

Mary Taylor, CPA
Auditor of State

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Kelleys Island Local School District, Erie County, Ohio (the District), as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Kelleys Island Local School District, Erie County, Ohio, as of June 30, 2006, and the respective changes in financial position thereof and the budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2008, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

January 28, 2008

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED**

The 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, 2007. 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 2007 are as follows:

- In total, net assets of governmental activities increased \$137,785 which represents a 6.35% increase from 2006.
- General revenues accounted for \$1,191,864 in revenue or 97.65% of all revenues. Program specific revenues in the form of charges for services and sales and grants and contributions accounted for \$28,723 or 2.35% of total revenues of \$1,220,587.
- The District had \$1,082,802 in expenses related to governmental activities; only \$28,723 of these expenses was offset by program specific charges for services and sales and grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$1,191,864 were adequate to provide for these programs.
- The District's major governmental funds are the general fund and the debt service fund. The general fund had \$1,008,579 in revenues and other financing sources and \$994,558 in expenditures. During fiscal 2007, the general fund's fund balance increased \$14,021 from \$433,381 to \$447,402.
- The District's other major governmental fund is the debt service fund. The debt service fund had \$126,352 in revenues and \$120,108 in expenditures. During fiscal 2007, the debt service fund's fund balance increased \$6,244 from \$24,718 to \$30,962.

Using the Basic Financial Statements

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

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

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2007?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the Statement of Net Assets and the Statement of Activities, the Governmental Activities include the District's programs and services, including instruction, support services, operation and maintenance of plant and extracurricular activities.

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

Reporting the District's Fiduciary Responsibilities

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

Notes to the Basic Financial Statements

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

The District as a Whole

Recall that the Statement of Net Assets provides the perspective of the District as a whole. A comparative analysis has been provided.

The table below provides a summary of the District's net assets for 2007 and 2006.

Net Assets		Governmental Activities 2007	Governmental Activities 2006
<u>Assets</u>			
Current and other assets		\$ 1,681,311	\$ 1,504,881
Capital assets, net		<u>1,999,902</u>	<u>1,937,969</u>
Total assets		<u>3,681,213</u>	<u>3,442,850</u>
<u>Liabilities</u>			
Current liabilities		1,132,170	922,966
Long-term liabilities		<u>242,207</u>	<u>350,833</u>
Total liabilities		<u>1,374,377</u>	<u>1,273,799</u>
<u>Net Assets</u>			
Invested in capital assets, net of related debt		1,764,902	1,592,969
Restricted		53,205	111,707
Unrestricted		<u>488,729</u>	<u>464,375</u>
Total net assets		<u>\$ 2,306,836</u>	<u>\$ 2,169,051</u>

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

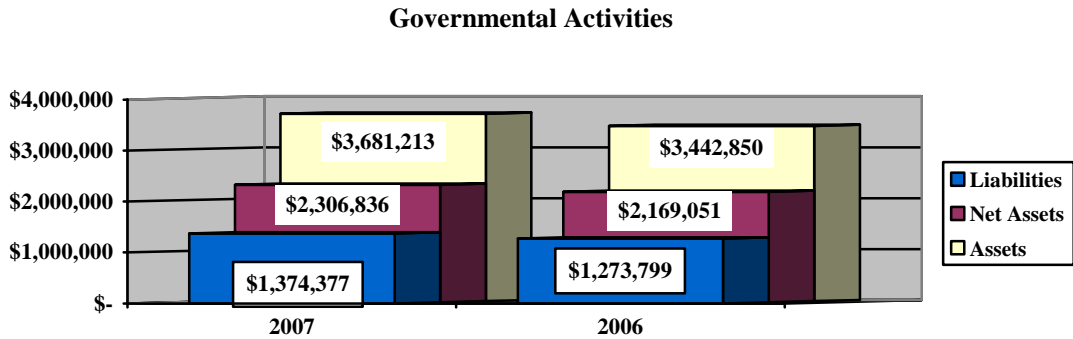
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2007, the District's assets exceeded liabilities by \$2,306,836. At year-end, unrestricted net assets were \$488,729.

At year-end, capital assets represented 54.33% of total assets. Capital assets include land, construction in progress, land improvements, buildings and improvements and furniture and equipment. Capital assets, net of related debt to acquire the assets at June 30, 2007, were \$1,764,902. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$53,205, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$488,729 may be used to meet the District's ongoing obligations to the students and creditors.

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



The table below shows the change in net assets for fiscal year 2007 and 2006.

