



Dave Yost • Auditor of State



**KIRTLAND LOCAL SCHOOL DISTRICT  
LAKE COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

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, 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, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

Ohio Administrative Code § 117-2-03(B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major funds, and the aggregate remaining fund information of the Kirtland Local School District, Lake County, Ohio, as of June 30, 2011, and the respective changes in cash financial position and the budgetary comparison for the General Fund thereof and for the years then ended in conformity with the basis of accounting Note 2 describes.

As described in Note 3, the District adopted the provisions of Governmental Accounting Standard Board Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions".

In accordance with *Government Auditing Standards*, we have also issued our report dated March 9, 2012, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements taken as a whole. The federal awards receipts and expenditures schedule provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The federal awards expenditure schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



**Dave Yost**  
Auditor of State

March 9, 2012

**Kirtland Local School District**  
*Management's Discussion and Analysis*  
*For the Year Ended June 30, 2011*  
*Unaudited*

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This discussion and analysis of the Kirtland Local School District's (the School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2011, within the limitations of the School District's cash basis accounting. Readers should also review the basic financial statements and the notes to enhance their understanding of the School District's financial performance.

**Highlights**

Key highlights for 2011 are as follows:

Net assets of the School District's governmental activities decreased from the prior fiscal year, mainly due to expenses exceeding revenues in the current year. Additionally, the expenses for fiscal year 2011 are outgrowing revenues at a larger rate when compared to fiscal year 2010.

The School District's general fund receipts are primarily property taxes. With little commercial property and still undeveloped residential property within the School District's territory, the School District saw a minimal downturn in tax revenues in fiscal year 2011.

**Using the Basic Financial Statements**

This annual report is presented in a format consistent with the presentation requirements of School District Accounting Standards Board Statement No. 34, as applicable to the School District's cash basis of accounting.

**Report Components**

The statement of net assets and the statement of activities provide information about the cash activities of the School District as a whole.

Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the School District as a way to segregate money whose use is restricted to a particular specified purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns.

The notes to the financial statements are an integral part of the School District's government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

**Basis of Accounting**

The basis of accounting is a set of guidelines that determine when financial events are recorded. The School District has elected to present its financial statements on a cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the School District's cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the cash basis of accounting.

**Kirtland Local School District**  
*Management's Discussion and Analysis*  
*For the Year Ended June 30, 2011*  
*Unaudited*

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**Reporting the School District as a Whole**

The statement of net assets and the statement of activities reflect how the School District did financially during fiscal year 2011, within the limitations of cash basis accounting. The statement of net assets presents the cash balances and investments of the governmental and business-type activities of the School District at fiscal year end. The statement of activities compares cash disbursements with program receipts for each governmental program and business-type activity. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the School District's general receipts.

These statements report the School District's cash position and the changes in cash position. Keeping in mind the limitations of the cash basis of accounting, you can think of these changes as one way to measure the School District's financial health. Over time, increases or decreases in the School District's cash position is one indicator of whether the School District's financial health is improving or deteriorating. When evaluating the School District's financial condition, you should also consider other nonfinancial factors as well such as the School District's property tax base, the condition of the School District's capital assets, the extent of the School District's debt obligations, the reliance on non-local financial resources for operations and the need for continued growth in the major local revenue sources such as property taxes.

In the statement of net assets and the statement of activities, the School District has one type of activity:

Governmental activities. Most of the School District's basic services are reported here, including instruction, support services, food service operations and extracurricular activities. State and federal grants and local property taxes finance most of these activities. Benefits provided through governmental activities are not necessarily paid for by the people receiving them.

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

Fund financial statements provide detailed information about the School District's major funds – not the School District as a whole. The School District establishes separate funds to better manage its many activities and to help demonstrate that money that is restricted as to how it may be used is being spent for the intended purpose. The funds of the School District are split into two categories: governmental and fiduciary.

Governmental Funds - Most of the School District's activities are reported in governmental funds. The governmental fund financial statements provide a detailed view of the School District's governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the School District's programs. The School District's significant governmental funds are presented on the financial statements in separate columns. The information for nonmajor funds (funds whose activity or balances are not large enough to warrant separate reporting) is combined and presented in total in a single column. The School District's major governmental funds are the General and Building Capital Projects Funds. The programs reported in governmental funds are closely related to those reported in the governmental activities section of the entity-wide statements.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the School District. Fiduciary funds are not reflected on the School District-wide financial statements because the resources of these funds are not available to support the School District's programs.



