to 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 position 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 and other entities. These activities are reported in an agency fund. All of the District's fiduciary activities are reported in separate statements of fiduciary net position and changes in fiduciary net position. 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, 2013
(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

District's Governmental Accounting Standards Board (GASB) Statement No. 63 changed the District's financial statements to incorporate the concept of *net position* rather than *net assets*, as previously reported. The table below reflects this change and provides a summary of the District's net position for at June 30, 2013 and June 30, 2012. In accordance with GASB Statement No. 65, balances at June 30, 2012, have been reclassified to present property taxes levied for the next fiscal year as a deferred inflow of resources rather than as a liability as previously reported.

	Net Position	
	Governmental Activities 2013	Reclassified Governmental Activities 2012
<u>Assets</u>		
Current and other assets	\$ 1,475,945	\$ 1,537,140
Capital assets, net	<u>1,830,203</u>	<u>1,753,706</u>
Total assets	<u>3,306,148</u>	<u>3,290,846</u>
<u>Liabilities</u>		
Current liabilities	20,862	44,784
Long-term liabilities	<u>22,939</u>	<u>25,964</u>
Total liabilities	<u>43,801</u>	<u>70,748</u>
<u>Deferred Inflows of Resources</u>	<u>400,770</u>	<u>397,325</u>
<u>Net Position</u>		
Net investment in capital assets	1,830,203	1,753,706
Restricted	19,577	37,172
Unrestricted	<u>1,011,797</u>	<u>1,031,895</u>
Total net position	<u>\$ 2,861,577</u>	<u>\$ 2,822,773</u>

The decrease in current liabilities resulted from lower accrued wages and benefits at June 30, 2013. The District reduced staffing during fiscal year 2013 due to a lack of students requiring instructional services on the island.

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2013, the District's assets exceeded liabilities and deferred outflows of resources by \$2,861,577.

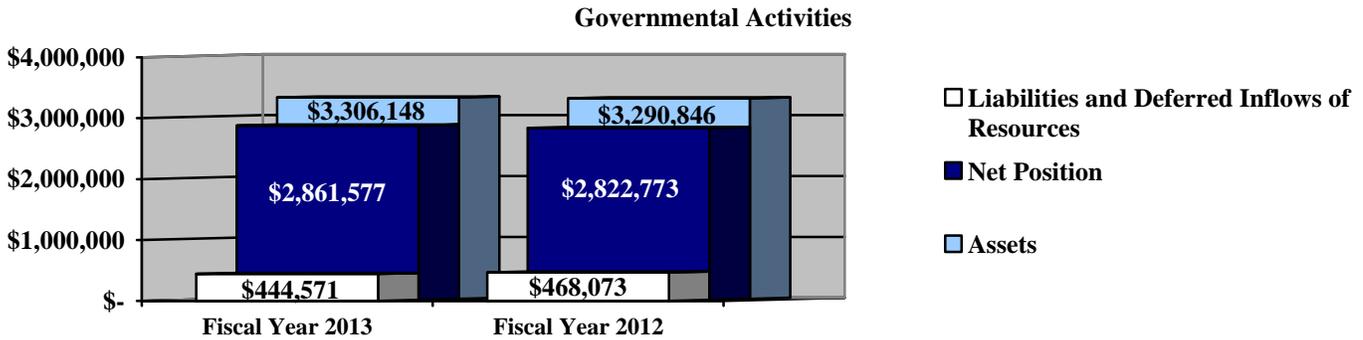
At year end, capital assets represented 55.36% of total assets. Capital assets include land improvements, buildings and improvements, and furniture and equipment. Capital assets, net of accumulated depreciation, at June 30, 2013, were \$1,830,203. These capital assets are used to provide services to the students and are not available for future spending. For this reason, net position in an amount equal to the carrying value of these assets is reported as the District's net investment in capital assets.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(UNAUDITED)**

A portion of the District's net position, \$19,577, 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 enabling legislation. The remaining balance of unrestricted net position of \$1,011,797 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 deferred inflows of resources, and net position at fiscal year-end as reported on the statement of net position.



Governmental Activities

Net position of the District's governmental activities increased \$38,804. Total governmental expenses of \$513,960 were offset by program revenues of \$23,681 and general revenues of \$529,083. Program revenues supported 4.61% 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 95.08% of total governmental revenue. Property tax revenue recognized by the District during 2013 fell 21.66% from 2012 due to lower collections from the Erie County Auditor. Beginning in fiscal year 2002, the District has elected annually to request that the County not collect a portion of taxes levied to support the District's operations. The District increased the millage not collected in fiscal 2013 due to the District's sound financial condition and reduced demand for the District's services.