Change in Net Assets

	Governmental Activities 2007	Governmental Activities 2006
Revenues		
Program revenues:		
Charges for services and sales	\$ 80	
Operating grants and contributions	28,643	\$ 45,880
General revenues:		
Property taxes	1,037,079	918,228
Grants and entitlements	125,081	110,526
Investment earnings	28,213	21,084
Other	1,491	89
Total revenues	<u>1,220,587</u>	<u>1,095,807</u>

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

Change in Net Assets

	<u>Governmental Activities 2007</u>	<u>Governmental Activities 2006</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	547,689	535,511
Special	39,109	39,023
Support services:		
Pupil	49,082	57,137
Instructional staff	90,299	83,009
Board of education	33,379	25,180
Administration	97,863	96,216
Fiscal	37,360	41,380
Operations and maintenance	173,487	96,483
Pupil transportation		447
Extracurricular activities	759	1,483
Interest and fiscal charges	<u>13,775</u>	<u>18,881</u>
Total expenses	<u>1,082,802</u>	<u>994,750</u>
Change in net assets	137,785	101,057
Net assets at beginning of year	<u>2,169,051</u>	<u>2,067,994</u>
Net assets at end of year	<u>\$ 2,306,836</u>	<u>\$ 2,169,051</u>

Governmental Activities

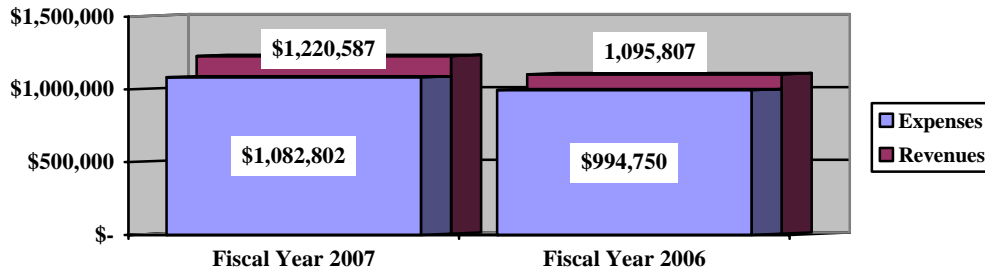
Net assets of the District's governmental activities increased \$137,785 due to increased revenues and additions to capital assets from construction in progress. Total governmental expenses of \$1,082,802 were offset by program revenues of \$28,723 and general revenues of \$1,191,864. Program revenues supported 2.65% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These revenue sources represent 95.21% of total governmental revenue. Real estate property is reappraised every six years. The District's taxpayers, as a whole, are by far the primary support for District's students.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

Governmental Activities - Revenues and Expenses



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. Comparisons to 2006 have been presented below.

	Governmental Activities			
	Total Cost of Services 2007	Net Cost of Services 2007	Total Cost of Services 2006	Net Cost of Services 2006
Program expenses				
Instruction:				
Regular	\$ 547,689	\$ 525,643	\$ 535,511	\$ 496,581
Special	39,109	39,109	39,023	39,023
Support services:				
Pupil	49,082	49,082	57,137	56,575
Instructional staff	90,299	86,622	83,009	79,621
Board of education	33,379	33,379	25,180	25,180
Administration	97,863	97,863	96,216	96,216
Fiscal	37,360	34,360	41,380	38,380
Operations and maintenance	173,487	173,487	96,483	96,483
Pupil transportation			447	447
Extracurricular activities	759	759	1,483	1,483
Interest and fiscal charges	13,775	13,775	18,881	18,881
Total expenses	<u>\$ 1,082,802</u>	<u>\$ 1,054,079</u>	<u>\$ 994,750</u>	<u>\$ 948,870</u>

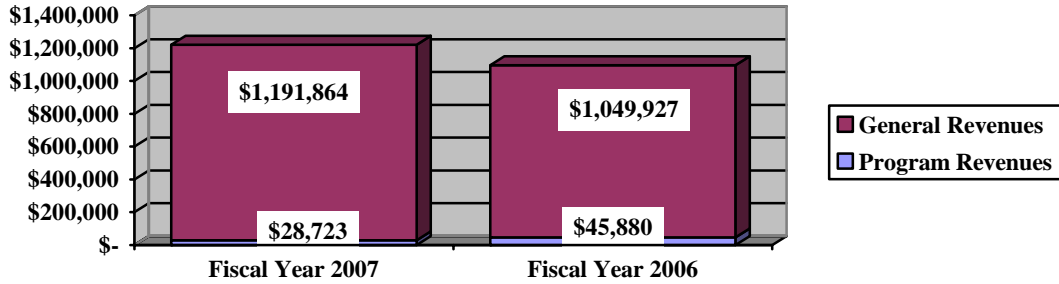
The dependence upon tax and other general revenues for governmental activities is apparent, 96.24% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 97.35%. The District's taxpayers, as a whole, are by far the primary support for District's students.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

The graph below presents the District's governmental activities revenue for fiscal year 2007 and 2006.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds reported a combined fund balance of \$478,712, which is lower than last year's total of \$538,535. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2007 and 2006.

	Fund Balance <u>June 30, 2007</u>	Fund Balance <u>June 30, 2006</u>	Increase <u>(Decrease)</u>
General	\$ 447,402	\$ 433,381	\$ 14,021
Debt Service	30,962	24,718	6,244
Other Governmental	<u>348</u>	<u>80,436</u>	<u>(80,088)</u>
Total	<u>\$ 478,712</u>	<u>\$ 538,535</u>	<u>\$ (59,823)</u>

An analysis of the general fund revenues and expenditures is provided in the section below. The decrease in the fund balances of the other governmental funds is primarily due to a decrease of \$66,755 of the fund balance of the permanent improvement fund. The decrease was a result of expenditures related to the District's construction of a new garage.