**Kirtland Local School District**  
*Management's Discussion and Analysis*  
*For the Year Ended June 30, 2011*  
*Unaudited*

**The School District as a Whole**

Table 1 provides a summary of the School District's net assets for fiscal year 2011 compared to fiscal year 2010 on a cash basis:

(Table 1)  
**Net Assets**

	Governmental Activities	
	2011	2010 (Restated)
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$8,494,251	\$9,880,187
<b>Net Assets</b>		
Restricted for:		
Capital Outlay	\$489,465	\$618,402
Debt Service	313,416	262,069
Set Asides	506,303	373,197
Other Purposes	274,692	368,641
Unrestricted	6,910,375	8,257,878
Total Net Assets	\$8,494,251	\$9,880,187

Net assets of the governmental activities decreased during fiscal year 2011. Although expenses decreased from fiscal year 2010 levels, overall revenues continued to decrease during the year.

**Kirtland Local School District**  
*Management's Discussion and Analysis*  
*For the Year Ended June 30, 2011*  
*Unaudited*

Table 2 reflects the changes in net assets in fiscal year 2011 compared to fiscal year 2010 on a cash basis:

(Table 2)  
**Changes in Net Assets**

	Governmental Activities	
	2011	2010 (Restated)
<b>Receipts</b>		
<i>Program Receipts</i>		
Charges for Services and Sales	\$788,743	\$791,327
Operating Grants, Contributions and Interest	729,041	798,633
Capital Grants and Contributions	36,056	40,338
<i>Total Program Receipts</i>	1,553,840	1,630,298
<i>General Receipts</i>		
Property Taxes	10,993,698	11,277,110
Grants and Entitlements Not Restricted to Specific Programs	2,762,159	2,741,649
Sale of Capital Assets	0	1,520
Interest	52,782	34,425
Miscellaneous	26,550	28,503
<i>Total General Receipts</i>	13,835,189	14,083,207
<i>Total Receipts</i>	\$15,389,029	\$15,713,505

**Kirtland Local School District**  
*Management's Discussion and Analysis*  
For the Year Ended June 30, 2011  
Unaudited

(Table 2 (continued))  
**Changes in Net Assets**

	Governmental Activities	
	2011	2010 (Restated)
<b>Disbursements</b>		
Instruction:		
Regular	\$6,226,539	\$6,003,666
Special	1,449,413	1,350,703
Vocational	85,779	94,554
Intervention	87,183	135,175
Support Services:		
Pupil	1,060,130	934,291
Instructional Staff	581,887	507,523
Board of Education	320,698	379,256
Administration	1,132,415	1,043,394
Fiscal	487,698	469,450
Business	25,248	23,198
Operation and Maintenance		
of Plant	1,353,593	1,317,483
Pupil Transportation	1,132,197	1,223,634
Central	141,846	143,998
Operation of Non-Instructional		
Services	120,287	116,890
Operation of Food Services	245,783	245,194
Extracurricular Activities	863,293	762,324
Capital Outlay	366,045	1,957,516
Debt Service:		
Principal	450,000	570,000
Interest and Fiscal Charges	644,931	782,631
<i>Total Disbursements</i>	<i>16,774,965</i>	<i>18,060,880</i>
Change in Net Assets	(1,385,936)	(2,347,375)
Net Assets Beginning of Year	9,880,187	12,227,562
Net Assets End of Year	\$8,494,251	\$9,880,187

Total program receipts represent only a small portion of total receipts and are primarily comprised of charges for services and sales, operating and capital grants and contributions.

General receipts represent the majority of the School District's total receipts, and of this amount, the majority are local taxes. Grants and entitlements also make up a significant portion of the School District's general receipts. Other receipts are very insignificant and somewhat unpredictable revenue sources.

The School District was responsible for providing educational services to 1,195 students. During fiscal year 2011, disbursements decreased from fiscal year 2010. The increases in the areas of instruction, support services, operation of non-instructional services and extracurricular activities were due to salaries and benefits based on negotiated contracts and necessary increases in spending. These increases were offset by a large decrease in capital outlay, due to construction projects nearing completion during fiscal year 2010.

**Kirtland Local School District**  
*Management's Discussion and Analysis*  
For the Year Ended June 30, 2011  
Unaudited

Total disbursements are made up of two main areas: instructional and support services. Instructional costs made up 46.79 percent of all governmental disbursements. Support services are made up of many subsections. Support services provide services such as busing, libraries, guidance, nursing services, building and ground maintenance, administration, board of education and fiscal. Other areas of disbursements are non-instructional services, food services, extracurricular activities, capital outlay and debt service. Food services and extracurricular activities generate revenue through sales and fees.