Spending for instruction and support services decreased due to lower staffing and operations levels during fiscal year 2013; however, the District recognized increased operations and maintenance expenses during fiscal year 2013 due to repairs made during the year.

The table below shows the change in net position for fiscal year 2013 and 2012.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(UNAUDITED)

Change in Net Position

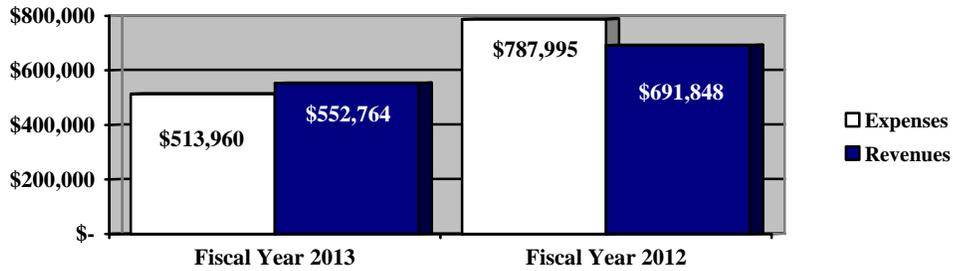
	Governmental Activities 2013	Governmental Activities 2012
	<u>2013</u>	<u>2012</u>
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 1	\$ 1
Operating grants and contributions	23,680	22,279
General revenues:		
Property taxes	457,849	584,458
Grants and entitlements	67,735	82,053
Investment earnings	2,665	2,697
Other	834	360
Total revenues	<u>552,764</u>	<u>691,848</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	178,929	394,782
Special	-	36
Adult/continuing	14,200	-
Support services:		
Pupil	452	24,909
Instructional staff	23,896	47,402
Board of education	10,952	21,052
Administration	77,097	109,869
Fiscal	35,469	44,511
Operations and maintenance	172,965	145,250
Extracurricular activities	-	184
Total expenses	<u>513,960</u>	<u>787,995</u>
Change in net position	38,804	(96,147)
Net position at beginning of year	<u>2,822,773</u>	<u>2,918,920</u>
Net position at end of year	<u>\$ 2,861,577</u>	<u>\$ 2,822,773</u>

The graph below presents the District's governmental activities revenues and expenses for fiscal years 2013 and 2012.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(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 2013 and 2012 are presented below.

Governmental Activities

	Total Cost of Services 2013	Net Cost of Services 2013	Total Cost of Services 2012	Net Cost of Services 2012
Program expenses				
Instruction:				
Regular	\$ 178,929	\$ 158,226	\$ 394,782	\$ 374,899
Special	-	-	36	3
Adult/continuing	14,200	14,200	-	-
Support services:				
Pupil	452	452	24,909	24,909
Instructional staff	23,896	21,536	47,402	45,039
Board of education	10,952	10,952	21,052	21,052
Administration	77,097	76,480	109,869	109,869
Fiscal	35,469	35,469	44,511	44,511
Operations and maintenance	172,965	172,964	145,250	145,249
Extracurricular activities	-	-	184	184
Total expenses	<u>\$ 513,960</u>	<u>\$ 490,279</u>	<u>\$ 787,995</u>	<u>\$ 765,715</u>

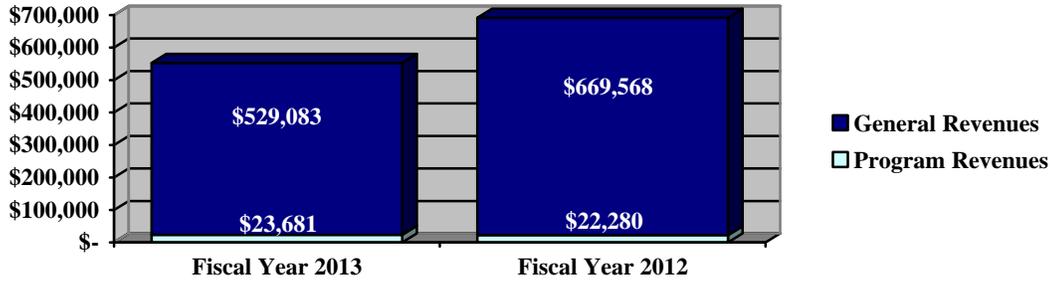
The dependence upon tax and other general revenues for governmental activities is apparent, as 89.28% of instruction activities and 99.07% of support services activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 95.39%. The District's taxpayers and unrestricted grants and entitlements are by far the primary support for District's operations.

