



**KIRTLAND LOCAL SCHOOL DISTRICT
LAKE COUNTY
REGULAR AUDIT
FOR THE YEAR ENDED JUNE 30, 2005**



**Auditor of State
Betty Montgomery**

**KIRTLAND LOCAL SCHOOL DISTRICT
LAKE COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Board of Education
Kirtland Local School District
Lake County
9252 Chillicothe Road
Kirtland, Ohio 44094

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of the Kirtland Local School District, Lake County, Ohio, (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of the Kirtland Local School District, Lake County, Ohio, as of June 30, 2005, and the respective changes in financial position and where applicable, cash flows, 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 April 14, 2006, 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.

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 "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

April 14, 2006

Kirtland Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

The discussion and analysis of Kirtland Local School District's financial performance is presented by the School District's Treasurer and provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2005 include:

- There was a significant increase in the general fund balance of \$1,930,379. This report will analyze various factors contributing to the increase.
- Total revenues of \$14,682,590 were comprised of general revenues in the amount of \$12,300,779 or 83.78 percent and program specific revenues from charges for services, grants and contributions in the amount of \$2,381,811 or 16.22 percent.
- Total assets increased by \$2,031,809 due to the realization of a full year of tax collections from a new levy.
- Total net assets increased by \$2,093,058 primarily due to a half year of tax collections from a new levy.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes pertaining to those statements. These statements are organized so the reader can understand the Kirtland Local School District as a financial whole, or complete 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 School District, presenting both an aggregate and longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements explain how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other non-major funds presented in total in one column. In the case of Kirtland Local School District, the general fund is the most significant fund.

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

The analysis of the School District as a whole begins on page 6. The view of the School District as a whole looks at all financial transactions and asks the questions, "Are we in a better financial position this year than last?" and "Why" or "Why not". The Statement of Net Assets and the Statement of Activities provide the basis for answering these questions. The statements include *all assets* and *liabilities* using the

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accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting recognizes all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the Statement of Net Assets and the Statement of Activities, we show the School District divided into two kinds of activities:

- **Governmental Activities** – All of the School District's instructional activities are reported here. Property taxes, state and federal grants and fees finance the majority of activity in this group.
- **Business-type Activity** – A business-type activity is one in which the Board of Education charges a fee to customers to help it recover some or all of the costs incurred in a program. The School District's transportation program is reported here.

Reporting the School District's Most Significant Funds

The analysis of the School District's major funds begins on page 9. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, the fund financial statements focus on the School District's most significant funds.

Governmental Funds - The School 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* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the School 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 financial statements of the *Governmental Funds*.

Proprietary Funds - Proprietary funds have historically operated as enterprise and internal service funds using the same basis of accounting as the business-type activity; however, beginning with the fiscal year 2004 report, the School District reports the food service enterprise fund as a special revenue fund and the transportation internal service fund as an enterprise fund. The transportation enterprise fund accounts for all scheduling and dispatching of buses for special education students in Lake and Geauga counties. The internal service fund accounts for the self-insurance fund for medical claims. The enterprise and internal service funds are reported separately as the School District's proprietary funds.

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The School District as a Whole

You may recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a comparison of the School District's Net Assets for 2005 compared to 2004:

(Table 1)
Net Assets

| | Governmental Activities | | Business-Type Activity | | Total | |
|--|-------------------------|--------------------|------------------------|------------------|--------------------|--------------------|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Assets | | | | | | |
| Current and Other Assets | \$15,156,289 | \$12,784,760 | \$119,272 | \$105,410 | \$15,275,561 | \$12,890,170 |
| Capital Assets, Net | 3,343,859 | 3,548,241 | 340,855 | 490,055 | 3,684,714 | 4,038,296 |
| <i>Total Assets</i> | <u>18,500,148</u> | <u>16,333,001</u> | <u>460,127</u> | <u>595,465</u> | <u>18,960,275</u> | <u>16,928,466</u> |
| Liabilities | | | | | | |
| Current and Other Liabilities | 9,865,345 | 9,737,659 | 33,703 | 31,776 | 9,899,048 | 9,769,435 |
| Long-Term Liabilities: | | | | | | |
| Due Within One Year | 411,636 | 382,607 | 3,261 | 3,258 | 414,897 | 385,865 |
| Due in More than One Year | 1,295,624 | 1,512,886 | 7,109 | 9,741 | 1,302,733 | 1,522,627 |
| <i>Total Liabilities</i> | <u>11,572,605</u> | <u>11,633,152</u> | <u>44,073</u> | <u>44,775</u> | <u>11,616,678</u> | <u>11,677,927</u> |
| Net Assets | | | | | | |
| Invested in Capital Assets, Net of Debt | 2,308,859 | 2,286,329 | 340,855 | 490,055 | 2,649,714 | 2,776,384 |
| Restricted: | | | | | | |
| Capital Projects | 204,722 | 123,996 | 0 | 0 | 204,722 | 123,996 |
| Debt Service | 293,084 | 266,862 | 0 | 0 | 293,084 | 266,862 |
| Set Asides | 55,116 | 55,116 | 0 | 0 | 55,116 | 55,116 |
| Other Purposes | 288,629 | 279,782 | 0 | 0 | 288,629 | 279,782 |
| Unrestricted | 3,777,133 | 1,687,764 | 75,199 | 60,635 | 3,852,332 | 1,748,399 |
| <i>Total Net Assets</i> | <u>\$6,927,543</u> | <u>\$4,699,849</u> | <u>\$416,054</u> | <u>\$550,690</u> | <u>\$7,343,597</u> | <u>\$5,250,539</u> |

Total assets increased \$2,031,809 primarily due to collection of taxes from the 5.9 mill emergency levy passed in May of 2003. The collection of this levy began in January 2004 at 5.15 mills. The rate was reduced because the levy is designed to generate a specific dollar amount each year and the assessed value of property within the School District has increased since the passage of the levy.

Total current liabilities in governmental activities increased by \$127,686 from increased deferred revenue generated by the new property tax levy. Total long-term liabilities of governmental activities decreased by \$188,233 due to the paying down of the long-term debt.

Table 2 shows the changes in net assets for fiscal year 2005 and corresponds to the Statement of Activities.

Kirtland Local School District
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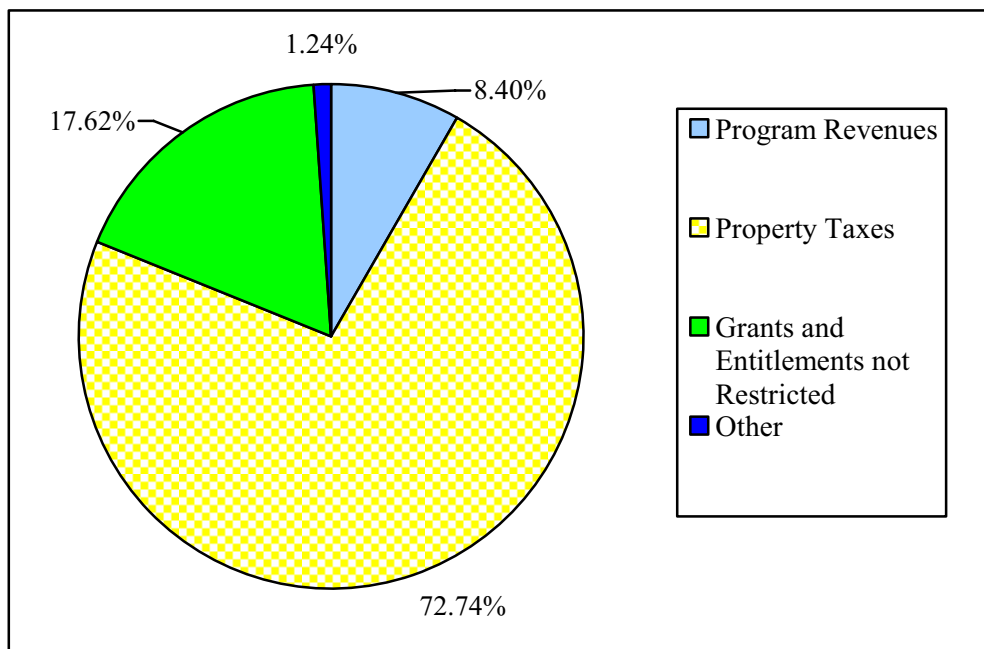
(Table 2)
Change in Net Assets

| | Governmental Activities | | Business-Type Activity | | Total | |
|--|-------------------------|--------------------|------------------------|------------------|--------------------|--------------------|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Revenues | | | | | | |
| <i>Program Revenues</i> | | | | | | |
| Charges for Services and Sales | \$527,098 | \$581,243 | \$1,253,688 | \$1,269,674 | \$1,780,786 | \$1,850,917 |
| Operating Grants, Interest and Contributions | 586,470 | 452,890 | 0 | 0 | 586,470 | 452,890 |
| Capital Grants | 14,555 | 0 | 0 | 0 | 14,555 | 0 |
| <i>Total Program Revenues</i> | <u>1,128,123</u> | <u>1,034,133</u> | <u>1,253,688</u> | <u>1,269,674</u> | <u>2,381,811</u> | <u>2,303,807</u> |
| <i>General Revenues</i> | | | | | | |
| Property Taxes | 9,765,891 | 8,645,611 | 0 | 0 | 9,765,891 | 8,645,611 |
| Grants and Entitlements not Restricted to Specific Programs | 2,365,598 | 2,242,521 | 0 | 0 | 2,365,598 | 2,242,521 |
| Investment Earnings | 87,512 | 25,746 | 3,591 | 3,365 | 91,103 | 29,111 |
| Miscellaneous | 78,187 | 44,466 | 0 | 0 | 78,187 | 44,466 |
| <i>Total General Revenues</i> | <u>12,297,188</u> | <u>10,958,344</u> | <u>3,591</u> | <u>3,365</u> | <u>12,300,779</u> | <u>10,961,709</u> |
| <i>Total Revenues</i> | <u>13,425,311</u> | <u>11,992,477</u> | <u>1,257,279</u> | <u>1,273,039</u> | <u>14,682,590</u> | <u>13,265,516</u> |
| Program Expenses | | | | | | |
| <i>Instruction</i> | | | | | | |
| Regular | 4,816,768 | 4,616,420 | 0 | 0 | 4,816,768 | 4,616,420 |
| Special | 858,440 | 867,274 | 0 | 0 | 858,440 | 867,274 |
| Vocational | 28,327 | 27,565 | 0 | 0 | 28,327 | 27,565 |
| <i>Support Services:</i> | | | | | | |
| Pupils | 603,115 | 803,445 | 0 | 0 | 603,115 | 803,445 |
| Instructional Staff | 496,382 | 529,924 | 0 | 0 | 496,382 | 529,924 |
| Board of Education | 146,936 | 134,329 | 0 | 0 | 146,936 | 134,329 |
| Administration | 859,256 | 818,798 | 0 | 0 | 859,256 | 818,798 |
| Fiscal | 378,209 | 427,502 | 0 | 0 | 378,209 | 427,502 |
| Business | 12,434 | 9,780 | 0 | 0 | 12,434 | 9,780 |
| <i>Operation and Maintenance</i> | | | | | | |
| of Plant | 965,968 | 1,095,427 | 0 | 0 | 965,968 | 1,095,427 |
| Pupil Transportation | 794,676 | 879,430 | 0 | 0 | 794,676 | 879,430 |
| Central | 113,274 | 137,557 | 0 | 0 | 113,274 | 137,557 |
| Extracurricular Activities | 686,563 | 654,800 | 0 | 0 | 686,563 | 654,800 |
| <i>Operation of Non-Instructional</i> | | | | | | |
| <i>Services:</i> | | | | | | |
| Food Service Operations | 264,859 | 241,931 | 0 | 0 | 264,859 | 241,931 |
| Other Non-Instructional Services | 134,929 | 153,538 | 0 | 0 | 134,929 | 153,538 |
| Interest and Fiscal Charges | 37,481 | 45,882 | 0 | 0 | 37,481 | 45,882 |
| Transportation | 0 | 0 | 1,391,915 | 1,516,478 | 1,391,915 | 1,516,478 |
| <i>Total Program Expenses</i> | <u>11,197,617</u> | <u>11,443,602</u> | <u>1,391,915</u> | <u>1,516,478</u> | <u>12,589,532</u> | <u>12,960,080</u> |
| <i>Increase (Decrease) in Net Assets</i> | 2,227,694 | 548,875 | (134,636) | (243,439) | 2,093,058 | 305,436 |
| <i>Net Assets Beginning of Year</i> | <u>4,699,849</u> | <u>4,150,974</u> | <u>550,690</u> | <u>794,129</u> | <u>5,250,539</u> | <u>4,945,103</u> |
| <i>Net Assets End of Year</i> | <u>\$6,927,543</u> | <u>\$4,699,849</u> | <u>\$416,054</u> | <u>\$550,690</u> | <u>\$7,343,597</u> | <u>\$5,250,539</u> |