**Governmental Activities**

If you look at the Statement of Activities on page 14, you will see that the first column lists the major services provided by the School District. The next column identifies the costs of providing these services. The major program disbursements for governmental activities are for instruction, maintenance of property and capital outlay. The next three columns of the Statement entitled Program Receipts identify amounts paid by people who are directly charged for the service and grants received by the School District that must be used to provide a specific service. The Net Receipt (Disbursement) column compares the program receipts to the cost of the service. This "net cost" amount represents the cost of the service which ends up being paid from money provided by local taxpayers. These net costs are paid from the general receipts which are presented at the bottom of the Statement. A comparison between the total cost of services and the net cost is presented in Table 3.

(Table 3)  
**Governmental Activities**

	2011		2010	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
<b>Disbursements</b>				
Instruction:				
Regular	\$6,226,539	\$5,899,438	\$6,003,666	\$5,682,850
Special	1,449,413	1,227,331	1,350,703	1,190,696
Vocational	85,779	85,779	94,554	94,554
Intervention	87,183	87,183	135,175	135,175
Support Services:				
Pupil	1,060,130	874,434	934,291	756,926
Instructional Staff	581,887	556,866	507,523	390,173
Board of Education	320,698	320,698	379,256	379,256
Administration	1,132,415	1,132,415	1,043,394	1,043,394
Fiscal	487,698	483,003	469,450	469,450
Business	25,248	25,248	23,198	23,198
Operation and Maintenance of Plant	1,353,593	1,353,593	1,317,483	1,317,483
Pupil Transportation	1,132,197	1,088,777	1,223,634	1,116,424
Central	141,846	130,021	143,998	132,139
Operation of Non-Instructional Services	120,287	18,574	116,890	25,515
Operation of Food Services	245,783	21,179	245,194	9,303
Extracurricular Activities	863,293	791,666	762,324	421,388
Capital Outlay	366,045	329,989	1,957,516	1,952,516
Debt Service:				
Principal	470,000	470,000	570,000	570,000
Interest and Fiscal Charges	504,931	504,931	662,631	662,631
Capital Appreciation Bond Interest	120,000	120,000	120,000	120,000
<b>Total Disbursements</b>	<b>\$16,774,965</b>	<b>\$15,521,125</b>	<b>\$18,060,880</b>	<b>\$16,493,071</b>

**Kirtland Local School District**  
*Management's Discussion and Analysis*  
*For the Year Ended June 30, 2011*  
*Unaudited*

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The dependence upon property tax receipts is apparent as over half of governmental activities are supported through these general receipts.

**The School District's Funds**

Total governmental funds had receipts of \$15,389,029 and disbursements of \$16,774,965.

General fund disbursements exceeded receipts by \$1,220,050 indicating that the general fund is using carryover fund balance to support current year operations. The building capital projects fund disbursements were \$103,509 during the fiscal year, compared to \$1,632,187 in fiscal year 2010, as the majority of the construction project occurred in the prior fiscal year.

**General Fund Budgeting Highlights**

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

During fiscal year 2011, the School District amended its general fund budget several times to reflect changing circumstances, such as the hiring of intervention tutors and new rates for health insurance and workers' compensation. Final budgeted receipts were less than original budgeted receipts primarily due to more conservative estimates for tax and intergovernmental receipts. The difference between final budgeted receipts and actual receipts was less than one percent and is not significant.

Final disbursements were budgeted at \$14,946,145 while actual disbursements were \$14,236,982.

**Capital Assets and Debt Administration**

**Capital Assets**

The School District maintains a listing of its capital assets. These records are not required to be presented in the financial statements.

**Debt**

At June 30, 2011, the School District's outstanding debt included \$15,320,554 in general obligation bonds issued for improvements to buildings and structures. For further information regarding the School District's debt, refer to Note 13 to the basic financial statements.

**Current Issues**

The School District is always presented with challenges and opportunities. Economic conditions as of yet have not had a material impact on the School District's tax revenue, as residential property taxable value comprises 90.46 percent of total taxable value. The most recent five year forecast adopted by the Board of Education required the need for a new operating levy to be put to the voters in the current year for collection in the 2012 school year. The last new operating levy was approved in 2003.

**Kirtland Local School District**  
*Management's Discussion and Analysis*  
*For the Year Ended June 30, 2011*  
*Unaudited*

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In the spring of 2010 the School District was found to be in violation of federal and/or state laws relating to the education of various students with disabilities. During fiscal year 2011, the School District submitted a resolution to the Ohio Department of Education to address these violations and the Department of Education accepted the School District's proposed resolutions.

The School District was also named in a complaint filed with the U.S. Department of Education Office for Civil Rights (OCR) alleging the School District denied students with disabilities a free and appropriate education. OCR determined there was insufficient evidence to conclude the School District discriminated against students based on their disability with respect to the time frame the OCR had time jurisdiction to review. OCR did find that the School District's 504 policies and procedures fail to comply fully with Section 504 in several key aspects and the School District has taken steps to correct the policies and procedures and provide staff training on the same.