General Fund

The District's general fund balance increased \$14,021. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

	<u>2007</u> <u>Amount</u>	<u>2006</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Taxes	\$ 872,308	\$ 766,003	13.88 %
Earnings on investments	24,617	18,251	34.88 %
Classroom materials and supplies	79		100.00 %
Intergovernmental	109,051	94,656	15.21 %
Other revenues	<u>1,492</u>	<u>89</u>	1,576.40 %
Total	<u>\$ 1,007,547</u>	<u>\$ 878,999</u>	14.62 %
<u>Expenditures</u>			
Instruction	\$ 510,489	\$ 517,321	(1.32) %
Support services	397,043	378,512	4.90 %
Extracurricular activities	759	1,483	(48.82) %
Facilities acquisition and construction	<u>86,267</u>	<u>-</u>	100.00 %
Total	<u>\$ 994,558</u>	<u>\$ 897,316</u>	10.84 %

The increase in earnings on investments was due to an increase in interest rates compared to the prior year. The increase in tax revenue was due to a larger amount being available for advance by the County. Other revenues, which are made up of rentals, contributions and donations, classroom materials and fees, and miscellaneous revenues increased primarily due to increasing revenues from local sources. The decrease in instructional services was due to a decrease in wages and benefits. The increase in facilities acquisition and construction was due to the ongoing construction of a new garage for the District.

Debt Service Fund

The debt service fund had \$126,352 in revenues and \$120,108 in expenditures. During fiscal 2007, the debt service fund's fund balance increased \$6,244 from \$24,718 to \$30,962 due to the District prepaying fiscal year 2007 interest in fiscal year 2006.

General Fund Budgeting Highlights

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

During the course of fiscal 2007, the District amended its general fund budget numerous times. For the general fund, final budgeted revenues and other financing sources were \$1,004,466, which was increased from the original budgeted revenues and other financing sources estimate of \$895,216. Actual revenues and other financing sources for fiscal 2007 was \$1,005,243. This represents a \$777 increase from final budgeted revenues and other financing sources.

General fund original appropriations of \$1,303,791 were increased to \$1,413,041 in the final budget. The actual budget basis expenditures for fiscal year 2007 totaled \$1,096,622, which was \$316,419 less than the final budget appropriations. The variance in appropriations was due to the District over budgeting salaries and benefits as well as operations.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2007, the District had \$1,999,902 invested in land, construction in progress, land improvements, buildings and improvements and furniture and equipment. This entire amount is reported in governmental activities. The following table shows fiscal 2007 balances compared to 2006:

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

	Governmental Activities	
	2007	2006
Land	\$ 3,804	\$ 3,804
Construction in progress	122,525	
Land improvements	25,493	28,666
Building and improvements	1,745,315	1,786,496
Furniture and equipment	102,765	119,003
Total	\$ 1,999,902	\$ 1,937,969

Total additions to capital assets for 2007 were \$142,266. The overall increase in capital assets of \$61,933 is primarily due to construction in progress of \$122,525 for fiscal year 2007.

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

Debt Administration

At June 30, 2007, the District had \$235,000 in general obligation bonds outstanding. Of this total, \$115,000 is due within one year and \$120,000 is due in more than one year. The following table summarizes the bonds outstanding.

Outstanding Debt, at Year End

	Governmental Activities 2007	Governmental Activities 2006
General obligation bonds:		
School improvement bond	\$ 235,000	\$ 345,000
Total	\$ 235,000	\$ 345,000

At June 30, 2007, the District's overall legal debt margin was \$7,100,297 with an unvoted debt margin of \$81,159.

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

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

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 cash balance was \$436,073 at June 30, 2007. A one-time delinquent personal property tax payment in fiscal year 2004 resulted in the larger-than-normal carry-over balance. Fiscal year-end general fund cash balances were \$408,575, \$401,433, \$264,331, \$132,151, and \$143,813 at June 30 in fiscal years 2006, 2005, 2004, 2003, and 2002, 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 tri-annual reappraisals and the nature of real estate on the island, there has been a major increase in the real estate value within the district. Since the district is under the 20-mil floor this impacts revenue significantly. Since calendar year 2002, the board has requested the budget commission not collect 2 mils of tax revenue on behalf of the school except for calendar year 2006 was to not to collect 1 mil. 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. Not enough students would find the district over-staffed. The Board of Education and administration realize the need to anticipate such changes in student enrollment.

Another challenge facing the District is the future of state funding. The State of Ohio was found by the Ohio Supreme Court in March 1997 to be operating an unconstitutional educational system, one that was neither adequate nor equitable. Since 1997, the State has directed its tax revenue growth toward school districts with little property tax wealth. On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State school funding plan and granted a motion for reconsideration on November 2, 2001. At this time, the District is unable to determine what effect, if any, this decision and the reconsideration will have on its future State funding and on its financial operations.