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Unaudited

Property taxes made up 72.74 percent of total revenues for governmental activities for Kirtland Local School District in fiscal year 2005. Program Revenues comprised of charges for services and sales and operating and capital grants and contributions provided 8.4 percent of total revenues. 91.60 percent of all governmental activities are supported through property taxes, grants and entitlements, and other general revenues. The 17.62 percent provided by the grants and entitlements portion of general revenues includes monies received from the Ohio Department of Education, State Foundation Program and property tax relief such as the homestead exemptions and rollbacks provided by HB 920. The community, through its willingness to provide property tax revenues, is by far the primary support for Kirtland Local School District students.

(Graph 1)
Revenue Distribution - Governmental Activities

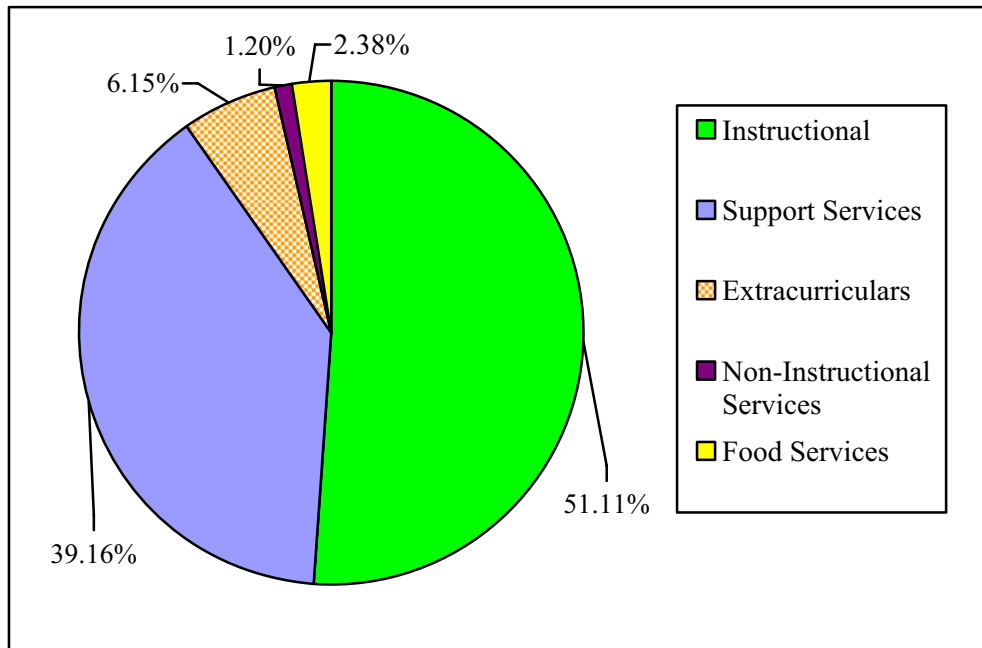


The School District was responsible for providing educational services for 1,128 eligible community members. Regular education expenses encompassed 84.45 percent of all instructional expenses. Special instruction costs equaled 15.05 percent of total instructional expenses. Vocational education programs such as living skills and occupational work programs made up .50 percent of the instructional expenses and are offered to the entire student population.

Total expenses are made up by two main areas; instructional and support services. Support Services is then broken down into many subsections. Instructional costs made up 50.94 percent of all expenses. Support services were 39.03 percent of expenses and provide services such as busing, building and grounds maintenance, administration, board of education, fiscal and other. Food services and extracurricular accounted for 8.50 percent of the expenses. These two activities generate revenue through sales and fees.

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(Graph 2)
Governmental Expenses



Governmental Activities

The School District has carefully planned its financial existence by forecasting its revenues and expenditures over the next five years. In May of 2003, the School District successfully passed a 5.9 mill emergency operating levy. Collections began the second half of fiscal year 2004. The full effect of this levy was realized in fiscal year 2005.

Although the School District relies heavily upon local property taxes to support its operations, the School District does actively solicit and receive additional grant and entitlement funds to help offset some operating costs.

Approximately 50.94 percent of the School Districts budget is used to fund instructional expenses. Additional supporting services for pupils, staff and business operations encompass 39.03 percent. The remaining amount of program expenses, 10.03 percent, is budgeted to pay for other obligations of the School District such as interest and fiscal charges, the food service program and numerous extracurricular activities.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows the total cost of services and the net cost of services. The (\$10,069,494) Net Cost of Services for 2005 tells the reader that these services are not self-supporting, but are supported by tax revenues and unrestricted State entitlements.

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Business-Type Activity

The business-type activity consists of the transportation service that the School District provides to other School Districts. Overall net assets decreased \$134,636 in 2005. Capital assets decreased \$149,200.

(Table 3)

| | Governmental and Business-Type Activities | | Governmental and Business-Type Activities | |
|---|--|-------------------------|--|-------------------------|
| | Total Cost of Services | Net Cost of Services | Total Cost of Services | Net Cost of Services |
| | 2005 | 2005 | 2004 | 2004 |
| Instruction | \$5,703,535 | \$5,405,306 | \$5,511,259 | \$5,284,811 |
| Support Services: | | | | |
| Pupils and Instructional Staff | 1,099,497 | 939,228 | 1,333,369 | 1,135,793 |
| Board of Education, Administration, Fiscal and Business | 1,396,835 | 1,371,744 | 1,390,409 | 1,367,290 |
| Operation and Maintenance of Plant | 965,968 | 948,380 | 1,095,427 | 1,077,629 |
| Pupil Transportation | 794,676 | 774,737 | 879,430 | 865,390 |
| Central | 113,274 | 87,083 | 137,557 | 119,268 |
| Extracurricular Activities | 686,563 | 564,125 | 654,800 | 487,147 |
| Operation of Non- Instructional Services: | | | | |
| Food Service Operations | 264,859 | 2,427 | 241,931 | 2,115 |
| Other Non-Instructional Services | 134,929 | (61,017) | 153,538 | 24,144 |
| Interest and Fiscal Charges | 37,481 | 37,481 | 45,882 | 45,882 |
| Transportation (Business-Type) | 1,391,915 | 138,227 | 1,516,478 | 246,804 |
| <i>Total Expenses</i> | <u>\$12,589,532</u> | <u>\$10,207,721</u> | <u>\$12,960,080</u> | <u>\$10,656,273</u> |

As one can see, the reliance upon local tax revenues for governmental activities is crucial. 66.7 percent of expenses are directly supported by local property taxes. Grant and entitlements not restricted to specific programs support 15.0 percent, while investment and other miscellaneous type revenues support 3.6 percent of expenses. Program revenues account for 20.7 percent of all governmental expenses.

Clearly, the communities that comprise the School District are, by far, the greatest source of financial support for the students of the Kirtland Local Schools.

The School District's Funds

The School District's governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$13,456,366 and expenditures of \$11,351,968.

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The net change in fund balance in the General Fund was \$1,930,379. General fund revenues experienced an increase of \$1,349,055 with a large portion, \$1,142,723, coming from taxes and \$126,293 from intergovernmental revenue.

Other governmental funds show a net change in fund balance of \$174,019. This increase is the result of an overall increase in food service operations and extracurricular activities which was offset by the School District reducing its overall debt liability.

General Fund Budgeting Highlights

The School 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 2005, the School District amended its general fund budget numerous times. Many of the amendments are due to changes in expenditure priorities at the building levels. For the general fund, the final budget basis revenue estimate was \$11,843,096 representing a \$405,235 increase from the original budget estimates of \$11,437,861. Most of this difference was due to conservative tax estimates in the area of real estate and tangible personal property taxes. The final budget appropriation estimate was \$10,448,350 representing an increase of \$206,621 from the original budget estimates of \$10,241,729. Most of this difference was due to conservative instructional salaries. The School District's general fund balance at end of year was \$3,902,969.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2005 the School District had \$3,684,714 invested in land, buildings and improvements, furniture and equipment, vehicles and textbooks. Table 4 shows fiscal 2005 balances compared to fiscal year 2004. More detailed information is presented in Note 9 of the notes to the basic financial statements.