Copies of the findings and resolution agreements may be obtained from the Treasurer upon request.

**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 Stephen A. Vasek, Interim Treasurer at Kirtland Local School District, 9252 Chillicothe Rd. Kirtland, Ohio, 44094, [www.kirtlandschools.org](http://www.kirtlandschools.org).

## *Basic Financial Statements*

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**Kirtland Local School District**  
*Statement of Net Assets - Cash Basis*  
*June 30, 2011*

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	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$8,494,251</u>
<b>Net Assets</b>	
Restricted for:	
Capital Projects	\$489,465
Debt Service	313,416
Set Asides	506,303
Other Purposes	274,692
Unrestricted	<u>6,910,375</u>
<i>Total Net Assets</i>	<u>\$8,494,251</u>

See accompanying notes to the basic financial statements

**Kirtland Local School District**  
*Statement of Activities - Cash Basis*  
For the Fiscal Year Ended June 30, 2011

	Program Cash Receipts			Net Receipts (Disbursements) and Changes in Net Assets	
	Cash Disbursements	Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants and Contributions	Governmental Activities
<b>Governmental Activities</b>					
Current:					
Instruction:					
Regular	\$6,226,539	\$294,139	\$32,962	\$0	(\$5,899,438)
Special	1,449,413	25,180	196,902	0	(1,227,331)
Vocational	85,779	0	0	0	(85,779)
Intervention	87,183	0	0	0	(87,183)
Support Services:					
Pupil	1,060,130	0	185,696	0	(874,434)
Instructional Staff	581,887	0	25,021	0	(556,866)
Board of Education	320,698	0	0	0	(320,698)
Administration	1,132,415	0	0	0	(1,132,415)
Fiscal	487,698	0	4,695	0	(483,003)
Business	25,248	0	0	0	(25,248)
Operation and Maintenance of Plant	1,353,593	0	0	0	(1,353,593)
Pupil Transportation	1,132,197	0	43,420	0	(1,088,777)
Central	141,846	0	11,825	0	(130,021)
Operation of Non-Instructional Services	120,287	0	101,713	0	(18,574)
Operation of Food Services	245,783	177,681	46,923	0	(21,179)
Extracurricular Activities	863,293	291,743	79,884	0	(491,666)
Capital Outlay	366,045	0	0	36,056	(329,989)
Debt Service:					
Principal	450,000	0	0	0	(450,000)
Interest and Fiscal Charges	644,931	0	0	0	(644,931)
<b>Totals</b>	<b>\$16,774,965</b>	<b>\$788,743</b>	<b>\$729,041</b>	<b>\$36,056</b>	<b>(15,221,125)</b>
<b>General Receipts</b>					
Property Taxes Levied for:					
					9,779,137
					1,014,008
					200,553
Grants and Entitlements not Restricted to Specific Programs					
					2,762,159
					52,782
					26,550
					<u>13,835,189</u>
					(1,385,936)
					<u>9,880,187</u>
					<u>\$8,494,251</u>

See accompanying notes to the basic financial statements

**Kirtland Local School District**  
*Statement of Assets and Fund Balances - Cash Basis*  
*Governmental Funds*  
*June 30, 2011*

	General	Building	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$6,961,879	\$386,602	\$639,467	\$7,987,948
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	506,303	0	0	506,303
<i>Total Assets</i>	<u>\$7,468,182</u>	<u>\$386,602</u>	<u>\$639,467</u>	<u>\$8,494,251</u>
<b>Fund Balances</b>				
Retricted	506,303	386,602	604,028	1,496,933
Committed	0	0	86,943	86,943
Unassigned (Deficit)	6,961,879	0	(51,504)	6,910,375
<i>Total Fund Balances</i>	<u>\$7,468,182</u>	<u>\$386,602</u>	<u>\$639,467</u>	<u>\$8,494,251</u>

See accompanying notes to the basic financial statements

**Kirtland Local School District**  
*Statement of Cash Receipts, Disbursements and Changes in Fund Balances - Cash Basis*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2011*