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 its revenues and expenditures in accordance with its financial forecast. Overall, the District continues to perform at a high level.

Contacting the District's Financial Management

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

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2007**

		<u>Governmental Activities</u>
Assets:		
Equity in pooled cash and cash equivalents.	\$	463,334
Receivables:		
Taxes		1,193,184
Accounts		1,389
Intergovernmental.		13,187
Prepayments		10,217
Capital assets:		
Land		3,804
Construction in progress		122,525
Depreciable capital assets, net		1,873,573
Total capital assets, net.		<u>1,999,902</u>
Total assets.		<u>3,681,213</u>
Liabilities:		
Accounts payable.		14,541
Contracts payable.		13,313
Accrued wages and benefits		62,377
Pension obligation payable.		8,706
Intergovernmental payable		6,838
Accrued interest payable		5,581
Unearned revenue		1,020,814
Long-term liabilities:		
Due within one year.		115,000
Due in more than one year		127,207
Total liabilities		<u>1,374,377</u>
Net Assets:		
Invested in capital assets, net of related debt.		1,764,902
Restricted for:		
Capital projects		649
Debt service.		37,597
State funded programs.		1,772
Federally funded programs		13,187
Unrestricted.		<u>488,729</u>
Total net assets	\$	<u><u>2,306,836</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

		Program Revenues		Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
Instruction:				
Regular	\$ 547,689	\$ 80	\$ 21,966	\$ (525,643)
Special	39,109			(39,109)
Support services:				
Pupil	49,082			(49,082)
Instructional staff	90,299		3,677	(86,622)
Board of education	33,379			(33,379)
Administration	97,863			(97,863)
Fiscal	37,360		3,000	(34,360)
Operations and maintenance	173,487			(173,487)
Extracurricular activities	759			(759)
Interest and fiscal charges	13,775			(13,775)
Total governmental activities	\$ 1,082,802	\$ 80	\$ 28,643	(1,054,079)
General Revenues:				
Property taxes levied for:				
General purposes				889,596
Debt service				114,009
Capital projects				33,474
Grants and entitlements not restricted to specific programs				125,081
Investment earnings				28,213
Miscellaneous				1,491
Total general revenues				1,191,864
Change in net assets				137,785
Net assets at beginning of year				2,169,051
Net assets at end of year				\$ 2,306,836

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007**

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents	\$ 436,073	\$ 19,393	\$ 7,868	\$ 463,334
Receivables:				
Taxes	1,028,238	124,963	39,983	1,193,184
Accounts	1,389			1,389
Intergovernmental			13,187	13,187
Prepayments	8,038		2,179	10,217
Total assets	<u>\$ 1,473,738</u>	<u>\$ 144,356</u>	<u>\$ 63,217</u>	<u>\$ 1,681,311</u>
Liabilities:				
Accounts payable	\$ 14,541			\$ 14,541
Contracts payable			\$ 13,313	13,313
Accrued wages and benefits	62,377			62,377
Pension obligation payable	8,706			8,706
Intergovernmental payable	6,837		1	6,838
Deferred revenue	54,115	\$ 6,635	15,260	76,010
Unearned revenue	879,760	106,759	34,295	1,020,814
Total liabilities	<u>1,026,336</u>	<u>113,394</u>	<u>62,869</u>	<u>1,202,599</u>
Fund Balances:				
Reserved for encumbrances	99,766			99,766
Reserved for prepayments	8,038		2,179	10,217
Reserved for property tax unavailable for appropriation	94,363	11,569	3,615	109,547
Unreserved, undesignated (deficit), reported in:				
General fund	245,235			245,235
Special revenue funds			(1)	(1)
Debt service fund		19,393		19,393
Capital projects funds			(5,445)	(5,445)
Total fund balances	<u>447,402</u>	<u>30,962</u>	<u>348</u>	<u>478,712</u>
Total liabilities and fund balances	<u>\$ 1,473,738</u>	<u>\$ 144,356</u>	<u>\$ 63,217</u>	<u>\$ 1,681,311</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2007**