(Table 4)
Capital Assets at June 30
(Net of Depreciation)

| | Governmental Activities | | Business-Type Activity | | Total | |
|----------------------------|-------------------------|-------------|------------------------|-----------|-------------|-------------|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Land | \$1,503,831 | \$1,503,831 | \$0 | \$0 | \$1,503,831 | \$1,503,831 |
| Buildings and Improvements | 1,323,382 | 1,472,239 | 0 | 0 | 1,323,382 | 1,472,239 |
| Furniture and Equipment | 147,914 | 188,749 | 0 | 0 | 147,914 | 188,749 |
| Vehicles | 322,895 | 342,524 | 340,855 | 490,055 | 663,750 | 832,579 |
| Textbooks | 45,837 | 40,898 | 0 | 0 | 45,837 | 40,898 |
| Totals | \$3,343,859 | \$3,548,241 | \$340,855 | \$490,055 | \$3,684,714 | \$4,038,296 |

Senate Bill 345 requires the School District to set aside certain general fund revenues in each of two areas. One is for the purchase of textbooks and materials related to instruction and the other is for capital maintenance. For fiscal year 2005, this amounted to \$158,565 for each set aside for Kirtland Local

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School District. One new school bus was purchased during the year along with the purchase of several new textbooks.

Debt

At June 30, 2005 the School District had \$1,067,513 in bonds outstanding, \$225,000 due within one year. Table 5 summarizes bonds and other long-term obligations. More detailed information is presented in Note 15 of the notes to the basic financial statements.

(Table 5)
Outstanding Long-Term Obligations

| | Governmental Activities | | Business-Type Activity | | Total | |
|---|-------------------------|--------------------|------------------------|-----------------|--------------------|--------------------|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| 2003 School Improvement Bonds - 1.75 - 3.56% | | | | | | |
| Current Interest Serial Bonds | \$900,000 | \$1,125,000 | \$0 | \$0 | \$900,000 | \$1,125,000 |
| Capital Appreciation Bonds | 135,000 | 135,000 | 0 | 0 | 135,000 | 135,000 |
| Accretion on Capital Appreciation Bonds | 32,513 | 17,653 | 0 | 0 | 32,513 | 17,653 |
| <i>Total General Obligation Bonds</i> | <u>1,067,513</u> | <u>1,277,653</u> | <u>0</u> | <u>0</u> | <u>1,067,513</u> | <u>1,277,653</u> |
| Compensated Absences | 639,747 | 590,928 | 10,370 | 12,999 | 650,117 | 603,927 |
| Special Termination Benefits | 0 | 25,000 | 0 | 0 | 0 | 25,000 |
| Capital Leases | 0 | 1,912 | 0 | 0 | 0 | 1,912 |
| <i>Totals</i> | <u>\$1,707,260</u> | <u>\$1,895,493</u> | <u>\$10,370</u> | <u>\$12,999</u> | <u>\$1,717,630</u> | <u>\$1,908,492</u> |

On January 15 and January 28, 2003, the School District issued \$1,510,000 in general obligation bonds, which included serial and capital appreciation (deep discount) bonds in the amounts of \$1,375,000 and \$135,000, respectively, at interest rates varying from 1.75 percent to 3.56 percent. The bonds were issued for a seven year period with final maturity at December 1, 2010. The bonds will be retired from the debt service fund.

The School District's overall legal debt margin at June 30, 2005 was \$26,757,800 with an unvoted debt margin of \$305,860 at June 30, 2005.

Challenges and Opportunities for the Future

The School District is always presented with challenges and opportunities. The economic recession has not had a material impact on our tax revenue, as residential property comprises 95.40 percent to total taxable value.

Tax base growth has also continued over the past year. The total tax duplicate assessed value went from \$299,605,345 in the 2004 tax year to \$305,860,090 in the 2005 tax year. As this report was being prepared the County Auditor certified tax values for 2006 at \$308,629,094.

The School District is preparing to place a bond issue on the May 2006 ballot in which voters will be asked to approve the issuance of bonds for facility improvements.

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Kirtland High School received national recognition for 2005 by being named a No Child Left Behind Blue Ribbon School. The school was one of 295 private and public schools selected nationally for this honor. Only sixteen schools in the state of Ohio were so recognized and of those seven were high schools.

The School District was also recognized by the State of Ohio as an "Excellent" school for the last three consecutive years. This honor was based upon high levels of academic achievement, graduation and attendance.

In November 2001, the Ohio Supreme Court granted a motion for reconsideration on its latest opinion regarding the State's school funding plan. The School District does not anticipate any material changes in the State funded portion of its budget.

Kirtland Local School District has committed itself to financial reporting excellence for many years. Kirtland continues its commitment to continuous improvement in financial reporting to our community.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Debbie Herrmann, Treasurer at Kirtland Local School District, 9252 Chillicothe Rd. Kirtland, Ohio, 44094, ki_herrmann@lgca.org.

Kirtland Local School District*Statement of Net Assets**June 30, 2005*

| | Governmental Activities | Business-Type Activity | Total |
|---|----------------------------|---------------------------|--------------------|
| Assets | | | |
| Equity in Pooled Cash and Cash Equivalents | \$5,046,409 | \$108,354 | \$5,154,763 |
| Cash and Cash Equivalents With Fiscal Agents | 326,617 | 0 | 326,617 |
| Accounts Receivable | 4,767 | 0 | 4,767 |
| Intergovernmental Receivable | 67,221 | 10,918 | 78,139 |
| Inventory Held for Resale | 9,244 | 0 | 9,244 |
| Materials and Supplies Inventory | 32,881 | 0 | 32,881 |
| Taxes Receivable | 9,669,150 | 0 | 9,669,150 |
| Nondepreciable Capital Assets | 1,503,831 | 0 | 1,503,831 |
| Depreciable Capital Assets, Net | 1,840,028 | 340,855 | 2,180,883 |
| <i>Total Assets</i> | <u>18,500,148</u> | <u>460,127</u> | <u>18,960,275</u> |
| Liabilities | | | |
| Accounts Payable | 7,434 | 0 | 7,434 |
| Accrued Wages | 925,827 | 20,346 | 946,173 |
| Intergovernmental Payable | 303,329 | 13,357 | 316,686 |
| Accrued Interest Payable | 1,744 | 0 | 1,744 |
| Claims Payable | 159,210 | 0 | 159,210 |
| Deferred Revenue | 8,467,801 | 0 | 8,467,801 |
| Long-Term Liabilities: | | | |
| Due Within One Year | 411,636 | 3,261 | 414,897 |
| Due in More Than One Year | 1,295,624 | 7,109 | 1,302,733 |
| <i>Total Liabilities</i> | <u>11,572,605</u> | <u>44,073</u> | <u>11,616,678</u> |
| Net Assets | | | |
| Invested in Capital Assets, Net of Related Debt | 2,308,859 | 340,855 | 2,649,714 |
| Restricted for: | | | |
| Capital Projects | 204,722 | 0 | 204,722 |
| Debt Service | 293,084 | 0 | 293,084 |
| Set Asides | 55,116 | 0 | 55,116 |
| Other Purposes | 288,629 | 0 | 288,629 |
| Unrestricted | 3,777,133 | 75,199 | 3,852,332 |
| <i>Total Net Assets</i> | <u>\$6,927,543</u> | <u>\$416,054</u> | <u>\$7,343,597</u> |

See accompanying notes to the basic financial statements

Kirtland Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2005

| | Program Revenues | | | |
|--|---------------------|-----------------------------------|--|----------------|
| | Expenses | Charges for Services and Sales | Operating Grants, Interest and Contributions | Capital Grants |
| Governmental Activities | | | | |
| Instruction: | | | | |
| Regular | \$4,816,768 | \$86,461 | \$70,625 | \$0 |
| Special | 858,440 | 14,081 | 126,533 | 0 |
| Vocational | 28,327 | 529 | 0 | 0 |
| Support Services: | | | | |
| Pupils | 603,115 | 9,979 | 96,659 | 0 |
| Instructional Staff | 496,382 | 17,355 | 36,276 | 0 |
| Board of Education | 146,936 | 2,522 | 0 | 0 |
| Administration | 859,256 | 15,398 | 0 | 0 |
| Fiscal | 378,209 | 6,939 | 0 | 0 |
| Business | 12,434 | 232 | 0 | 0 |
| Operation and Maintenance of Plant | 965,968 | 17,588 | 0 | 0 |
| Pupil Transportation | 794,676 | 13,259 | 0 | 6,680 |
| Central | 113,274 | 1,391 | 16,925 | 7,875 |
| Extracurricular Activities | 686,563 | 122,438 | 0 | 0 |
| Operation of Non-Instructional Services: | | | | |
| Food Service Operations | 264,859 | 218,809 | 43,623 | 0 |
| Other Non-Instructional Services | 134,929 | 117 | 195,829 | 0 |
| Interest and Fiscal Charges | 37,481 | 0 | 0 | 0 |
| <i>Total Governmental Activities</i> | 11,197,617 | 527,098 | 586,470 | 14,555 |
| Business-Type Activity | | | | |
| Transportation | 1,391,915 | 1,253,688 | 0 | 0 |
| <i>Totals</i> | <u>\$12,589,532</u> | <u>\$1,780,786</u> | <u>\$586,470</u> | <u>14,555</u> |

General Revenues

Property Taxes Levied for:

General Purposes

Debt Service

Capital Outlay

Grants and Entitlements not Restricted
to Specific Programs

Investment Earnings

Miscellaneous

Total General Revenues

Change in Net Assets

Net Assets Beginning of Year

Net Assets End of Year

See accompanying notes to the basic financial statements

| Net (Expense) Revenue and Changes in Net Assets | | |
|--|---------------------------|--------------------|
| Governmental Activities | Business-Type Activity | Total |
| (\$4,659,682) | \$0 | (\$4,659,682) |
| (717,826) | 0 | (717,826) |
| (27,798) | 0 | (27,798) |
| (496,477) | 0 | (496,477) |
| (442,751) | 0 | (442,751) |
| (144,414) | 0 | (144,414) |
| (843,858) | 0 | (843,858) |
| (371,270) | 0 | (371,270) |
| (12,202) | 0 | (12,202) |
| (948,380) | 0 | (948,380) |
| (774,737) | 0 | (774,737) |
| (87,083) | 0 | (87,083) |
| (564,125) | 0 | (564,125) |
| (2,427) | 0 | (2,427) |
| 61,017 | 0 | 61,017 |
| (37,481) | 0 | (37,481) |
| (10,069,494) | 0 | (10,069,494) |
| 0 | (138,227) | (138,227) |
| (10,069,494) | (138,227) | (10,207,721) |
| 9,315,366 | 0 | 9,315,366 |
| 239,345 | 0 | 239,345 |
| 211,180 | 0 | 211,180 |
| 2,365,598 | 0 | 2,365,598 |
| 87,512 | 3,591 | 91,103 |
| 78,187 | 0 | 78,187 |
| 12,297,188 | 3,591 | 12,300,779 |
| 2,227,694 | (134,636) | 2,093,058 |
| 4,699,849 | 550,690 | 5,250,539 |
| <u>\$6,927,543</u> | <u>\$416,054</u> | <u>\$7,343,597</u> |