	General	Building	Other Governmental Funds	Total Governmental Funds
<b>Receipts</b>				
Property Taxes	\$9,779,137	\$0	\$1,214,561	\$10,993,698
Intergovernmental	2,619,295	0	575,287	3,194,582
Interest	51,820	499	463	52,782
Tuition and Fees	298,964	0	0	298,964
Extracurricular Activities	51,632	0	240,111	291,743
Contributions and Donations	5,557	0	84,538	90,095
Charges for Services	0	0	420,260	420,260
Rentals	20,355	0	0	20,355
Miscellaneous	26,550	0	0	26,550
<i>Total Receipts</i>	<u>12,853,310</u>	<u>499</u>	<u>2,535,220</u>	<u>15,389,029</u>
<b>Disbursements</b>				
Current:				
Instruction:				
Regular	6,199,757	0	26,782	6,226,539
Special	1,207,771	0	241,642	1,449,413
Vocational	85,779	0	0	85,779
Intervention	87,183	0	0	87,183
Support Services:				
Pupil	833,880	0	226,250	1,060,130
Instructional Staff	562,887	0	19,000	581,887
Board of Education	320,698	0	0	320,698
Administration	1,132,415	0	0	1,132,415
Fiscal	472,472	0	15,226	487,698
Business	25,248	0	0	25,248
Operation and Maintenance of Plant	1,353,593	0	0	1,353,593
Pupil Transportation	1,094,134	0	38,063	1,132,197
Central	136,237	0	5,609	141,846
Operation of Non-Instructional Services	28,054	0	92,233	120,287
Operation of Food Services	0	0	245,783	245,783
Extracurricular Activities	533,252	0	330,041	863,293
Capital Outlay	0	103,509	262,536	366,045
Debt Service:				
Principal Retirement	0	0	450,000	450,000
Interest and Fiscal Charges	0	0	644,931	644,931
<i>Total Disbursements</i>	<u>14,073,360</u>	<u>103,509</u>	<u>2,598,096</u>	<u>16,774,965</u>
<i>Net Change in Fund Balances</i>	(1,220,050)	(103,010)	(62,876)	(1,385,936)
<i>Fund Balances Beginning of Year - Restated (See Note 3)</i>	<u>8,688,232</u>	<u>489,612</u>	<u>702,343</u>	<u>9,880,187</u>
<i>Fund Balances End of Year</i>	<u><u>\$7,468,182</u></u>	<u><u>\$386,602</u></u>	<u><u>\$639,467</u></u>	<u><u>\$8,494,251</u></u>

See accompanying notes to the basic financial statements

**Kirtland Local School District**  
*Statement of Receipts, Disbursements and Changes*  
*In Fund Balance - Budget and Actual -Budget Basis*  
*General Fund*  
*For the Fiscal Year Ended June 30, 2011*

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>Receipts</b>				
Property Taxes	\$10,148,477	\$10,129,176	\$9,779,137	(\$350,039)
Intergovernmental	2,718,221	2,631,255	2,619,295	(11,960)
Interest	53,777	31,335	51,820	20,485
Tuition and Fees	270,573	259,977	298,964	38,987
Extracurricular Activities	93,264	72,526	51,632	(20,894)
Contributions and Donations	5,767	48,393	5,557	(42,836)
Rentals	21,124	16,629	20,355	3,726
Miscellaneous	25,740	33,339	26,550	(6,789)
<i>Total Receipts</i>	<u>13,336,943</u>	<u>13,222,630</u>	<u>12,853,310</u>	<u>(369,320)</u>
<b>Disbursements</b>				
Current:				
Instruction:				
Regular	6,600,337	6,590,336	6,213,173	377,163
Special	1,273,482	1,314,435	1,235,033	79,402
Vocational	89,536	100,000	85,779	14,221
Intervention	91,001	139,600	87,183	52,417
Support Services:				
Pupil	870,573	872,226	833,903	38,323
Instructional Staff	590,153	530,027	563,334	(33,307)
Board of Education	334,742	417,400	321,190	96,210
Administration	1,183,623	1,106,951	1,132,993	(26,042)
Fiscal	493,385	488,122	477,094	11,028
Business	30,000	39,646	25,621	14,025
Operation and Maintenance of Plant	1,431,083	1,411,262	1,382,060	29,202
Pupil Transportation	1,143,910	1,235,434	1,181,800	53,634
Central	142,508	137,700	136,513	1,187
Operation of Non-Instructional Services	29,555	30,272	28,054	2,218
Extracurricular Activities	593,238	532,734	533,252	(518)
<i>Total Disbursements</i>	<u>14,897,126</u>	<u>14,946,145</u>	<u>14,236,982</u>	<u>709,163</u>
<i>Excess of Receipts Under Disbursements</i>	<u>(1,560,183)</u>	<u>(1,723,515)</u>	<u>(1,383,672)</u>	<u>339,843</u>
<b>Other Financing Sources (Uses)</b>				
Sale of Capital Assets	0	1,180	0	(1,180)
Transfers In	0	8,266	0	(8,266)
Transfers Out	(1,109)	(514,177)	0	514,177
<i>Total Other Financing Sources (Uses)</i>	<u>(1,109)</u>	<u>(504,731)</u>	<u>0</u>	<u>504,731</u>
<i>Net Change in Fund Balance</i>	(1,561,292)	(2,228,246)	(1,383,672)	844,574
<i>Fund Balance Beginning of Year</i>	8,480,778	8,480,778	8,480,778	0
Prior Year Encumbrances Appropriated	<u>207,454</u>	<u>207,454</u>	<u>207,454</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$7,126,940</u>	<u>\$6,459,986</u>	<u>\$7,304,560</u>	<u>\$844,574</u>