Total governmental fund balances		\$	478,712
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			1,999,902
Other long-term assets, such as taxes, are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	62,823	
Intergovernmental revenue		<u>13,187</u>	
			76,010
In the statement of activities interest accrues on outstanding bonds, whereas in governmental funds, interest expenditures are reported when due.			(5,581)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
Compensated absences	\$	(7,207)	
General obligation bonds payable		<u>(235,000)</u>	
Total			<u>(242,207)</u>
Net assets of governmental activities		\$	<u><u>2,306,836</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Taxes	\$ 872,308	\$ 112,616	\$ 32,712	\$ 1,017,636
Earnings on investments.	24,617	1,229	2,367	28,213
Classroom materials and fees	79			79
Other local revenues.	1,492			1,492
Intergovernmental - State	109,051	12,507	11,623	133,181
Intergovernmental - Federal			7,356	7,356
Total revenues	<u>1,007,547</u>	<u>126,352</u>	<u>54,058</u>	<u>1,187,957</u>
Expenditures:				
Current:				
Instruction:				
Regular	471,380		22,112	493,492
Special.	39,109			39,109
Support services:				
Pupil.	48,693		268	48,961
Instructional staff	85,570		3,409	88,979
Board of education	33,379			33,379
Administration.	97,648			97,648
Fiscal	31,899	1,914	3,547	37,360
Operations and maintenance.	99,854			99,854
Extracurricular activities.	759			759
Facilities acquisition and construction	86,267		104,810	191,077
Debt service:				
Principal retirement		110,000		110,000
Interest and fiscal charges		8,194		8,194
Total expenditures	<u>994,558</u>	<u>120,108</u>	<u>134,146</u>	<u>1,248,812</u>
Excess (deficiency) of revenues over (under) expenditures	<u>12,989</u>	<u>6,244</u>	<u>(80,088)</u>	<u>(60,855)</u>
Other financing sources:				
Sale of capital assets	1,032			1,032
Total other financing sources	<u>1,032</u>			<u>1,032</u>
Net change in fund balances	14,021	6,244	(80,088)	(59,823)
Fund balances at beginning of year	<u>433,381</u>	<u>24,718</u>	<u>80,436</u>	<u>538,535</u>
Fund balances at end of year.	<u>\$ 447,402</u>	<u>\$ 30,962</u>	<u>\$ 348</u>	<u>\$ 478,712</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

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, 2007

Net change in fund balances - total governmental funds \$ (59,823)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.

Capital asset additions	\$	142,266	
Current year depreciation		<u>(78,431)</u>	
 Total			 63,835

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (1,902)

Revenues in the statement of activities, such as taxes, that do not provide current financial resources are not reported as revenues in the funds.

Property taxes		19,443	
Intergovernmental revenue		<u>13,187</u>	
 Total			 32,630

Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement net assets. 110,000

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, interest is expensed when due. (5,581)

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of financial resources and therefore are not reported as expenditures in governmental funds. (1,374)

Change in net assets of governmental activities \$ 137,785

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

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, 2007

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 772,237	\$ 866,479	\$ 867,122	\$ 643
Earnings on investments	22,281	25,000	24,617	(383)
Classroom materials and fees			79	79
Other local revenues			103	103
Intergovernmental - State	97,133	108,987	109,051	64
Total revenues	<u>891,651</u>	<u>1,000,466</u>	<u>1,000,972</u>	<u>506</u>
Expenditures:				
Current:				
Instruction:				
Regular	630,331	597,598	474,858	122,740
Special	49,250	50,750	40,107	10,643
Support services:				
Pupil	76,631	76,631	51,881	24,750
Instructional staff	108,992	116,292	94,498	21,794
Board of education	42,450	46,842	33,600	13,242
Administration	107,250	105,250	98,983	6,267
Fiscal	55,657	41,658	31,909	9,749
Operations and maintenance	117,720	128,520	103,020	25,500
Pupil transportation	1,000	1,000		1,000
Extracurricular activities	4,510	4,510	1,059	3,451
Facilities acquisition and construction		243,990	166,707	77,283
Debt service:				
Principal retirement	110,000			
Total expenditures	<u>1,303,791</u>	<u>1,413,041</u>	<u>1,096,622</u>	<u>316,419</u>
Deficiency of revenue under expenditures	<u>(412,140)</u>	<u>(412,575)</u>	<u>(95,650)</u>	<u>316,925</u>
Other financing sources:				
Refund of prior year expenditure	3,565	4,000	3,239	(761)
Sale of capital assets			1,032	1,032
Total other financing sources	<u>3,565</u>	<u>4,000</u>	<u>4,271</u>	<u>271</u>
Net change in fund balance	(408,575)	(408,575)	(91,379)	317,196
Fund balance at beginning of year	392,045	392,045	392,045	
Prior year encumbrances appropriated	\$ 16,530	\$ 16,530	16,530	
Fund balance at end of year	<u><u>392,045</u></u>	<u><u>392,045</u></u>	<u><u>\$ 317,196</u></u>	<u><u>\$ 317,196</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2007

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 18,340	
Receivables:		
Taxes		\$ 63,894
Total assets.	18,340	\$ 63,894
Liabilities:		
Intergovernmental payable		\$ 63,894
Total liabilities		\$ 63,894
Net Assets:		
Held in trust for scholarships	18,340	
Total net assets	\$ 18,340	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	<u>Private-Purpose Trust</u>	
	<u>Scholarship</u>	
Additions:		
Interest	\$	968
Gifts and contributions.		<u>150</u>
Total additions.		<u>1,118</u>
Deductions:		
Scholarships awarded		<u>1,700</u>
Change in net assets		(582)
Net assets at beginning of year.		<u>18,922</u>
Net assets at end of year	<u>\$</u>	<u><u>18,340</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

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

The District ranks as the 873rd largest by enrollment among the 876 public and community schools in the state and 7th in Erie County. It currently operates 1 elementary school, 1 middle school, and 1 comprehensive high school. The District employs 2 non-certified and 8 certified employees to provide services to 19 students in grades K through 12 and various community groups.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the District are not misleading. 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, preschool 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. Based upon the application of these criteria, the District has no component units. The following organizations are described due to their relationship to the District:

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

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

PUBLIC ENTITY RISK POOLS

Huron-Erie School Employees Insurance Association

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

Ohio School Boards Association Workers' Compensation Group Rating Program

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

JOINTLY GOVERNED ORGANIZATION

Northern Ohio Educational Computer Association (NOECA)

The NOECA is a jointly governed organization among 41 area school districts and service centers. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member school districts and service centers. Each of the governments of these schools supports the NOECA based upon a per pupil charge, dependent upon the software package utilized. The NOECA assembly consists of a superintendent from each participating service center and a representative from the fiscal agent. The NOECA is governed by a Board of Directors chosen from the general membership of the NOECA Assembly. The Board of Directors consists of a representative from the fiscal agent, the chairman of each of the operating committees, and two Assembly members from each county in which participating service centers are located. Each Service center's authority is limited to its representation on the Board. Financial information can be obtained by contacting Betty Schwiefert, who serves as Controller, at 2900 South Columbus Avenue, Sandusky, Ohio 44870.

B. Fund Accounting

The District uses funds 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.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

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

GOVERNMENTAL FUNDS

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

General Fund - The general fund is used to account for all financial resources except those required to be accounted for 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.

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

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities; and (b) for grants and other resources whose use is restricted to a particular purpose.

PROPRIETARY FUNDS

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

FIDUCIARY FUNDS

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

C. Basis of Presentation and Measurement Focus

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

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

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

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

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

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

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

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

D. Basis of Accounting

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

Revenues - Exchange and Non-exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year-end.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

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

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

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2007, but which were levied to finance fiscal year 2008 operations, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at June 30, 2007 are recorded as deferred revenue.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities received during the year is reported in the fund financial statements as an expenditure with a like amount reported as intergovernmental revenue.

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. Allocation of cost, such as depreciation and amortization, are not recognized in governmental funds.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

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 express purpose of this budget document is to reflect the need for existing (or increased tax rates). By no later than January 20, the Board-adopted budget is filed with the Erie County Budget Commission for rate determination.

Estimated Resources:

By April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commissions' Certificate of Estimated Resources, which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as 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 2007.

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**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

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 in a central bank account. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the basic financial statements.

During fiscal year 2007, investments were limited to investments in the State Treasury Asset Reserve of Ohio (STAR Ohio).

The District had invested funds in STAR Ohio during fiscal 2007. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2007.

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 2007 amounted to \$24,617, which includes \$393 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**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

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 assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$500. 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 except land and construction in progress 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. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age 50 or greater with at least 10 years of service and all employees with at least 20 years of service regardless of their age were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

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

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

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

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

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. Bonds and contractually required pension contributions are recognized on the fund financial statements when due.

J. Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, prepayments and property taxes unavailable for appropriation. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under State statute.

K. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

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

L. 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.

M. 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. The District had no interfund transactions during fiscal year 2007.

N. 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 2007.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

Deficit Fund Balance

Fund balances at June 30, 2007, included the following individual fund deficit:

	<u>Deficit</u>
<u>Nonmajor Fund</u>	
Permanent Improvement	\$ 1,424

The general fund is liable for any deficits in this fund and provides transfers when cash is required, not when accruals occur. This deficit fund balance is the result of 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**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

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 moneys 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 to 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.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)

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

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

A. Deposits with Financial Institutions

At June 30, 2007, the carrying amount of all District deposits was \$(10,367). A liability was not recorded for the negative carrying amount of deposits because there was no actual overdraft due to the "zero-balance" nature of the district's bank accounts. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2007, the District's entire bank balance of \$9,749 was covered by the Federal Deposit Insurance Corporation.

B. Investments

As of June 30, 2007, the District had an investment in STAR Ohio with maturities of 6 months or less.

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

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

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

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**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)

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

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2007:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ (10,367)
Investments	492,041
Total	<u>\$ 481,674</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 463,334
Private-purpose trust funds	18,340
Total	<u>\$ 481,674</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, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2007 represents collections of calendar year 2006 taxes. Real property taxes received in calendar year 2007 were levied after April 1, 2006, on the assessed value listed as of January 1, 2006, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established

Public utility property tax revenue received in calendar 2007 represents collections of calendar year 2006 taxes. Public utility real and tangible personal property taxes received in calendar year 2007 became a lien January 1, 2006, were levied after April 1, 2006 and are collected in 2007 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

NOTE 5 - PROPERTY TAXES – (Continued)

Tangible personal property tax revenue received during calendar 2007 (other than public utility property) represents the collection of 2007 taxes. Tangible personal property taxes received in calendar year 2007 were levied after April 1, 2006, on the value as of December 31, 2006. For 2006, tangible personal property is assessed at 18.75% for property including inventory. This percentage will be reduced to 12.5% for 2007, 6.25% for 2008 and zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the District due to the phasing out of the tax. In calendar years 2007-2010, the District will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

The District receives property taxes from Erie County. The County Auditor periodically advances to the District the portion of the taxes collected. Second-half real property tax payments collected by the County Auditor by June 30, 2007, are available to finance fiscal year 2007 operations. The amount that was available as an advance at June 30, 2007 was \$94,363 in the general fund, \$11,569 in the debt service fund, \$3,615 in the Permanent Improvement capital projects fund (a nonmajor governmental fund). The amounts that were available as an advance at June 30, 2006 was \$89,177 in the general fund, \$12,694 in the debt service fund and \$3,174 in the Permanent Improvements capital projects fund (a nonmajor governmental fund). The amounts that are available for advance at fiscal year end can vary depending upon when tax bills are sent by the County Auditor.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2007 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to unearned revenue.