The graph below presents the District's governmental activities revenues for fiscal year 2013 and 2012.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(UNAUDITED)

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds reported a combined fund balance of \$1,010,509, which is lower than last year's total of \$1,033,524.

The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2013 and 2012.

	Fund Balance (Deficit) June 30, 2013	Fund Balance June 30, 2012	Increase (Decrease)
General	\$ 998,099	\$ 896,976	\$ 101,123
Permanent improvement	20,510	136,548	(116,038)
Nonmajor governmental	(8,100)	-	(8,100)
Total	\$ 1,010,509	\$ 1,033,524	\$ (23,015)

General Fund

The table that follows assists in illustrating the revenues of the general fund.

Revenues	2013 Amount	2012 Amount	Increase (Decrease)	Percentage Change
Property taxes	\$ 425,763	\$ 561,258	\$ (135,495)	(24.14) %
Earnings on investments	2,612	2,364	248	10.49 %
Intergovernmental	62,994	77,991	(14,997)	(19.23) %
Other revenues	835	361	474	131.30 %
Total	\$ 492,204	\$ 641,974	\$ (149,770)	(23.33) %

In total, the District's general fund balance increased \$101,123. Tax revenues in the general fund decreased 24.14% due to lower receipts from Erie County during the year. Since calendar year 2002, The District has made annual elections to not collect a portion of millage not needed to support its general operations. During fiscal years 2012 and 2013 the District elected not to collect additional millage due to its sound financial condition and reduced need for the District's services. Intergovernmental revenue fell 19.23% due to lower entitlements received from the state of Ohio, while other revenues increased \$474 due to proceeds received from the sale of used textbooks. Earnings on investments increased due to higher returns on the District's certificates of deposit.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(UNAUDITED)**

The table that follows assists in illustrating the expenditures of the general fund.

<u>Expenditures</u>	<u>2013 Amount</u>	<u>2012 Amount</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
Instruction	\$ 111,394	\$ 327,603	\$ (216,209)	(66.00) %
Support services	279,687	367,731	(88,044)	(23.94) %
Extracurricular activities	-	184	(184)	(100.00) %
Total	<u>\$ 391,081</u>	<u>\$ 695,518</u>	<u>\$ (304,437)</u>	(43.77) %

The District's only programs are for student instruction and support services. During 2013, the District reduced its spending for instruction by \$216,209, or 66.00%, in part through reduced staffing. The District was able to reduce its staffing levels due to a lower demand for the District's services from island residents. Expenditures for support services during 2013 were 23.94% lower than in fiscal year 2012, also a result of the District's reduced operations.

Permanent Improvement Fund

The permanent improvement fund had \$41,146 in revenues and \$157,184 in expenditures. During fiscal year 2013, the permanent improvement fund's fund balance decreased \$116,038, from \$136,548 to a balance of \$20,510. This decrease is due to capital improvements during the year, including an interior alterations project in the school building.

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.

For the general fund, original budgeted revenues and other financing sources were \$574,454 and were increased to \$652,751 in the final budget. Actual revenues and other financing sources for fiscal year 2013 amounted to \$504,671, a decrease of \$148,080 from the final budget. The primary variances from final budgeted revenues causing this difference were among property taxes and intergovernmental revenues. Property tax collections remitted to the District from the Erie County Auditor were \$154,840 beneath final budgeted amounts, and receipts from unrestricted intergovernmental grants and entitlements were \$10,356 under the final budget.

General fund original and final appropriations (appropriated expenditures plus other financing uses) totaled \$1,518,463, including budgeted other financing uses of \$705,097 designated as a voluntary contingency reserve. For fiscal year 2013, the District's actual budgetary basis expenditures and other financing uses totaled \$491,570 and were \$1,026,893 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

The following table shows the District's capital asset balances for fiscal year 2013 compared to 2012:

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(UNAUDITED)

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

	Governmental Activities	
	2013	2012
Land improvements	\$ 6,331	\$ 9,444
Building and improvements	1,810,904	1,737,997
Furniture and equipment	12,968	6,265
Total	\$ 1,830,203	\$ 1,753,706

At the end of fiscal year 2013, the District had \$1,830,203 invested in land improvements, buildings and improvements and furniture and equipment. This entire amount is reported in governmental activities. The overall increase in capital assets of \$76,497 is due to additions of \$125,739, including building and improvements additions for an interior alterations project and equipment purchased during the year, exceeding depreciation expense of \$49,242 during fiscal year 2013. See Note 7 to the basic financial statements for additional information on the District's capital assets.