Kirtland Local School District

*Balance Sheet
Governmental Funds
June 30, 2005*

| | <u>General</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|---------------------|---|---|
| Assets | | | |
| Equity in Pooled Cash and Cash Equivalents | \$4,246,681 | \$737,932 | \$4,984,613 |
| Restricted Assets: | | | |
| Equity in Pooled Cash and Cash Equivalents | 61,796 | 0 | 61,796 |
| Receivables: | | | |
| Taxes | 9,226,896 | 442,254 | 9,669,150 |
| Accounts | 4,667 | 100 | 4,767 |
| Intergovernmental | 272 | 66,949 | 67,221 |
| Interfund Receivable | 9,236 | 0 | 9,236 |
| Inventory Held for Resale | 0 | 9,244 | 9,244 |
| Materials and Supplies Inventory | 32,240 | 641 | 32,881 |
| <i>Total Assets</i> | <u>\$13,581,788</u> | <u>\$1,257,120</u> | <u>\$14,838,908</u> |
| Liabilities and Fund Balances | | | |
| Liabilities | | | |
| Accounts Payable | \$1,474 | \$5,960 | \$7,434 |
| Accrued Wages | 895,498 | 30,329 | 925,827 |
| Intergovernmental Payable | 285,861 | 17,468 | 303,329 |
| Interfund Payable | 0 | 9,236 | 9,236 |
| Deferred Revenue | 8,236,678 | 422,899 | 8,659,577 |
| <i>Total Liabilities</i> | <u>9,419,511</u> | <u>485,892</u> | <u>9,905,403</u> |
| Fund Balances: | | | |
| Reserved for Encumbrances | 413,616 | 223,797 | 637,413 |
| Reserved for Property Taxes | 990,218 | 47,969 | 1,038,187 |
| Reserved for Budget Stabilization | 55,116 | 0 | 55,116 |
| Reserved for Bus Purchase Allowance | 6,680 | 0 | 6,680 |
| Unreserved, Undesignated, Reported in: | | | |
| General Fund | 2,696,647 | 0 | 2,696,647 |
| Special Revenue Funds | 0 | 203,348 | 203,348 |
| Debt Service Fund | 0 | 265,392 | 265,392 |
| Capital Projects Funds | 0 | 30,722 | 30,722 |
| <i>Total Fund Balances</i> | <u>4,162,277</u> | <u>771,228</u> | <u>4,933,505</u> |
| <i>Total Liabilities and Fund Balances</i> | <u>\$13,581,788</u> | <u>\$1,257,120</u> | <u>\$14,838,908</u> |

See accompanying notes to the basic financial statements

Kirtland Local School District
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities*
 June 30, 2005

| | |
|---|-------------------------------|
| Total Governmental Funds Balances | \$4,933,505 |
| <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. | 3,343,859 |
| Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds: | |
| Property Taxes | 163,162 |
| Grants | <u>28,614</u> |
| Total | 191,776 |
| The internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets. | 167,407 |
| In the statement of activities, interest is accrued on outstanding general obligation bonds, whereas in governmental funds, an interest expenditure is reported when due. | (1,744) |
| Long-term liabilities, including bonds payable and accrued interest payable, are not due and payable in the current period and therefore are not reported in the funds: | |
| General Obligation Bonds | (1,067,513) |
| Compensated Absences | <u>(639,747)</u> |
| Total | <u>(1,707,260)</u> |
| <i>Net Assets of Governmental Activities</i> | <u><u>\$6,927,543</u></u> |

See accompanying notes to the basic financial statements

Kirtland Local School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2005

| | General | Other Governmental Funds | Total Governmental Funds |
|---|--------------------|--------------------------------|--------------------------------|
| Revenues | | | |
| Taxes | \$9,277,147 | \$448,689 | \$9,725,836 |
| Intergovernmental | 2,311,103 | 641,242 | 2,952,345 |
| Interest | 78,283 | 10,893 | 89,176 |
| Charges for Services | 0 | 218,809 | 218,809 |
| Tuition and Fees | 162,437 | 0 | 162,437 |
| Extracurricular Activities | 1,041 | 124,389 | 125,430 |
| Rentals | 20,422 | 0 | 20,422 |
| Contributions and Donations | 3,488 | 80,236 | 83,724 |
| Miscellaneous | 26,821 | 51,366 | 78,187 |
| <i>Total Revenues</i> | <u>11,880,742</u> | <u>1,575,624</u> | <u>13,456,366</u> |
| Expenditures | | | |
| Current: | | | |
| Instruction: | | | |
| Regular | 4,628,750 | 68,195 | 4,696,945 |
| Special | 756,409 | 106,405 | 862,814 |
| Vocational | 28,327 | 0 | 28,327 |
| Support Services: | | | |
| Pupils | 545,452 | 72,860 | 618,312 |
| Instructional Staff | 379,396 | 83,004 | 462,400 |
| Board of Education | 135,158 | 0 | 135,158 |
| Administration | 817,735 | 0 | 817,735 |
| Fiscal | 385,029 | 5,321 | 390,350 |
| Business | 12,434 | 0 | 12,434 |
| Operation and Maintenance of Plant | 963,880 | 0 | 963,880 |
| Pupil Transportation | 753,020 | 0 | 753,020 |
| Central | 74,553 | 20,736 | 95,289 |
| Extracurricular Activities | 453,350 | 221,673 | 675,023 |
| Operation of Non-Instructional Services: | | | |
| Food Service Operations | 0 | 270,990 | 270,990 |
| Other Non-Instructional Services | 6,291 | 132,784 | 139,075 |
| Capital Outlay | 11,000 | 169,355 | 180,355 |
| Debt Service: | | | |
| Principal Retirement | 1,912 | 225,000 | 226,912 |
| Interest and Fiscal Charges | 55 | 22,894 | 22,949 |
| <i>Total Expenditures</i> | <u>9,952,751</u> | <u>1,399,217</u> | <u>11,351,968</u> |
| <i>Excess of Revenues Over Expenditures</i> | <u>1,927,991</u> | <u>176,407</u> | <u>2,104,398</u> |
| Other Financing Sources (Uses) | | | |
| Transfers In | 2,388 | 0 | 2,388 |
| Transfers Out | 0 | (2,388) | (2,388) |
| <i>Total Other Financing Sources (Uses)</i> | <u>2,388</u> | <u>(2,388)</u> | <u>0</u> |
| <i>Net Change in Fund Balances</i> | 1,930,379 | 174,019 | 2,104,398 |
| <i>Fund Balances Beginning of Year</i> | <u>2,231,898</u> | <u>597,209</u> | <u>2,829,107</u> |
| <i>Fund Balances End of Year</i> | <u>\$4,162,277</u> | <u>\$771,228</u> | <u>\$4,933,505</u> |

See accompanying notes to the basic financial statements

Kirtland Local School District
*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, 2005*

Net Change in Fund Balances -Total Governmental Funds \$2,104,398

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

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

| | | |
|---------------------------|-----------|-----------|
| Capital Asset Additions | 109,498 | |
| Current Year Depreciation | (313,880) | |
| | | |
| Total | | (204,382) |

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

| | | |
|----------------|----------|----------|
| Property Taxes | 40,055 | |
| Grants | (71,110) | |
| | | |
| Total | | (31,055) |

Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 226,912

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.

| | | |
|------------------|----------|----------|
| Accrued Interest | 328 | |
| Bond Accretion | (14,860) | |
| | | |
| Total | | (14,532) |

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

| | | |
|--------------------------------------|----------|--------|
| Compensated Absences | (48,819) | |
| Pension Obligations | 107,219 | |
| Special Termination Benefits Payable | 25,000 | |
| | | |
| Total | | 83,400 |

The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities. 62,953

Change in Net Assets of Governmental Activities \$2,227,694

See accompanying notes to the basic financial statements

Kirtland Local School District
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2005

| | Budgeted Amounts | | | Variance With Final Budget Positive (Negative) |
|---|--------------------|--------------------|--------------------|---|
| | Original | Final | Actual | |
| Revenues | | | | |
| Taxes | \$9,007,861 | \$9,224,709 | \$9,226,853 | \$2,144 |
| Intergovernmental | 2,179,700 | 2,323,700 | 2,313,521 | (10,179) |
| Interest | 28,000 | 71,000 | 78,283 | 7,283 |
| Tuition and Fees | 174,775 | 180,438 | 162,437 | (18,001) |
| Extracurricular Activities | 3,000 | 3,000 | 1,041 | (1,959) |
| Rentals | 20,000 | 20,000 | 19,275 | (725) |
| Contributions and Donations | 500 | 500 | 3,488 | 2,988 |
| Miscellaneous | 24,025 | 19,749 | 26,821 | 7,072 |
| <i>Total Revenues</i> | <u>11,437,861</u> | <u>11,843,096</u> | <u>11,831,719</u> | <u>(11,377)</u> |
| Expenditures | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 4,647,013 | 4,707,118 | 4,707,115 | 3 |
| Special | 795,762 | 809,572 | 809,572 | 0 |
| Vocational | 21,827 | 60,827 | 60,827 | 0 |
| Support Services: | | | | |
| Pupils | 637,333 | 606,005 | 606,005 | 0 |
| Instructional Staff | 357,830 | 372,128 | 372,128 | 0 |
| Board of Education | 116,145 | 150,957 | 150,957 | 0 |
| Administration | 783,118 | 815,547 | 815,547 | 0 |
| Fiscal | 408,741 | 376,605 | 376,605 | 0 |
| Business | 4,750 | 12,434 | 12,434 | 0 |
| Operation and Maintenance of Plant | 1,050,825 | 1,039,302 | 980,829 | 58,473 |
| Pupil Transportation | 860,923 | 859,872 | 778,485 | 81,387 |
| Central | 78,469 | 83,889 | 74,847 | 9,042 |
| Extracurricular Activities | 429,423 | 454,360 | 451,366 | 2,994 |
| Operation of Non-Instructional Services: | | | | |
| Other Non-Instructional Services | 8,070 | 6,234 | 6,234 | 0 |
| Capital Outlay | 41,500 | 93,500 | 65,300 | 28,200 |
| <i>Total Expenditures</i> | <u>10,241,729</u> | <u>10,448,350</u> | <u>10,268,251</u> | <u>180,099</u> |
| <i>Excess of Revenues Over Expenditures</i> | <u>1,196,132</u> | <u>1,394,746</u> | <u>1,563,468</u> | <u>168,722</u> |
| Other Financing Sources (Uses) | | | | |
| Advances In | 0 | 101,000 | 104,626 | 3,626 |
| Transfers In | 0 | 2,388 | 2,388 | 0 |
| Transfers Out | (25,000) | (25,000) | 0 | 25,000 |
| <i>Total Other Financing Sources (Uses)</i> | <u>(25,000)</u> | <u>78,388</u> | <u>107,014</u> | <u>28,626</u> |
| <i>Net Change in Fund Balance</i> | 1,171,132 | 1,473,134 | 1,670,482 | 197,348 |
| <i>Fund Balance Beginning of Year</i> | 1,896,528 | 1,896,528 | 1,896,528 | 0 |
| Prior Year Encumbrances Appropriated | 335,959 | 335,959 | 335,959 | 0 |
| <i>Fund Balance End of Year</i> | <u>\$3,403,619</u> | <u>\$3,705,621</u> | <u>\$3,902,969</u> | <u>\$197,348</u> |