See accompanying notes to the basic financial statements

**Kirtland Local School District**  
*Statement of Fiduciary Assets and Liabilities - Cash Basis*  
*Agency Fund*  
*June 30, 2011*

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	<u>Agency</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$39,192</u>
<b>Liabilities</b>	
Due to Students	<u>\$39,192</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, 2011*

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**Note 1 - Reporting Entity**

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 55 non-certified employees, 82 certified full-time teaching personnel, and 9 administrative employees who provide services to 1,195 students and other community members. The School District currently operates three school buildings, an administrative building, and a bus garage.

The reporting entity is composed of the primary government, component units, and other organizations that are included to insure the financial statements are not misleading.

***Primary Government***

The primary government of the School District consists of all funds, departments, boards, and agencies 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***

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. The School District is also financially accountable for any 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. Component units also include legally separate, tax-exempt entities whose resources are for the direct benefit of the School District, are accessible to the School District and are significant in amount to the School District. The School District has no component units.

***Other Organizations***

The School District is associated with three 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 Ohio Schools Council Association, the Lake County Council of

**Kirtland Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2011*

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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 15, 16, 17 and 18 to the basic financial statements.

The School District's management believes these financial statements present all activities for which the School District is financially accountable.

**Note 2 - Summary of Significant Accounting Policies**

As discussed further in Note 2, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. In the government-wide financial statements and the fund financial statements for the proprietary fund, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. Following are the more significant of the School District's accounting policies.

***Basis of Presentation***

The School District's basic financial statements consist of government-wide financial 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 in nature.) Governmental activities generally are financed through taxes, intergovernmental receipts or other nonexchange transactions.

The statement of net assets presents the cash balance of the governmental activities of the School District at fiscal year end. The statement of activities compares disbursements with program receipts for each function or program of the School District's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the government is responsible. Program receipts include charges paid by the recipient of the program's goods or services, grants and contributions restricted to meeting the operational or capital requirements of a particular program, and receipts of interest earned on grants that are required to be used to support a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a cash basis or draws from the School District's general receipts.



**Kirtland Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2011*

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***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. Fiduciary funds are reported by type.

***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. The funds of the School District are divided into two categories, governmental and fiduciary.

***Governmental Funds*** The School District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange transactions as governmental funds. The School District's major funds are the general and building capital projects funds.

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

***Building Fund*** - The building capital projects fund accounts for monies received and expended for various capital improvements within the School District.

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

***Fiduciary Funds*** 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 not available to support the School District's own programs. The School District has no trust funds. Agency funds are custodial in nature. The School District's agency fund accounts for various student-managed activities.

***Basis of Accounting***

The School District's financial statements are prepared using the cash basis of accounting. Receipts are recorded in the School District's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

***Budgetary Process***

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of

**Kirtland Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2011*

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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 amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on cash disbursements plus encumbrances at the level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. 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 receipts are identified by the Treasurer. The amounts reported as the original and final budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original and final appropriations were passed by the Board.

The appropriation resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward 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.

***Cash and Investments***

To improve cash management, cash received by the School District is pooled and invested. 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".

Investments of the School District's 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. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

During fiscal year 2011, investments were limited to federal farm credit discount bank bonds, federal national mortgage association notes, federal home loan mortgage corporation notes, Freddie Mac, federal home loan bank notes, U.S. Treasury notes, a money market mutual fund, and STAR Ohio, the State Treasurer's Investment Pool.

Investments are reported at cost, except for STAR Ohio. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for at June 30, 2011.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts credited to the general fund during fiscal year 2011 were \$51,820, which includes \$5,946 assigned from other School District funds.

**Kirtland Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2011*

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***Restricted Assets***

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either 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 for the purchase of textbooks and other instructional materials and to create a reserve for budget stabilization. See Note 14 for additional information regarding set asides.

***Inventory and Prepaid Items***

The School District reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

***Capital Assets***

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets in the accompanying financial statements.

***Accumulated Leave***

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the School District's cash basis of accounting.

***Employer Contributions to Cost-Sharing Pension Plans***

The School District recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 9 and 10, the employer contributions include portions for pension benefits and for postretirement health care benefits.

***Long-Term Obligations***

The School District's cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither an other financing source nor a capital outlay expenditure are reported at inception. Lease payments are reported when paid.

***Net 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 regulations of other governments.

Net assets restricted for other purposes include resources restricted for food service operations and federal and state grants restricted to cash disbursement for specified purposes.