Debt Administration

At June 30, 2013, the District had no debt outstanding. The District's overall legal debt margin was \$6,800,096 with an unvoted debt margin of \$75,557.

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 \$880,912 at June 30, 2013. Fiscal year-end general fund budgetary-basis unencumbered cash balances were \$813,756, \$881,563, and \$524,431 at June 30 in fiscal years 2012, 2011, and 2010, 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. Because 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. For 2013, the Board of Education requested that 9 mils not be collected by the County Auditor. 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, 2013
(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 POSITION
JUNE 30, 2013

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents	\$ 936,989
Receivables:	
Property taxes	505,624
Accrued interest	303
Intergovernmental	31,715
Prepayments	1,314
Depreciable capital assets, net	1,830,203
Total assets.	3,306,148
Liabilities:	
Accounts payable	15,787
Accrued wages and benefits payable	3,449
Pension obligation payable	1,337
Intergovernmental payable	288
Unearned revenue	1
Long-term liabilities:	
Due in more than one year.	22,939
Total liabilities	43,801
Deferred inflows of resources:	
Property taxes levied for the next fiscal year	400,770
Total deferred inflows of resources	400,770
Net position:	
Net investment in capital assets	1,830,203
Restricted for federally funded programs	19,577
Unrestricted.	1,011,797
Total net position	\$ 2,861,577

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, 2013

		<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>
	<u>Expenses</u>	<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental activities:				
Instruction:				
Regular	\$ 178,929	\$ -	\$ 20,703	\$ (158,226)
Adult/continuing.	14,200	-	-	(14,200)
Support services:				
Pupil.	452	-	-	(452)
Instructional staff	23,896	-	2,360	(21,536)
Board of education.	10,952	-	-	(10,952)
Administration.	77,097	-	617	(76,480)
Fiscal.	35,469	-	-	(35,469)
Operations and maintenance.	172,965	1	-	(172,964)
Total governmental activities	<u>\$ 513,960</u>	<u>\$ 1</u>	<u>\$ 23,680</u>	<u>(490,279)</u>
 General revenues:				
Property taxes levied for:				
General purposes.				422,071
Capital projects				35,778
Grants and entitlements not restricted				
to specific programs				67,735
Investment earnings.				2,665
Miscellaneous.				834
Total general revenues.				<u>529,083</u>
Change in net position.				38,804
Net position at beginning of year				<u>2,822,773</u>
Net position at end of year.				<u>\$ 2,861,577</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013

	<u>General</u>	<u>Permanent Improvement</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents.	\$ 923,225	\$ 13,764	\$ -	\$ 936,989
Receivables:				
Property taxes	466,277	39,347	-	505,624
Accrued interest.	303	-	-	303
Intergovernmental.	3,421	-	28,294	31,715
Prepayments.	1,314	-	-	1,314
Total assets	<u>\$ 1,394,540</u>	<u>\$ 53,111</u>	<u>\$ 28,294</u>	<u>\$ 1,475,945</u>
Liabilities:				
Accounts payable	\$ 6,806	\$ 264	\$ 8,717	\$ 15,787
Accrued wages and benefits payable	3,449	-	-	3,449
Intergovernmental payable	288	-	-	288
Unearned revenue.	1	-	-	1
Pension obligation payable	1,337	-	-	1,337
Total liabilities.	<u>11,881</u>	<u>264</u>	<u>8,717</u>	<u>20,862</u>
Deferred inflows of resources:				
Property taxes levied for the next fiscal year.	369,679	31,091	-	400,770
Delinquent property tax revenue not available.	14,578	1,246	-	15,824
Accrued interest not available	303	-	-	303
Intergovernmental revenue not available.	-	-	27,677	27,677
Total deferred inflows of resources	<u>384,560</u>	<u>32,337</u>	<u>27,677</u>	<u>444,574</u>
Fund balances:				
Nonspendable:				
Prepayments.	1,314	-	-	1,314
Committed:				
Capital improvements	-	20,510	-	20,510
Assigned:				
Student instruction.	23,017	-	-	23,017
Student and staff support	14,605	-	-	14,605
Subsequent year appropriations	859,264	-	-	859,264
Unassigned (deficit)	99,899	-	(8,100)	91,799
Total fund balances (deficit).	<u>998,099</u>	<u>20,510</u>	<u>(8,100)</u>	<u>1,010,509</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 1,394,540</u>	<u>\$ 53,111</u>	<u>\$ 28,294</u>	<u>\$ 1,475,945</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 POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2013