See accompanying notes to the basic financial statements

Kirtland Local School District

Statement of Fund Net Assets

Proprietary Funds

June 30, 2005

| | Business-Type Activity | Governmental Activities - Internal Service Fund |
|--|---------------------------|--|
| | Transportation | |
| Assets | | |
| Equity in Pooled Cash and Cash Equivalents | \$108,354 | \$0 |
| Cash and Cash Equivalents with Fiscal Agents | 0 | 326,617 |
| Intergovernmental Receivable | 10,918 | 0 |
| Depreciable Capital Assets, Net | 340,855 | 0 |
| <i>Total Assets</i> | 460,127 | 326,617 |
| Liabilities | | |
| Accrued Wages | 20,346 | 0 |
| Intergovernmental Payable | 13,357 | 0 |
| Claims Payable | 0 | 159,210 |
| Long-Term Liabilities: | | |
| Due Within One Year | 3,261 | 0 |
| Due In More Than One Year | 7,109 | 0 |
| <i>Total Liabilities</i> | 44,073 | 159,210 |
| Net Assets | | |
| Invested in Capital Assets | 340,855 | 0 |
| Unrestricted | 75,199 | 167,407 |
| <i>Total Net Assets</i> | \$416,054 | \$167,407 |

See accompanying notes to the basic financial statements

Kirtland Local School District
*Statement of Revenues,
Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2005*

| | <u>Business-Type Activity</u> | <u>Governmental Activities - Internal Service Fund</u> |
|-------------------------------------|-----------------------------------|--|
| | <u>Transportation</u> | |
| Operating Revenues | | |
| Charges for Services | <u>\$1,253,688</u> | <u>\$1,055,091</u> |
| Operating Expenses | | |
| Salaries | 156,224 | 0 |
| Fringe Benefits | 34,780 | 0 |
| Purchased Services | 1,044,248 | 0 |
| Materials and Supplies | 7,463 | 0 |
| Depreciation | 149,200 | 0 |
| Claims | <u>0</u> | <u>992,138</u> |
| <i>Total Operating Expenses</i> | <u>1,391,915</u> | <u>992,138</u> |
| <i>Operating Income (Loss)</i> | (138,227) | 62,953 |
| Non-Operating Revenues | | |
| Interest | <u>3,591</u> | <u>0</u> |
| <i>Change in Net Assets</i> | (134,636) | 62,953 |
| <i>Net Assets Beginning of Year</i> | <u>550,690</u> | <u>104,454</u> |
| <i>Net Assets End of Year</i> | <u><u>\$416,054</u></u> | <u><u>\$167,407</u></u> |

See accompanying notes to the basic financial statements

Kirtland Local School District
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2005

| | Business-Type Activity | Governmental Activities - Internal Service Fund |
|--|---------------------------|--|
| | Transportation | |
| <i>Increase (Decrease) in Cash and Cash Equivalents</i> | | |
| Cash Flows from Operating Activities | | |
| Cash Received from Quasi-External Transactions with Other Funds | \$0 | \$1,055,091 |
| Cash Received from Other Governmental Entities | 1,242,770 | 0 |
| Cash Payments to Suppliers for Goods and Services | (1,051,747) | 0 |
| Cash Payments for Employees for Services | (150,897) | 0 |
| Cash Payments for Employee Benefits | (40,773) | 0 |
| Cash Payments for Claims | 0 | (967,389) |
| <i>Net Cash Provided by (Used for) Operating Activities</i> | (647) | 87,702 |
| Cash Flows from Investing Activities | | |
| Interest on Investments | 3,591 | 0 |
| <i>Net Increase in Cash and Cash Equivalents</i> | 2,944 | 87,702 |
| Cash and Cash Equivalents Beginning of Year | 105,410 | 238,915 |
| Cash and Cash Equivalents End of Year | \$108,354 | \$326,617 |
| Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities | | |
| <i>Operating Income (Loss)</i> | (\$138,227) | \$62,953 |
| Adjustments: | | |
| Depreciation | 149,200 | 0 |
| <i>Increase in Intergovernmental Receivable</i> | (10,918) | 0 |
| <i>Increase/(Decrease) in Liabilities:</i> | | |
| Accounts Payable | (36) | 0 |
| Accrued Wages | 2,368 | 0 |
| Compensated Absences Payable | (2,629) | 0 |
| Matured Compensated Absences Payable | (2,966) | 0 |
| Intergovernmental Payable | 2,561 | 0 |
| Claims Payable | 0 | 24,749 |
| <i>Net Cash Provided by (Used for) Operating Activities</i> | (\$647) | \$87,702 |

See accompanying notes to the basic financial statements

Kirtland Local School District
Statement of Fiduciary Assets and Liabilities
Agency Fund
June 30, 2005

Assets

| | |
|--|-----------------|
| Equity in Pooled Cash and Cash Equivalents | <u>\$38,310</u> |
|--|-----------------|

Liabilities

| | |
|-----------------|-----------------|
| Due to Students | <u>\$38,310</u> |
|-----------------|-----------------|

See accompanying notes to the basic financial statements

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 1 - Description of the School District

Kirtland Local School District (the "School District") is organized under Article VI, Section 2 of the Constitution of the State of Ohio. The School District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The School District provides educational services as authorized by state statute and federal guidelines.

The School District was established in 1944 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 25 square miles. It is located mostly in Lake County, partially in Geauga County, and includes all of the territory of the City of Kirtland, and portions of Waite Hill Village, Kirtland Hills Village, Chardon Township, and the City of Willoughby. It is staffed by 59 non-certified employees and 86 certified full-time teaching personnel who provide services to 1,128 students and other community members. The School District currently operates three instructional buildings, one administrative building, a maintenance garage and a bus garage.

Reporting Entity

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the basic financial statements are not misleading. The primary government of the School District consists of all funds, departments, agencies and offices that are not legally separate from the School District. For Kirtland Local School District, this includes the agencies and departments that provide the following services: general operations, food service and student related activities of the School District.

Non-public Schools – Within the School District boundaries, there are two non-public schools. Current State legislature provides funding to these non-public schools. These monies are received and disbursed on behalf of the non-public school by the treasurer of the School District, as directed by the non-public school. These transactions are reported in a special revenue fund and as a governmental activity of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt or the levying of taxes. The School District has no component units.

The School District is associated with five jointly governed organizations, a claims servicing pool, a related organization and an insurance purchasing pool. These organizations are the Lake Geauga Computer Association, the Auburn Career Center, the East Shore Regional Transportation System, the East Shore Center, the Ohio Schools Council Association, the Lake County Council of Governments Health Care Benefits Self-Insurance Program, the Kirtland Public Library and the Ohio School Boards' Association Workers' Compensation Group Rating Program, which are presented in Notes 17, 18, 19 and 20 to the basic financial statements.

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 2 - Summary of Significant Accounting Policies

The financial statements of the Kirtland Local School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental and business-type activity and to its proprietary funds unless those pronouncements conflict with or contradict GASB pronouncements. The School District has elected not to apply FASB pronouncements and interpretations issued after November 30, 1989 to its business-type activity and to its enterprise fund. The more significant of the School District's accounting policies are described below.

A. Basis of Presentation

The School District's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities and fund financial statements which provide a more detailed level of financial information.

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the School District that are governmental (primarily supported by taxes and intergovernmental revenues) and those that are considered business-type activities (primarily supported by fees and charges). The activities of the internal service funds are eliminated to avoid "doubling up" revenues and expenses.

The statement of net assets presents the financial condition of the governmental and business-type activities of the School District at fiscal year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities and for the single business-type activity of the School 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 charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the School District.

Fund Financial Statements During the fiscal year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Internal service funds are presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by type.

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

B. Fund Accounting

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

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

General Fund The general fund is the operating fund of the School District and is used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the School District for any purpose provided it is expended or transferred according to the general laws of Ohio.

The other governmental funds of the School District account for grants and other resources whose uses are restricted to a particular purpose.

Proprietary Fund Type The proprietary funds reporting focuses on the determination of operating income/loss, changes in net asset, financial position and cash flows. Proprietary funds are classified as enterprise or internal service.

Enterprise Fund The enterprise funds may be used to account for any activity for which a fee is charged to external users for goods and services. The School District's only enterprise fund accounts for all scheduling and dispatching of buses for special education students within the School District as well as outside the School District on a cost reimbursement basis as well as insurance for all buses.

Internal Service Fund The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost reimbursement basis. The School District's only internal service fund is a self-insurance fund that accounts for medical claims of the School District's employees.

Fiduciary Fund Type 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 School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The School District has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency fund accounts for student activities.

C. Measurement Focus

Government-wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the statement of net assets. The statement of activities presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets.

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Fund Financial Statements 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 reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, the enterprise and internal service funds are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of revenues, expenses and changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its enterprise and internal service funds activities.

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 and the statements for the proprietary and fiduciary funds are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

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 School District, available means expected to be received within sixty days of fiscal year-end.

Nonexchange transactions, in which the School 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 7.) 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 fiscal year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School 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, fees and rentals.

Deferred Revenue Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Property taxes for which there is an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

E. Budgetary Data

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the cost center level for all funds. The Treasurer has been given the authority to allocate Board appropriations to the function and object level within all funds without resolution by the Board of Education.

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original and final budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original and final appropriations were passed by the Board of Education.

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

F. Cash and Cash Equivalents

To improve cash management, all cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through School District records. Interest in the pool is presented as "equity in pooled cash and cash equivalents" on the basic financial statements.

The School District utilizes a financial institution to service claims. The balances in these accounts are presented on the basic financial statements as "cash and cash equivalents with fiscal agents" and represent deposits.

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

During fiscal year 2005, investments were limited to STAROhio. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio 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 STAROhio are valued at STAROhio's share price which is the price the investment could be sold for at June 30, 2005.

Following Ohio statutes, 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 2005 amounted to \$78,283, which includes \$5,872 assigned from other School District funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents.

G. Inventory

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventories consist of donated and purchased food held for resale and materials and supplies held for consumption.

H. Restricted Assets

Assets are reported as restricted when limitations on their use change in nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments or imposed by law through constitutional provisions or enabling legislation. Restricted assets in the general fund represent money required by State statute to be set aside to create a reserve for budget stabilization and unspent resources restricted for the purchase of buses. See Note 21 for additional information regarding set asides.

I. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally 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. Capital assets utilized by enterprise fund is reported both in the business-type activities column of the government-wide statement of net assets and in the respective fund.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. The School District was able to estimate the historical cost for the initial reporting of assets by backtrending (i.e., estimating the current replacement cost of the asset to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year.) Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of five thousand dollars. The School 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.

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

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

| Description | Governmental Activities Estimated Lives | Business-type Activities Estimated Lives |
|----------------------------|--|---|
| Buildings and Improvements | 10 to 50 years | N/A |
| Furniture and Equipment | 5 to 20 years | N/A |
| Vehicles | 8 years | 8 years |
| Textbooks | 6 years | N/A |

J. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities column of the statement of net assets.

K. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the School District's past experience of making termination payments.

L. Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements and all payables and accrued liabilities from the proprietary funds are reported on the proprietary fund 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, claims and judgments, compensated absences and contractually required pension contributions 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 fiscal year. Bonds and capital leases are recognized as a liability on the fund financial statements when due.

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists 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 adopted by the School District or through external restrictions imposed by creditors, grantors or laws or

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

regulations of other governments. The government-wide statement of net assets reports restricted net assets of \$841,551, of which \$624,034 is restricted by enabling legislation. Net assets restricted for other purposes include food service operations and extracurricular activities.

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

N. Fund Balance Reserves

The School 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, property taxes, budget stabilization and school bus purchase.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. The reserve for budget stabilization represents monies required to be set aside by State statute to protect against cyclical changes in revenues and expenditures.

O. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the School District, these revenues are charges for services for self-insurance programs and for use of the School District's buses by other school districts. Operating expenses are necessary costs that are incurred to provide the good or service that is the primary activity of the fund. Any revenue or expense not meeting the definition of operating is reported as non-operating.

P. Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

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 financial statements.

Q. 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.

R. Estimates

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

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 3 - Change in Accounting Principles

For fiscal year 2005, the School District has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures", GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation" and GASB Technical Bulletin No. 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers."

GASB Statement No. 40 establishes new disclosure requirements for risks associated with deposits and investments.

GASB Statement No. 46 clarifies when net assets should be considered restricted based upon enabling legislation.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

The implementation of GASB Statement No. 46 and GASB Technical Bulletin No. 2004-2 did not materially affect the presentation of the financial statements of the School District.

Note 4 – Accountability and Compliance

A. Accountability

The summer intervention and the title I special revenue funds had deficit fund balances at June 30, 2005 of \$136 and \$356, respectively. The general fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

B. Compliance

The following funds had expenditures plus encumbrances in excess of appropriations at January 31, 2005, contrary to Section 5705.41, Ohio Revised Code:

| | <u>Appropriations</u> | <u>Expenditures</u> | <u>Excess</u> |
|------------------------|-----------------------|---------------------|---------------|
| <i>General Fund</i> | | | |
| Vocational Instruction | \$49,000 | \$56,286 | \$7,286 |
| EMIS Coordinator | | | |
| Salaries | 3,055 | 3,500 | 445 |
| Support Services | | | |
| Purchased Services | 65,049 | 76,387 | 11,338 |

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

| (Continued) | <u>Appropriations</u> | <u>Expenditures</u> | <u>Excess</u> |
|------------------------------------|-----------------------|---------------------|---------------|
| <i>Special Revenue Funds:</i> | | | |
| Principal's Fund | | | |
| Purchased Services | \$3,759 | \$3,862 | \$103 |
| District Managed Activities | | | |
| Washington Tour | | | |
| Purchased Services | 27,000 | 29,953 | 2,953 |
| Benefits | 140 | 278 | 138 |
| Auxiliary Services | | | |
| Peaceful Children | | | |
| Professional Services | 3,000 | 3,157 | 157 |
| Title VI-R | | | |
| Teacher Quality | | | |
| Supplies | 937 | 1,070 | 133 |
| <i>Enterprise Fund:</i> | | | |
| Transportation | | | |
| Fiscal | | | |
| Benefits | 1,400 | 1,626 | 226 |
| Purchased Services | 79,566 | 376,001 | 296,435 |
| Supplies | 5,360 | 5,680 | 320 |

The treasurer acknowledges the January monthly reports reflect encumbrances exceeding appropriations. The Board approved an amended appropriation on February 14, 2005.

The School District had negative cash fund balances in the following funds indicating that revenue from other sources were used to pay obligations of these funds contrary to Ohio Revised Code Section 5705.10:

| | |
|-------------------------------|-------|
| <i>Special Revenue Funds:</i> | |
| Summer Intervention | \$200 |
| Title VI-B | 7,121 |
| Title V | 1,915 |

Although these budgetary violations and cash deficits were not corrected by year end, management has indicated that appropriations and cash will be closely monitored to prevent future violations.

Note 5 - Budgetary Basis of Accounting

While the School District is 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, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual are 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 GAAP basis are as follows:

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).
4. Advances-In and Advances-Out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).

The following tables summarize the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund.

| Net Change in Fund Balance | |
|----------------------------|--------------------|
| GAAP Basis | \$1,930,379 |
| Revenue Accruals | (49,023) |
| Advances In | 104,626 |
| Expenditure Accruals | 99,244 |
| Encumbrances | (414,744) |
| Budget Basis | <u>\$1,670,482</u> |

Note 6 - Deposits and Investments

Monies held by the School District are classified by State statute into three categories.

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

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

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

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Interim monies held by the School District can 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 payment of 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, 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 securities listed above;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAROhio);
8. Commercial paper and bankers acceptances if training requirements have been met.

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. Investments may only be made through specified dealers and institutions.

Deposits

Custodial Credit Risk Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in possession of an outside party. At fiscal year end, \$3,170,184 of the School District's bank balance of \$3,470,184 was uninsured and collateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the investment of money had been followed, noncompliance with Federal requirements could potentially subject the School District to a successful claim by the FDIC.

The School District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Kirtland Local School District
Notes to the Basic Financial Statements
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Investments

As of June 30, 2005, the School District had STAROhio as the only investment with an amount of \$1,917,539 and a maturity of 33 days. The investment is in an internal investment pool.

Interest Rate Risk As a means of limiting its exposure to fair value losses caused by rising interest rates, the School District's investment policy requires that operating funds be invested primarily in short-term investments maturing within five years from the date of purchase and that the School District's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments. The stated intent of the policy is to avoid the need to sell securities prior to maturity.

Credit Risk STAROhio carries a rating of AAAM by Standard & Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The School District has no investment policy that would further limit its investment choices.

Note 7 - Property Taxes

Property taxes are levied and assessed on a calendar year basis while the school district fiscal year runs from July through June. First half tax collections are received by the school 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 school district. Real property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, 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 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2003, were levied after April 1, 2004 and are collected in 2005 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.

Tangible personal property tax revenue received during calendar 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2004, on the value as of December 31, 2004. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. 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 School District prior to June 30.

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

The School District receives property taxes from Lake and Geauga Counties. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2005 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 deferred revenue.

The amount available as an advance at June 30, 2005 was \$990,218 in the general fund, \$25,293 in the bond retirement debt service fund and \$22,676 in the permanent improvement capital projects fund. The amount available as an advance at June 30, 2004, was \$939,924 in the general fund, \$25,125 in the bond retirement debt service fund and \$21,065 in the permanent improvement capital projects fund.

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.

The assessed values upon which the fiscal year 2005 taxes were collected are:

| | 2004 Second Half Collections | | 2005 First Half Collections | |
|---|---------------------------------|-----------------|--------------------------------|-----------------|
| | Amount | Percent | Amount | Percent |
| Agricultural/Residential and Other Real Estate | \$286,018,770 | 95.56 % | \$291,777,620 | 95.40 % |
| Public Utility Personal | 10,151,910 | 3.39 | 11,018,730 | 3.60 |
| Tangible Personal Property | 3,134,665 | 1.05 | 3,063,740 | 1.00 |
| Total | \$299,305,345 | 100.00 % | \$305,860,090 | 100.00 % |
| Tax rate per \$1,000 of assessed valuation | \$70.99 | | \$70.67 | |

Note 8 - Receivables

Receivables at June 30, 2005, consisted of taxes, accounts (rent, student fees and tuition), and intergovernmental grants. 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 fiscal year guarantee of Federal funds. All receivables are expected to be collected within one year.

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

A summary of the principal items of intergovernmental receivables follows:

| | Amounts |
|--|----------|
| <i>Governmental Activities</i> | |
| Title VI-B | \$55,555 |
| Title V | 4,451 |
| Lunchroom | 3,184 |
| Classroom Reduction | 1,757 |
| Summer Intervention | 1,503 |
| Virtual Middle School | 499 |
| Lake County Metroparks | 272 |
| <i>Total Governmental Activities</i> | 67,221 |
| <i>Business-Type Activity</i> | |
| Transportation | 10,918 |
| <i>Total Intergovernmental Receivables</i> | \$78,139 |

Note 9 – Capital Assets

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

| | Balance 06/30/04 | Additions | Deductions | Balance 06/30/05 |
|---|---------------------|-----------|------------|---------------------|
| Governmental Activities | | | | |
| <i>Capital Assets not being Depreciated:</i> | | | | |
| Land | \$1,503,831 | \$0 | \$0 | \$1,503,831 |
| <i>Capital Assets being Depreciated:</i> | | | | |
| Buildings and Improvements | 5,288,268 | 0 | 0 | 5,288,268 |
| Furniture and Equipment | 518,085 | 0 | 0 | 518,085 |
| Vehicles | 1,094,504 | 54,493 | 0 | 1,148,997 |
| Textbooks | 490,778 | 55,005 | 0 | 545,783 |
| <i>Total Capital Assets being Depreciated</i> | \$7,391,635 | \$109,498 | \$0 | \$7,501,133 |

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

| | Balance 06/30/04 | Additions | Deductions | Balance 06/30/05 |
|--|---------------------|--------------------|------------|---------------------|
| Governmental Activities | | | | |
| Less Accumulated Depreciation: | | | | |
| Buildings and Improvements | (\$3,816,029) | (\$148,857) | \$0 | (\$3,964,886) |
| Furniture and Equipment | (329,336) | (40,835) | 0 | (370,171) |
| Vehicles | (751,980) | (74,122) | 0 | (826,102) |
| Textbooks | (449,880) | (50,066) | 0 | (499,946) |
| <i>Total Accumulated Depreciation</i> | <u>(5,347,225)</u> | <u>(313,880) *</u> | <u>0</u> | <u>(5,661,105)</u> |
| <i>Total Assets being Depreciated, Net</i> | <u>2,044,410</u> | <u>(204,382)</u> | <u>0</u> | <u>1,840,028</u> |
| <i>Governmental Activities Capital Assets, Net</i> | <u>\$3,548,241</u> | <u>(\$204,382)</u> | <u>\$0</u> | <u>\$3,343,859</u> |
| Business-Type Activity | | | | |
| Capital Assets being Depreciated: | | | | |
| Vehicles | \$2,242,134 | \$0 | \$0 | \$2,242,134 |
| Less Accumulated Depreciation | (1,752,079) | (149,200) | 0 | (1,901,279) |
| <i>Business-Type Activity Capital Assets, Net</i> | <u>\$490,055</u> | <u>(\$149,200)</u> | <u>\$0</u> | <u>\$340,855</u> |

* Depreciation expense was charged to governmental activities as follows:

| | |
|------------------------------------|------------------|
| Instruction: | |
| Regular | \$153,229 |
| Support Services: | |
| Instructional Staff | 40,629 |
| Board of Education | 11,778 |
| Administration | 7,647 |
| Operation and Maintenance of Plant | 5,688 |
| Pupil Transportation | 77,243 |
| Extra-Curricular Activities | 15,131 |
| Operations of Food Services | 2,535 |
| Total Depreciation Expense | <u>\$313,880</u> |

Note 10 - Interfund Transactions

A. Interfund Transfers

The transfers from the public school support and title VI-B special revenue funds for \$297 and \$2,091, respectively, to the general fund were for repayment of monies that were not originally intended for repayment.