The School District's policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

**Kirtland Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2011*

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***Fund Balance***

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

***Nonspendable*** The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

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

***Committed*** The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the School District Board of Education. Those committed amounts cannot be used for any other purpose unless the School District Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

***Assigned*** Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned amounts represent intended uses established by policies and authorized purchase commitments by the School District Board of Education.

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

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

***Interfund Transactions***

Transfers between governmental activities are eliminated on the government-wide financial statements. Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the Statement of Activities.

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies 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 cash disbursements to the funds that initially paid for them are not presented in the financial statements.

**Kirtland Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2011*

**Note 3 – Change in Basis of Accounting Principles, Change in Basis of Accounting and Restatement of Fund Equity**

For fiscal year 2011, the School District has implemented Governmental Accounting Standard Board (GASB) Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions”.

GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The implementation of this statement resulted in the reclassification of certain funds and restatement of the School District’s financial statements.

***Restatement of Fund Equity***

The implementation of this change along with the implementation of GASB Statement No. 54, had the following effects on fund equity of the major and nonmajor funds of the School District as they were previously reported. The effects on net assets of governmental activities are also presented.

	General	Building	Other Governmental	Total
Fund Balances at June 30, 2010	\$8,475,924	\$489,612	\$759,500	\$9,725,036
Change in Fund Structure	212,308	0	(57,157)	155,151
Adjusted Fund Balance July 1, 2010	\$8,688,232	\$489,612	\$702,343	\$9,880,187

	Business-Type Activity
Net Assets at June 30, 2010	\$155,151
Change in Fund Structure	(155,151)
Adjusted Net Assets at July 1, 2010	\$0

**Note 4 – Fund Balance**

Fund balance is classified as nonspendable, restricted, committed, and/or unassigned based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

**Kirtland Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2011*

Fund Balances	General	Building	Nonmajor Governmental Funds	Total
<b><i>Restricted for</i></b>				
Food Service Operations	\$0	\$0	\$21,403	\$21,403
College Scholarships	0	0	189	189
Education Foundation	0	0	857	857
Athletics and Music	0	0	95,520	95,520
Non-Public Schools	0	0	21,934	21,934
Management Information Systems	0	0	5,000	5,000
Data Communication	0	0	3,825	3,825
Safe Schools	0	0	13,782	13,782
Fiscal Stabilization	0	0	19,559	19,559
Title II-D Technology	0	0	24	24
Title I	0	0	3,113	3,113
Drug Free Schools	0	0	353	353
Improving Teacher Quality	0	0	2,190	2,190
Debt Service Payments	0	0	313,416	313,416
Capital Improvements	0	386,602	102,863	489,465
<b>Restricted Assets:</b>				
Equity in Pooled Cash and Cash Equivalents	506,303	0	0	506,303
<b><i>Total Restricted</i></b>	<b>506,303</b>	<b>386,602</b>	<b>604,028</b>	<b>1,496,933</b>
<b><i>Committed to</i></b>				
College Scholarships	0	0	86,943	86,943
<b><i>Unassigned</i></b>	<b>6,961,879</b>	<b>0</b>	<b>(51,504)</b>	<b>6,910,375</b>
<b><i>Total Fund Balances</i></b>	<b>7,468,182</b>	<b>386,602</b>	<b>639,467</b>	<b>8,494,251</b>

**Note 5 - Accountability and Compliance**

***Accountability***

Ohio Administrative Code, Section 117-2-03 (B), requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles. However, the School District prepared its financial statements on a cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net assets/fund balances, and disclosures that, while material, cannot be determined at this time. The School District can be fined and various other administrative remedies may be taken against the School District.

***Compliance***

Contrary to Section 5705.39, Ohio Revised Code, the following fund had original appropriations in excess of estimated revenues and carryover balances:

**Kirtland Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2011*

	Original Estimated Revenues Plus Beginning Balances	Original Appropriations	Excess
<i>Special Revenue Funds:</i>			
Auxillary Service	\$16,003	\$90,812	\$74,809
EMIS	6,750	7,000	250
Auxiliary Service	98,789	129,516	30,727
Data Communications	7,659	15,000	7,341
Safe School Helpline	20,000	27,807	7,807
Drug Free Grant	2,477	3,266	789
Preschool Disabilities	6,710	14,782	8,072
Technology II-D	0	68,169	68,169
<i>Capital Project Fund:</i>			
Bond Retirement	1,364,082	1,377,550	13,468

These budgetary violations were corrected by fiscal year-end.

**Note 6 - Budgetary Basis of Accounting**

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budgetary Basis presented for the general fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the cash basis is outstanding year end encumbrances which are treated as cash disbursements (budgetary basis) rather than as a reservation of fund balance (cash basis). The encumbrances outstanding at year end (budgetary basis) amounted to \$289,014.