Total governmental fund balances		\$	1,010,509
<i>Amounts reported for governmental activities on the statement of net position are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			1,830,203
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows in the funds.			
Property taxes receivable	\$	15,824	
Accrued interest receivable		303	
Intergovernmental receivable		27,677	
Total		43,804	43,804
Long-term liabilities, such as compensated absences, are not due and payable in the current period and therefore are not reported in the funds.			(22,939)
Net position of governmental activities		\$	2,861,577

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, 2013

	<u>General</u>	<u>Permanent Improvement</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Property taxes	\$ 425,763	\$ 36,041	\$ -	\$ 461,804
Earnings on investments	2,612	364	-	2,976
Rental income	1	-	-	1
Other local revenues	834	-	-	834
Intergovernmental - state	62,994	4,741	1,800	69,535
Intergovernmental - federal	-	-	31,375	31,375
Total revenues	<u>492,204</u>	<u>41,146</u>	<u>33,175</u>	<u>566,525</u>
Expenditures:				
Current:				
Instruction:				
Regular	97,194	-	38,298	135,492
Adult/continuing	14,200	-	-	14,200
Support services:				
Pupil	178	-	-	178
Instructional staff	21,299	-	2,360	23,659
Board of education	22,917	-	-	22,917
Administration	63,449	-	617	64,066
Fiscal	34,783	686	-	35,469
Operations and maintenance	137,061	-	-	137,061
Facilities acquisition and construction	-	156,498	-	156,498
Total expenditures	<u>391,081</u>	<u>157,184</u>	<u>41,275</u>	<u>589,540</u>
Net change in fund balances	101,123	(116,038)	(8,100)	(23,015)
Fund balances at beginning of year	<u>896,976</u>	<u>136,548</u>	<u>-</u>	<u>1,033,524</u>
Fund balances (deficit) at end of year	<u>\$ 998,099</u>	<u>\$ 20,510</u>	<u>\$ (8,100)</u>	<u>\$ 1,010,509</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, 2013

Net change in fund balances - total governmental funds	\$	(23,015)
 <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.		
Capital asset additions	\$ 125,739	
Current year depreciation	<u>(49,242)</u>	
Total		76,497
 Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Property taxes	(3,955)	
Earnings on investments	(311)	
Intergovernmental	<u>(9,495)</u>	
Total		(13,761)
 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 funds.		
Increase in compensated absences		<u>(917)</u>
 Change in net position of governmental activities	 \$	 <u><u>38,804</u></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 BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Property taxes	\$ 476,730	\$ 575,400	\$ 420,560	\$ (154,840)
Earnings on investments	2,961	2,500	2,612	112
Classroom materials and fees	817	-	721	721
Rental income	1	1	1	-
Other local revenues	71	-	63	63
Intergovernmental - state	<u>73,787</u>	<u>73,350</u>	<u>62,994</u>	<u>(10,356)</u>
Total revenues	<u>554,367</u>	<u>651,251</u>	<u>486,951</u>	<u>(164,300)</u>
Expenditures:				
Current:				
Instruction:				
Regular	348,260	282,673	169,248	113,425
Adult/continuing	-	20,208	12,667	7,541
Support services:				
Pupil	25,950	26,100	5,242	20,858
Instructional staff	53,141	53,141	21,350	31,791
Board of education	39,200	42,353	23,179	19,174
Administration	101,625	103,725	64,887	38,838
Fiscal	47,115	85,115	37,220	47,895
Operations and maintenance	182,775	184,751	157,572	27,179
Facilities acquisition and construction	<u>15,000</u>	<u>15,000</u>	<u>-</u>	<u>15,000</u>
Total expenditures	<u>813,066</u>	<u>813,066</u>	<u>491,365</u>	<u>321,701</u>
Excess of expenditures over revenues	<u>(258,699)</u>	<u>(161,815)</u>	<u>(4,414)</u>	<u>157,401</u>
Other financing sources (uses):				
Refund of prior year's expenditures	20,030	1,500	17,670	16,170
Refund of prior year's receipts	(300)	(300)	(205)	95
Sale of capital assets	57	-	50	50
Voluntary contingency reserve	<u>(705,097)</u>	<u>(705,097)</u>	<u>-</u>	<u>705,097</u>
Total other financing sources (uses)	<u>(685,310)</u>	<u>(703,897)</u>	<u>17,515</u>	<u>721,412</u>
Net change in fund balance	(944,009)	(865,712)	13,101	878,813
Fund balance at beginning of year	813,756	813,756	813,756	-
Prior year encumbrances appropriated	<u>51,956</u>	<u>51,956</u>	<u>51,956</u>	<u>-</u>
Fund balance at end of year	<u><u>\$ (78,297)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 878,813</u></u>	<u><u>\$ 878,813</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2013