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

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

NOTE 5 - PROPERTY TAXES – (Continued)

The assessed values upon which the fiscal year 2007 taxes were collected are:

	2006 Second Half Collections		2007 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential real estate	\$ 57,375,860	90.42	\$ 74,487,810	91.16
Commercial/industrial real estate	4,479,650	7.06	5,856,230	7.17
Public utility tangible	876,540	1.38	913,170	1.12
General tangible personal property	<u>721,880</u>	<u>1.14</u>	<u>451,350</u>	<u>0.55</u>
Total	<u>\$ 63,453,930</u>	<u>100.00</u>	<u>\$ 81,708,560</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation for:				
Operations	\$14.05		\$13.05	
Permanent improvements	0.50		0.50	
Debt Service	2.00		1.60	

NOTE 6 - RECEIVABLES

Receivables at June 30, 2007, consisted of taxes 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 condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported in the statement of net assets follows:

Governmental Activities:

Taxes	\$ 1,193,184
Accounts	1,389
Intergovernmental	<u>13,187</u>
Total	<u>\$ 1,207,760</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**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

	<u>Balance 06/30/06</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 06/30/07</u>
Governmental Activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 3,804	\$ -	\$ -	\$ 3,804
Construction in progress	-	<u>122,525</u>	-	<u>122,525</u>
Total capital assets, not being depreciated	<u>3,804</u>	<u>122,525</u>	<u>-</u>	<u>126,329</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	47,597			47,597
Buildings and improvements	2,062,998			2,062,998
Furniture and equipment	<u>367,377</u>	<u>19,741</u>	<u>(26,811)</u>	<u>360,307</u>
Total capital assets, being depreciated	<u>2,477,972</u>	<u>19,741</u>	<u>(26,811)</u>	<u>2,470,902</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(18,931)	(3,173)		(22,104)
Buildings and improvements	(276,502)	(41,181)		(317,683)
Furniture and equipment	<u>(248,374)</u>	<u>(34,077)</u>	<u>24,909</u>	<u>(257,542)</u>
Total accumulated depreciation	<u>(543,807)</u>	<u>(78,431)</u>	<u>24,909</u>	<u>(597,329)</u>
Governmental activities capital assets, net	<u>\$ 1,937,969</u>	<u>\$ 63,835</u>	<u>\$ (1,902)</u>	<u>\$ 1,999,902</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular \$ 65,221

Support Services:

Pupil 121
Instructional staff 1,320
Administration 215
Operations and maintenance 11,554

Total depreciation expense \$ 78,431

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

NOTE 8 - LONG-TERM OBLIGATIONS

- A. During the fiscal year ended June 30, 2007, the following activity occurred in the governmental activities long-term obligations.

	Balance		Balance	Amount
	<u>06/30/06</u>	<u>Additions</u>	<u>06/30/07</u>	<u>Due in</u>
				<u>One Year</u>
Governmental Activities:				
Compensated absences payable	\$ 5,833	\$ 1,374	\$ -	\$ -
General obligation bond payable	<u>345,000</u>	<u>-</u>	<u>(110,000)</u>	<u>115,000</u>
Total governmental activities long-term liabilities	<u>\$ 350,833</u>	<u>\$ 1,374</u>	<u>\$ (110,000)</u>	<u>\$ 115,000</u>

Compensated absences - Compensated absences will be paid from the fund in which the employee was paid, which is primarily the general fund.

School Improvement Bonds - The current obligation bond outstanding were issued to provide funds for a building addition and improvements, bearing an interest rate of 4.75% and mature on January 1, 2009. The bonds are a general obligation of the District for which the full faith and credit of the District is pledged for repayment. Accordingly, such unmatured obligations of the District are accounted for on the statement of net assets. Payments of principal and interest relating to the bond are recorded as expenditures in the debt service fund on the fund financial statements.

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

Fiscal Year Ending June 30	Principal on Bond	Interest on Bond	Total
2008	\$ 115,000	\$ 11,163	\$ 126,163
2009	<u>120,000</u>	<u>5,700</u>	<u>125,700</u>
Total	<u>\$ 235,000</u>	<u>\$ 16,863</u>	<u>\$ 251,863</u>

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

NOTE 8 - LONG-TERM OBLIGATIONS – (Continued)

C. 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 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, 2007, are a voted debt margin of \$7,100,297 (including available funds of \$30,962) and an unvoted debt margin of \$81,159.