B. Interfund Balance

On the fund financial statements the general fund reported an interfund receivable at June 30, 2005 of \$9,236. The summer intervention, title VI-B and title V special revenue funds had interfund payables of \$200, \$7,121 and \$1,915; respectively. The interfund receivables and payables were the result of deficit cash balances and due to the timing of receipt of grant monies at year end.

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 11 - Risk Management

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2005, the School District contracted with various insurance agencies for various types of insurance. Coverage is as follows:

| Company | Coverage | Amount |
|-------------------|--|----------------|
| Midwest Indemnity | Blanket Building and Contents (\$1,000 Deductible) | \$21,766,861 |
| | Extra Expense Coverage | 1,000,000 |
| | EDP and Media/Software | 185,911/17,500 |
| | Audio Visual Equipment | 20,000 |
| | Valuable Papers | 100,000 |
| | Sewer and Drain Backup | 50,000 |
| | Pollutant Clean Up and Removal | 250,000 |
| | Off Premises Service Interruption | 25,000 |
| | Ordinance or Law | 1,000,000 |
| | Inland Marine | |
| | Instruments | 57,215 |
| | Contractor's Equipment | 9,200/1,500 |
| | Transit | 300,000 |
| | Money and Securities | 10,000 |
| Travelers | Boiler/Machinery - Blanket (\$1,000 Deductible) | 30,000,000 |
| | Spoilage Limit (\$500 Deductible) | 100,000 |
| | Media Limit | 50,000 |
| | Water Damage | 25,000 |
| | Business Interruption and Extra Expense | Actual Loss |
| Indiana | Business Auto - Liability (\$1,000 Deductible) | 1,000,000 |
| | Uninsured Motorists - Comprehensive (\$1,000 Deductible) | 50,000 |
| | Medical (\$250 Deductible) | 5,000 |
| Great American | Liability | 2,000,000 |

Settled claims have not exceeded this commercial coverage in any of the past three years and there have been no significant reductions in insurance coverage from the prior year.

All employees of the School District are covered by a blanket bond, while certain individuals in policy making roles are covered by separate, higher limit bond coverage.

B. Employee Medical Coverage

The School District has elected to provide medical coverage through a self-insurance program. The School District uses the Self Insurance internal service fund to account for and finance its uninsured risks of loss in this program. Prior to fiscal year 2003, the School District utilized the General fund to account for the self insurance program. The claims are serviced through the Lake County Council of Governments Health Care Benefits Program. The claims liability as reported in the Self Insurance internal service fund was provided by the third party administrator and is based on the requirements of Governmental Accounting Standards Board, Statement No. 30 which requires that a liability for unpaid claims costs, including estimates of costs

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses.

The June 30, 2005 claim's liability was determined based on the percentage of the School District's participants to total pool participants. For the year ended June 30, 2005, the pool's cash reserves and claims liability were \$6,317,545 and \$3,079,491 respectively. The School District's allocated pool percentage for the year ended June 30, 2005 was 5.17 percent, which represents \$326,617 and \$159,210 of pool cash reserves and claims liability, respectively.

The School District's changes in the fund's claims liability amount in 2004 and 2005 were:

| | Balance at Beginning of Year | Current Year Claims | Claim Payments | Balance at End of Year |
|------|---------------------------------|------------------------|-------------------|---------------------------|
| 2004 | \$46,534 | \$799,856 | \$711,929 | \$134,461 |
| 2005 | 134,461 | 992,138 | 967,389 | 159,210 |

C. Workers' Compensation

For fiscal year 2005, the School District participated in the Ohio School Boards' Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 20). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

Note 12 - Pension Plans

A. School Employees Retirement System

The School 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 43215-3476 or by calling toll free (800) 878-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

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 School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004 and 2003 were \$173,232, \$142,119 and \$60,078; 59.29 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003.

B. State Teachers Retirement System

The School 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 East Broad Street., Columbus, OH 43215-3371 or by calling (614) 227-4090.

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, 2005, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon 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 School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$656,041, \$630,851 and \$610,844; 84.97 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003. Contributions to the DC and Combined Plans for fiscal year 2005 were \$8,415 made by the School District and \$18,101 made by the plan members.

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 13 - Postemployment Benefits

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System, (STRS), 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.

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. 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 funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$50,465 for fiscal year 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, the balance in the Fund was \$3.3 billion. For the fiscal year ended June 30, 2005, net health care costs paid by STRS were \$254,780,000 and STRS had 115,395 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. Premiums may be reduced for retirees whose household income falls below the poverty level.

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, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004. 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 2005, the minimum pay was established at \$27,400. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2005 fiscal year, School District paid \$88,465 to fund health care benefits, including surcharge.

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 annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2005 were \$178,221,113 and the target level was \$335.2 million. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has approximately 58,123 participants currently receiving health care benefits.

Note 14 – Other Employee Benefits

A. Life Insurance

The School District provides life insurance and accidental death and dismemberment insurance to most employees from Sun Life Insurance through the Ohio Schools Council.

Kirtland Local School District
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B. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn five to twenty-five days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. A percentage of unused sick time is paid at retirement. All employees who are eligible to retire will receive up to 30 days of accumulated sick leave at the full time daily rate, plus one fourth of the accumulated sick leave days in excess of 120 at the same rate.

C. Retirement Incentive

The School District Board of Education offered employees participation in a Retirement Incentive program through July 1, 2003. Participation was open to teachers who were eligible for service retirement under the State Teachers Retirement System (STRS) pursuant to O.R.C. 3307.38 and any applicable STRS regulations. Each teacher who qualifies for and takes retirement receives an incentive of \$25,000.

Note 15 - Long-Term Obligations

Changes in long-term obligations of the School District during fiscal year 2005 were as follows:

| | Principal Outstanding 6/30/04 | Additions | Deductions | Principal Outstanding 6/30/05 | Amounts Due in One Year |
|--|-------------------------------------|-----------|------------|-------------------------------------|-------------------------------|
| Governmental Activities | | | | | |
| General Obligation Bonds: | | | | | |
| 2003 School Improvement Bonds 1.75 - 3.56% | | | | | |
| Current Interest Serial Bonds | \$1,125,000 | \$0 | \$225,000 | \$900,000 | \$225,000 |
| Capital Appreciation Bonds | 135,000 | 0 | 0 | 135,000 | 0 |
| Accretion on Capital Appreciation Bonds | 17,653 | 14,860 | 0 | 32,513 | 0 |
| <i>Total General Obligation Bonds:</i> | 1,277,653 | 14,860 | 225,000 | 1,067,513 | 225,000 |
| Other Long-Term Obligations: | | | | | |
| Compensated Absences | 590,928 | 230,094 | 181,275 | 639,747 | 186,636 |
| Special Termination Benefits Payable | 25,000 | 0 | 25,000 | 0 | 0 |
| Capital Leases | 1,912 | 0 | 1,912 | 0 | 0 |
| <i>Total General Long-Term Obligations</i> | \$1,895,493 | \$244,954 | \$433,187 | \$1,707,260 | \$411,636 |
| Business-Type Activities | | | | | |
| Other Long-Term Obligations: | | | | | |
| Compensated Absences | \$12,999 | \$651 | \$3,280 | \$10,370 | \$3,261 |

The capital lease was paid from the general fund. The special termination benefit payable was paid from the general fund. Compensated absences will be paid from the general fund, the food service, auxiliary services and title VI-B special revenue funds and the transportation enterprise fund.

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Notes to the Basic Financial Statements
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On January 15 and January 28, 2003, the School District issued \$1,510,000 in general obligation bonds which included serial and capital appreciation (deep discount) bonds in the amounts of \$1,375,000 and \$135,000, respectively, at interest rates varying from 1.75 percent to 3.56 percent. The bonds were issued for a seven year period with final maturity at December 1, 2010. The bonds will be retired from the debt service fund.

The capital appreciation and current interest serial bonds remained outstanding at June 30, 2005. The capital appreciation bonds were originally sold at a discount of \$120,000, which is being accreted annually until the point of maturity of the capital appreciation bonds, which is 2010.

The final maturity amount of outstanding capital appreciation bonds is \$255,000. The accretion recorded for 2005 was \$14,860, for a total outstanding bond liability of \$167,513 at June 30, 2005.

The School District's overall legal debt margin at June 30, 2005 was \$26,757,800 with an unvoted debt margin of \$305,860 at June 30, 2005. Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2005, are as follows:

| | General Obligation Bonds | | Capital Appreciation Bonds | | Total | |
|-------|--------------------------|----------|----------------------------|-----------|-------------|-----------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2006 | \$225,000 | \$18,675 | \$0 | \$0 | \$225,000 | \$18,675 |
| 2007 | 225,000 | 14,175 | 0 | 0 | 225,000 | 14,175 |
| 2008 | 225,000 | 9,169 | 0 | 0 | 225,000 | 9,169 |
| 2009 | 225,000 | 3,206 | 0 | 0 | 225,000 | 3,206 |
| 2010 | 0 | 0 | 135,000 | 120,000 | 135,000 | 120,000 |
| Total | \$900,000 | \$45,225 | \$135,000 | \$120,000 | \$1,035,000 | \$165,225 |

Note 16 – Capital Leases

In prior years, the School District has entered into capitalized leases for copiers. The leases meet the criteria of a capital lease as defined by the Statement of Financial Accounting Standards No. 13, "Accounting for Leases" which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and reflected as debt service in the fund financial statements for the general fund. These expenditures are reflected as program expenditures on a budgetary basis. Capital assets acquired by lease have been capitalized in the amount of \$17,876. Accumulated depreciation as of June 30, 2005 was \$12,769, leaving a current book value of \$5,107. The final payment on the leases was made during fiscal year 2005.