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 7,836	\$ 4,065
Property taxes receivable	-	62,955
Total assets	\$ 7,836	\$ 67,020
Liabilities:		
Intergovernmental payable.	\$ -	\$ 64,247
Due to students	-	2,773
Total liabilities.	-	\$ 67,020
Net position:		
Held in trust for scholarships.	7,836	
Total net position.	\$ 7,836	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$ 26
Total additions.	26
 Deductions:	
Scholarships awarded	1,999
Change in net position.	(1,973)
Net position at beginning of year	9,809
Net position at end of year.	\$ 7,836

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, 2013**

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 2 non-certified and 2 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'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" and GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34". 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, food service, 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 government's 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, 2013

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 \$10,060 to NOECA for services during 2013. 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, 2013

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 plus deferred outflows of resources and liabilities plus deferred inflows of resources 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 position and changes in net position. 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 the Kelleys Island Library.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

C. Basis of Presentation and Measurement Focus

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

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

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

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, deferred outflows of resources, liabilities, and deferred inflows of resources 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

Revenues - Exchange and Nonexchange Transactions - Revenues 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.

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, reimbursements, and grants and entitlements.

Deferred Inflows of Resources and Deferred Outflows of Resources - A deferred inflow of resources is an acquisition of net position by the District that is applicable to a future reporting period. A deferred outflow of resources is a consumption of net position by the District that is applicable to a future reporting period.

Property taxes for which there is an enforceable legal claim as of June 30, 2013, but which were levied to finance fiscal year 2014 operations, and other revenues received in advance of the fiscal year for which they were intended to finance, have been recorded as a deferred inflow of resources. Grants not received within the available period, grants and entitlements received before the eligibility requirements are met, and delinquent property taxes due at June 30, 2013, are recorded as deferred inflows 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 inflows of resources.

Unearned Revenue - On the governmental fund financial statements and the statement of net position, unearned revenue is recorded as a liability for amounts resulting from exchange transactions received for services to be rendered by the District in a future reporting period.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

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.

Tax Budget:

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

Estimated Resources:

By April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's certificate of estimated resources, which states the projected revenue of each fund. Prior to July 1, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts from the original and final certificate of estimated resources issued for fiscal year 2013.

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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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

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.

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 2013, 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 2013. 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, 2013.

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 2013 amounted to \$2,612, none of which is 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

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 position, but are not reported in the fund financial statements.

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

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

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

H. Compensated Absences

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

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

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

The District had no liability for vacation at June 30, 2013.

I. Accrued Liabilities and Long-Term Obligations

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

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

J. Prepaid Items

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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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

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.

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 Position

Net position represents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. The net position component "net investment in capital assets," consists of capital assets, net of accumulated depreciation. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The District had no net position restricted for enabling legislation.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

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 2013.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2013, the District has implemented GASB Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements", GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34", GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA pronouncements", GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position", GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities", and GASB Statement No. 66, "Technical Corrections - 2012".

GASB Statement No. 60 addresses issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. An SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The implementation of GASB Statement No. 60 did not have an effect on the financial statements of the District.

GASB Statement No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity. The Statement amends the criteria for reporting component units as if they were part of the primary government in certain circumstances. Finally, the Statement also clarifies the reporting of equity interests in legally separate organizations. The implementation of GASB Statement No. 61 did not have an effect on the financial statements of the District.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

GASB Statement No. 62 codifies accounting and financial reporting guidance contained in pre-November 30, 1989 Financial Accounting Standards Board and American Institute of Certified Public Accountants pronouncements in an effort to codify all sources of GAAP for State and local governments so that they derive from a single source. The implementation of GASB Statement No. 62 did not have an effect on the financial statements of the District.