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

NOTE 10 - RISK MANAGEMENT

A. Comprehensive

The District maintains comprehensive insurance coverage with private carriers for liability, real property, building contents and boiler/machinery. In addition, real property contents are 90% coinsured. The following is a description of the District's insurance coverage:

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

NOTE 10 - RISK MANAGEMENT – (Continued)

<u>Coverage</u>	<u>Insurer</u>	<u>Limits of Coverage</u>	<u>Deductible</u>
General liability: Each occurrence	Mutual Insurance	\$ 1,000,000	
Aggregate		1,000,000	
Building and contents	Westfield Insurance	4,005,090	\$ 1,000
Boiler and machinery	Cincinnati Insurance	3,900,000	2,500
Crime	Westfield Insurance	25,000	

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

B. Health Insurance

The District provides employee health care benefits through the Erie-Huron-Ottawa Educational Service Center. The Erie-Huron-Ottawa Educational Service Center has contracted 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 14 school districts that provide public education within Erie and Huron Counties. 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.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

NOTE 10 - RISK MANAGEMENT – (Continued)

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

NOTE 11 - PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

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 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board.

The District's required contribution for pension obligations to SERS for fiscal years ended 2007, 2006, and 2005, were \$6,496, \$5,867, and \$6,116, respectively. 100 percent has been contributed for fiscal years 2007, 2006, and 2005.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

NOTE 11 - PENSION PLANS – (Continued)

B. State Teachers Retirement System

The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. 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 43215-3371 or by calling (614) 227-4090, or by visiting the STRS Ohio website at www.strsoh.org.

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 member contributions and earned interest matched by STRS Ohio funds times 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 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. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. 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 dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2007, 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. For fiscal years 2006 and 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for fund pension obligations to STRS Ohio for the fiscal years ended June 30, 2007, 2006, and 2005, were \$50,058, \$50,448, and \$43,078, respectively. 100 percent has been contributed for fiscal years 2006 and 2005, and 83.85 percent has been contributed for fiscal year 2007. \$8,084 represents the unpaid pension contribution for fiscal year 2007 and is recorded as a liability within the respective funds.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

NOTE 11 - PENSION PLANS – (Continued)

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2007, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

NOTE 12 - POSTEMPLOYMENT BENEFITS

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

All STRS Ohio retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$3,851 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006 (the latest information available), the balance in the Health Care Stabilization Fund was \$3.5 billion. For the fiscal year ended June 30, 2006 (the latest information available), net health care costs paid by STRS Ohio were \$282.743 million and STRS Ohio had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, a decrease of .10 percent from fiscal year 2006. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay was established at \$35,800. Total surcharge is capped at 2 percent of each employer's SERS salaries. For the 2007 fiscal year, District paid \$5,991 to fund health care benefits, including the surcharge.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

NOTE 12 - POSTEMPLOYMENT BENEFITS – (Continued)

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next year. Expenses for health care for the fiscal year ended June 30, 2006 (the latest information available) were \$158.751 million. At June 30, 2006 (the latest information available), SERS had net assets available for payment of health care benefits of \$295.6 million. At June 30, 2006 (the latest information available), SERS had 59,492 participants currently receiving health care benefits.

NOTE 13 - BUDGETARY BASIS OF ACCOUNTING

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

The Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (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 a reservation of 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	\$ (91,379)
Net adjustment for revenue accruals	6,575
Net adjustment for expenditure accruals	(16,813)
Net adjustment for other sources/uses	(3,239)
Adjustment for encumbrances	<u>118,877</u>
GAAP basis	<u>\$ 14,021</u>

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

NOTE 14 - CONTINGENCIES

A. Grants

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

B. Litigation

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

NOTE 15 - STATUTORY RESERVES

The District is required by State law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash-basis. During the fiscal year ended June 30, 2007, the reserve activity was as follows:

	Textbooks/ Instructional <u>Materials</u>	Capital <u>Acquisition</u>
Set-aside cash balance as of June 30, 2006	\$ (143,889)	\$ -
Current year set-aside requirement	2,615	2,615
Current year offset		(32,071)
Qualifying disbursements	<u>(22,594)</u>	<u>(32,276)</u>
Total	<u>\$ (163,868)</u>	<u>\$ (61,732)</u>
Balance carried forward to FY 2008	<u>\$ (163,868)</u>	<u>\$ -</u>

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

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

NOTE 16 - CONTRACTUAL COMMITMENTS

At June 30, 2007, the District had the following outstanding contractual commitments for the construction of a new garage:

<u>Vendor</u>	<u>Contract Amount</u>	<u>Amount Paid</u>	<u>Amount Outstanding</u>
Midwest Compost	\$ 178,717	\$ (98,276)	\$ 80,441
Total	<u>\$ 178,717</u>	<u>\$ (98,276)</u>	<u>\$ 80,441</u>



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Kelleys Island Local School District, Erie County, (the District) as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 28, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the District's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the District's internal control will not prevent or detect a material financial statement misstatement.

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

Compliance and Other Matters

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

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

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

January 28, 2008



Mary Taylor, CPA
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, 2008**