Note 17 - Jointly Governed Organizations

Lake Geauga Computer Association - The Lake Geauga Computer Association (LGCA) is a jointly governed organization that was formed for the purpose of providing computer services for accounting, grading, scheduling, EMIS and other applications to its 18 member school districts. Each of the school districts supports LGCA based upon a per pupil charge. The executive committee (governing board) consists of the superintendents and treasurers of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the governing board. LGCA's continued existence is not dependent upon the School District's continued participation. In fiscal year 2005, the School District paid \$61,190 to the computer association. Financial information can be obtained by writing the Lake Geauga Computer Association, 8140 Auburn Road, Painesville, Ohio 44077.

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For the Fiscal Year Ended June 30, 2005

Auburn Career Center - The Auburn Career Center is a joint vocational school operated by eleven school districts. Each participating school district appoints one board member to the Auburn Career Center's Board of Education. The students of each participating school district may attend classes offered at the vocational facility. Each participants control over the operation of the Auburn Career Center is limited to representation on the board. Continued existence of the Auburn Career Center is not dependent on the School District's continued participation. Financial information can be obtained from the Auburn Career Center, 8140 Auburn Road, Painesville, Ohio 44077.

East Shore Regional Transportation System – The East Shore Regional Transportation System (ESRTA) is a jointly governed organization that was formed for the purpose of providing a transportation system for the handicapped children in the sixteen member school districts. The transportation committee (governing board) consists of the superintendents of the member school districts. The degree if control exercised by any participating school district is limited to its representation on the governing board. ESRTA is not accumulating significant financial resources or experiencing fiscal stress which would cause additional financial benefit or burden on the School District. In fiscal year 2005, the School District paid \$74,774 to the transportation system. Financial information can be obtained by writing the fiscal agent, Kirtland Board of Education, 9152 Chillicothe Road, Kirtland, Ohio 44094.

East Shore Center - The East Shore Center is a jointly governed organization that was formed for the purpose of providing special education for the handicapped children in the sixteen member school districts. The governing board consists of the superintendents of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the governing board. East Shore Center is not accumulating significant resources or experiencing fiscal distress, which would cause additional financial benefit or burden on the School District. Financial information can be obtained by writing the fiscal agent, Lake County Educational Service Center, 30 South Park Place, Suite 30, Painsville, Ohio 44077.

Ohio Schools Council Association - The Ohio Schools' Council Association (Council) is a jointly governed organization among eighty-three school districts. The jointly governed organization was formed to purchase quality products and services at the lowest possible cost to the member districts. Each district supports the Council by paying an annual participation fee. The Council's Board consists of seven superintendents of the participating districts whose term rotates every year. The degree of control exercised by any school district is limited to its representation on the Board. In fiscal year 2005, the School District paid \$171,878 to the Council. Financial information can be obtained by contacting Dr. David A. Cottrell the Executive Secretary/Treasurer of the Ohio Schools Council at 6133 Rockside Road, Suite 10 Independence, Ohio 44101.

The School District participates in the Council's electric purchase program which was implemented during fiscal year 1998. This program allows school districts to purchase electricity at reduced rates, if the school districts will commit to participating for an eight year period. The participants make monthly payments based on estimated usage. Each June these estimated payments are compared to their actual usage for the year and any necessary adjustments are made.

Energy Acquisition Corp., a non-profit corporation with a self-appointing board, issued \$119,140,000 in debt to purchase eight years of electricity from Cleveland Electric Illuminating (CEI) for the participants. The participating school districts are not obligated in any manner for this debt. If a participating school district terminates its agreement, the district is required to repay the savings to CEI and CEI will refund the remaining prepayment related to that participant to Energy Acquisition Corp.

Kirtland Local School District
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The School District also participates in the Council's prepaid natural gas program which was implemented during fiscal year 2000. This program allows school districts to purchase natural gas at reduced rates, if the school districts will commit to participating for a twelve year period. The participants make monthly payments based on estimated usage. Each month these estimated payments are compared to their actual usage and any necessary adjustments are made.

The City of Hamilton, a municipal corporation and political subdivision duly organized and existing under the laws of the State of Ohio, issued \$89,450,000 in debt to purchase twelve years of natural gas from CMS Energy Corporation for the participants. The participating school districts are not obligated in any manner for this debt. If a participating school district terminates its agreement, the district is entitled to recover that amount, if any, of its contributions to the operating fund which are not encumbered for its share of program administrative costs.

Note 18 – Claims Servicing Pool

The School District participates in the Lake County Council of Governments Health Care Benefits (HCBP) Self Insurance Program, a claims servicing pool comprised of eleven Lake County school districts. Each school district has a representative on the assembly (usually the superintendent or designee). Each member pays an administrative fee to the pool. The plan's business and affairs are conducted by a five member Board of Directors elected by the HCBP's assembly. The assembly elects officers for one year terms to serve on the Board of Directors. All participating members retain their risk and are completely responsible for paying their own claims. The HCBP acts solely as the claims servicing agent. Financial information can be obtained from the Lake County Educational Service Center at 30 South Park Place, Suite 30, Painsville, Ohio 44077.

Note 19 - Related Organization

The Kirtland Public Library - The Kirtland Public Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Kirtland Local School District's Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel and does not depend on the School District for operational subsidies. Although the School District does serve as the taxing authority and issues tax related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of a tax, the rate and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the Kirtland Public Library, Julia Brandow, Clerk/Treasurer, at 9267 Chillicothe Road, Kirtland, Ohio 44094.

Note 20 - Insurance Purchasing Pool

The School District participates in the Ohio School Boards' Association (OSBA) Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. 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 OSBA. The Director of 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.

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 21 - Contingencies

A. Grants

The School District receives financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2005.

B. Litigation

As of June 30, 2005, the School District was not party to any legal proceedings.

Note 22 - Set-Aside Calculations

The School District is required by State statute to annually set aside in the General Fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year-end. These amounts must be carried forward to be used for the same purposes in future years. In prior years, the School District was also required to set aside money for budget stabilization. At June 30, 2005, only the unspent portion of certain workers' compensation refunds continues to be set aside.

The following cash basis information describes the changes in the year-end set-aside amounts for textbooks, capital acquisitions and budget stabilization. Disclosure of this information is required by the State statute.

| | Textbooks Instructional Materials Reserve | Capital Improvements | Budget Stabilization |
|---|--|-------------------------|-------------------------|
| Set-aside Reserve Balance as of June 30, 2004 | (\$143,160) | \$0 | \$55,116 |
| Current Year Set-aside Requirement | 158,565 | 158,565 | 0 |
| Qualifying Disbursements | (64,911) | (220,292) | 0 |
| Totals | <u>(\$49,506)</u> | <u>(\$61,727)</u> | <u>\$55,116</u> |
| Set-aside Balance Carried Forward to Future Fiscal Years | <u>(\$49,506)</u> | <u>\$0</u> | <u>\$55,116</u> |
| Set-aside Reserve Balance as of June 30, 2005 | <u>\$0</u> | <u>\$0</u> | <u>\$55,116</u> |

The School District has qualifying disbursements and offsets during the fiscal year that reduced the textbooks and the capital improvements set-aside amounts below zero. The negative set-aside balance for the textbooks may be used to reduce the set-aside requirement of future years. The negative set-aside balance for the capital improvements may not be used to reduce the set-aside requirements of future years. This negative balance is therefore not presented as being carried forward to future years. The total reserve balance for the three set-asides at the end of the fiscal year was \$55,116.

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**Auditor of State
Betty Montgomery**

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

Board of Education
Kirtland Local School District
Lake County
9252 Chillicothe Road
Kirtland, Ohio 44094

To the Board of Education:

We have audited the financial statements of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of the Kirtland Local School District, Lake County, Ohio, (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated April 14, 2006. 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 to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated April 14, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

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 an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2005-001. In a separate letter to the District's management dated April 14, 2006, we reported other matters related to noncompliance we deemed immaterial.

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Kirtland Local School District
Lake County
Independent Accountants' Report on Internal Control Over Financial
Reporting and on Compliance and Other Matters Required by
Government Auditing Standards
Page 2

We intend this report solely for the information and use of the audit committee, management and the Board of Education. It is not intended for anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

April 14, 2006

**KIRTLAND LOCAL SCHOOL DISTRICT
LAKE COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2005**

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

| | |
|-----------------------|-----------------|
| FINDING NUMBER | 2005-001 |
|-----------------------|-----------------|

Noncompliance Citation

Ohio Revised Code Section 5705.41(B) requires that no subdivision or taxing unit shall make any expenditure of money unless it has been properly appropriated. The following accounts had expenditures that exceeded appropriations for the period ending January 31, 2005:

| <u>Fund / Department</u> | <u>Appropriations</u> | <u>Expenditures</u> | <u>Excess Expenditures</u> |
|--------------------------|-----------------------|---------------------|--------------------------------|
| 001 - General | | | |
| Vocational Instruction | \$49,000 | \$56,286 | (\$7,286) |
| EMIS Coordinator | 3,055 | 3,500 | (445) |
| Salary | | | |
| Support Serv.- Purch. | | | |
| Services | 65,049 | 76,387 | (11,338) |
| 014 - Transportation | | | |
| Fiscal-Ret & Ins | 1,400 | 1,626 | (226) |
| Benefits | | | |
| Purchased Services | 79,566 | 376,001 | (296,435) |
| Supplies | 5,360 | 5,680 | (320) |
| 018 - Principal's Fund | | | |
| Purchased Services | 3,759 | 3,862 | (103) |
| 300 - Activity Fund 300 | | | |
| Washington Tour: | | | |
| Purchased Services | 27,000 | 29,953 | (2,953) |
| Benefits | 140 | 278 | (138) |
| 401 - Auxiliary Services | | | |
| Peaceful Children- | | | |
| Prof. Serv. | 3,000 | 3,157 | (157) |
| 590 - Title VI-R | | | |
| Teacher Quality- | | | |
| Supplies | 937 | 1,070 | (133) |

This weakness could allow expenditures in the above funds or accounts to exceed the total of the available fund balance, the appropriation account and/or the current year revenues. This also increases the risk of negative fund balances.

The Treasurer acknowledges the January monthly reports reflect encumbrances exceeding appropriations. The Board approved an amended appropriation on February 14, 2005.

We recommend the District compare appropriations to expenditures plus encumbrances at the legal level of control in all funds to ensure compliance with this requirement. This comparison should be performed on a monthly basis, at a minimum.

**KIRTLAND LOCAL SCHOOL DISTRICT
LAKE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDING
JUNE 30, 2005**

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i> |
|----------------|---|------------------|--|
| 2004-001 | Ohio Rev. Code Section 5705.41(D) states, in part, that no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. | No | Moved to Management Letter Comment |



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KIRTLAND LOCAL SCHOOL DISTRICT

LAKE 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
JUNE 01, 2006**