GASB Statement No. 63 provides financial and reporting guidance for *deferred outflows of resources* and *deferred inflows of resources* which are financial statement elements that are distinct from assets and liabilities. GASB Statement No. 63 standardizes the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's *net position*. The implementation of GASB Statement No. 63 has changed the presentation of the District's financial statements to incorporate the concepts of net position, deferred outflows of resources and deferred inflows of resources.

GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as *deferred outflows of resources* or *deferred inflows of resources*, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB Statement No. 65 also provides other financial reporting guidance related to the impact of the financial statement elements *deferred outflows of resources* and *deferred inflows of resources*, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations. The implementation of GASB Statement No. 65 affected the District's financial statements to present certain items that were previously reported as liabilities as deferred inflows of resources, such as property taxes levied for the next fiscal year.

GASB Statement No. 66 enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The implementation of GASB Statement No. 66 did not have an effect on the financial statements of the District.

B. Deficit Fund Balances

Fund balances at June 30, 2013 included the following individual fund deficit:

<u>Nonmajor governmental fund</u>	<u>Deficit</u>
Miscellaneous federal grants	\$ 8,100

The general fund is liable for the deficit in this fund and provides transfers when cash is required, not when accruals occur. The deficit fund balance resulted from adjustments for accrued liabilities.

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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

A. Deposits with Financial Institutions

At June 30, 2013, the carrying amount of all District deposits was \$531,733. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2013, \$427,833 of the District's entire bank balance of \$537,834 was covered by the Federal Deposit Insurance Corporation, while the remaining balance of \$110,001 was collateralized by eligible securities as discussed below.

Custodial credit risk is the risk that, in the event of bank failure, the School District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the 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 School District to a successful claim by the FDIC.

B. Investments

As of June 30, 2013, the District had an investment in STAR Ohio of \$417,157 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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 position as of June 30, 2013:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 531,733
Investments	<u>417,157</u>
Total	<u><u>\$ 948,890</u></u>
 <u>Cash and investments per statement of net position</u>	
Governmental activities	\$ 936,989
Private-purpose trust fund	7,836
Agency funds	<u>4,065</u>
Total	<u><u>\$ 948,890</u></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 2013 represent the collection of calendar year 2012 taxes. Real property taxes received in calendar year 2013 were levied after April 1, 2012, on the assessed values as of January 1, 2012, 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 2013 represent the collection of calendar year 2012 taxes. Public utility real and personal property taxes received in calendar year 2013 became a lien on December 31, 2011, were levied after April 1, 2012, 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.

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, 2013, are available to finance fiscal year 2013 operations. The amount available as an advance at June 30, 2013 was \$82,020 in the general fund and \$7,010 in the permanent improvement fund. This amount is recorded as revenue. The amount available for advance at June 30, 2012 was \$76,817 in the general fund and \$6,348 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 5 - PROPERTY TAXES - (Continued)

Accrued property taxes receivable includes real property, public utility property and delinquent tangible personal property taxes which are measurable as of June 30, 2013 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 a deferred inflow of resources.

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 reported as a deferred inflow of resources.

The assessed values upon which the fiscal year 2013 taxes were collected are:

	2012 Second Half Collections		2013 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/residential and other real estate	\$ 73,807,870	91.49	\$ 68,558,520	90.73
Commercial/industrial real estate	6,041,070	7.49	6,155,160	8.15
Public utility personal property	<u>826,590</u>	<u>1.02</u>	<u>842,940</u>	<u>1.12</u>
Total	<u>\$ 80,675,530</u>	<u>100.00</u>	<u>\$ 75,556,620</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation for:				
Operations		\$6.05		\$5.85
Permanent improvements		0.50		0.50

NOTE 6 - RECEIVABLES

Receivables at June 30, 2013 consisted of property taxes, accrued interest and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable conditions of State programs and the current year guarantee of federal funds.

Governmental activities:

Property taxes	\$ 505,624
Accrued interest	303
Intergovernmental	<u>31,715</u>
Total	<u>\$ 537,642</u>

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

	Balance 6/30/12	Additions	Deductions	Balance 6/30/13
Governmental activities:				
<i>Capital assets, being depreciated:</i>				
Land improvements	\$ 46,698	\$ -	\$ -	\$ 46,698
Buildings and improvements	2,266,554	118,239	-	2,384,793
Furniture and equipment	111,633	7,500	-	119,133
Total capital assets, being depreciated	<u>2,424,885</u>	<u>125,739</u>	<u>-</u>	<u>2,550,624</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(37,254)	(3,113)	-	(40,367)
Buildings and improvements	(528,557)	(45,332)	-	(573,889)
Furniture and equipment	(105,368)	(797)	-	(106,165)
Total accumulated depreciation	<u>(671,179)</u>	<u>(49,242)</u>	<u>-</u>	<u>(720,421)</u>
Governmental activities capital assets, net	<u>\$ 1,753,706</u>	<u>\$ 76,497</u>	<u>\$ -</u>	<u>\$ 1,830,203</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 44,725
<u>Support services:</u>	
Pupil	133
Instructional staff	237
Administration	237
Operations and maintenance	<u>3,910</u>
Total depreciation expense	<u>\$ 49,242</u>

NOTE 8 - LONG-TERM OBLIGATIONS

During fiscal year 2013, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding 6/30/12	Additions	Reductions	Balance Outstanding 6/30/13	Amounts Due in One Year
Compensated absences	<u>\$ 25,964</u>	<u>\$ 917</u>	<u>\$ (3,942)</u>	<u>\$ 22,939</u>	<u>\$ -</u>

Compensated absences will be paid from the fund from which employees' salaries are paid, which is primarily the general fund (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, 2013

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 - 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, 2013, are a voted debt margin of \$6,800,096 and an unvoted debt margin of \$75,557.

NOTE 11 - 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	\$15,000,000
Aggregate	17,000,000
Building and contents	8,068,931
Equipment	50,000,000
Crime	100,000

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

NOTE 11 - RISK MANAGEMENT - (Continued)

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

C. Workers' Compensation Group Rating Program

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

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 than 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 12 - 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".

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

NOTE 12 - PENSION PLANS - (Continued)

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 2013, 13.05 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, 2013, 2012, and 2011 were \$7,097, \$7,041, and \$7,851, respectively; 100 percent has been contributed for fiscal years 2013, 2012, and 2011.

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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

NOTE 12 - PENSION PLANS - (Continued)

Funding Policy - For fiscal year 2013, 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, 2013, 2012, and 2011 were \$11,305, \$35,905, and \$41,880, respectively; 96.42 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011.

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, 2013, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

NOTE 13 - 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 monthly premium for calendar year 2013 was \$104.90 for most participants, but could be as high as \$335.70 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".

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

NOTE 13 - POSTEMPLOYMENT BENEFITS - (Continued)

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 2013, 0.16 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 2013, the actuarially determined amount was \$20,525.

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, 2013, 2012, and 2011 were \$1,196, \$1,361, and \$1,837, respectively; 100 percent has been contributed for fiscal years 2013, 2012, and 2011.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2013, this actuarially required allocation was 0.74 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2013, 2012, and 2011 were \$401, \$416, and \$505, respectively; 100 percent has been contributed for fiscal years 2013, 2012, and 2011.

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 2013, 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, 2013, 2012, and 2011 were \$870, \$2,762 and \$3,222, respectively; 96.42 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

NOTE 14 - 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).

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

Net Change in Fund Balance

	<u>General fund</u>
Budget basis	\$ 13,101
Net adjustment for revenue accruals	5,253
Net adjustment for expenditure accruals	55,872
Net adjustment for other sources/uses	(17,515)
Adjustment for encumbrances	44,412
GAAP basis	\$ 101,123

NOTE 15 - CONTINGENCIES

A. Grants

The District receives 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, 2013**

NOTE 16 - 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, 2012	\$ -
Current year set-aside requirement	1,357
Current year qualifying expenditures	(7,500)
Current year offsets	<u>(39,637)</u>
Total	<u>\$ (45,780)</u>
Balance carried forward to fiscal year 2014	<u>\$ -</u>
Set-aside balance June 30, 2013	<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.

NOTE 17 - 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:

Fund	Year-End Encumbrances
General	\$ 37,622
Permanent improvement	<u>5,461</u>
Total	<u>\$ 43,083</u>

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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, 2013, 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, wherein we noted the District implemented Governmental Accounting Standards Board (GASB) Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65 *Items Previously Reported as Assets and Liabilities*.

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

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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

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURE

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

To the Board of Education:

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

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

We noted the Board amended its anti-harassment policy at its meeting on August 17, 2011 to include prohibiting harassment, intimidation, or bullying of any student "on a school bus" or by an "electronic act."

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

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

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

Dave Yost
Auditor of State

February 12, 2014

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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**