**Note 7 – Deposits and Investments**

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

Active monies are public monies 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, 2011*

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Interim monies held by the School District can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, 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;
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);
7. The State Treasurer's investment pool (STAR Ohio); and
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, \$488,891 of the School District's bank balance of \$4,577,482 was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the School District to a successful claim by the FDIC.

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.



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**Investments**

Investments are reported at fair value. As of June 30, 2011, the School District had the following investments:

	Maturity		Total
	Less Than One Year	More Than One Year But Less Than Three Years	
Money Market Mutual Fund	\$555,000	\$0	\$555,000
U.S. Treasury Notes	0	500,000	500,000
Farm Credit Discount Bank Bonds	0	50,000	50,000
Federal National Mortgage Association Notes	0	100,000	100,000
Federal Home Loan Mortgage Corporation Notes	0	350,000	350,000
Freddie Mac		350,000	350,000
Federal Home Loan Bank Notes	0	310,000	310,000
Star Ohio	2,018,421	0	2,018,421
<b>Total Portfolio</b>	<b>\$2,573,421</b>	<b>\$1,660,000</b>	<b>\$4,233,421</b>

**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** All investments other than STAR Ohio, carry a rating of AAA by Standard & Poor's. STAR Ohio carries a rating of AAAM by Standard & Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The School District has no investment policy that addresses credit risk.

**Concentration of Credit Risk** The School District places no limit on the amount it may invest in any one issuer. The following is the School District's allocation as of June 30, 2011:

Investment	Percentage of Investments
United States Treasury Notes	11.81 %
Federal Home Loan Mortgage Corporation Notes	8.27
Federal Home Loan Bank Notes	7.32

**Note 8 - Property Taxes**

Property taxes are levied and assessed on a calendar year basis while the School District's 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.

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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 year 2011 represents collections of calendar year 2010 taxes. Real property taxes received in calendar year 2011 were levied after April 1, 2010, on the assessed value listed as of January 1, 2010, the lien date. Assessed values for real property taxes are established by State law at 35 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 year 2011 represents collections of calendar year 2010 taxes. Public utility real and tangible personal property taxes received in calendar year 2011 became a lien December 31, 2009, were levied after April 1, 2010 and are collected in calendar year 2011 with real property taxes. Public utility real property is assessed at 35 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 year 2010 (other than public utility property tax) represents the collection of 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing and equipment, furniture and fixtures is no longer levied and collected. Tangible personal property taxes received from telephone companies in calendar year 2009 were levied after October 1, 2009, on the value as of December 31, 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Clermont and Warren Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the counties by June 30, 2011, are available to finance fiscal year 2011 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, 2011 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2011 was \$949,291 in the general fund, \$100,893 in the bond retirement debt service fund and \$21,158 in the permanent improvement capital projects fund. The amount available as an advance at June 30, 2010, was \$1,393,803 in the general fund, \$147,133 in the bond retirement debt service fund and \$30,855 in the permanent improvement capital projects fund.

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

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	2010 Half Collections		2011 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$322,714,710	97.09 %	\$303,816,990	90.46 %
Public Utility Personal	9,100,410	2.74	9,246,270	2.75
Tangible Personal Property	567,473	0.17	22,806,820	6.79
<b>Total</b>	<b>\$332,382,593</b>	<b>100.00 %</b>	<b>\$335,870,080</b>	<b>100.00 %</b>
Tax rate per \$1,000 of assessed valuation	\$72.38		\$72.38	

**Note 9 - Pension Plans**

***School Employees Retirement System***

Plan Description – The School District participates in the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained by visiting the SERS website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2011, the allocation to pension and death benefits was 11.81 percent. The remaining 2.19 percent of the 14 percent employer contribution rate is allocated to the Medicare B and Health Care funds. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2011, 2010, and 2009 were \$241,780, \$245,806 and \$164,812, respectively. For fiscal year 2011, 90.61 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2010 and 2009.

***State Teachers Retirement System***

Plan Description – 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 can be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at [www.strsoh.org](http://www.strsoh.org).

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

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

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

Funding Policy - Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon the recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. For the fiscal year ended June 30, 2011, plan members were required to contribute 10 percent of their annual covered salary. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations.

The School District's required contributions to STRS Ohio for the DB Plan and for the defined benefit portion of the Combined Plan were \$834,188 and \$13,706 for the fiscal year ended June 30, 2011, \$819,765 and \$32,250 for the fiscal year ended June 30, 2010, and \$772,423 and \$21,316 for the fiscal year ended June 30, 2009. For fiscal year 2011, 83.04 percent has been contributed for the DB plan and the Combined Plan, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2010 and 2009.

Contributions made to STRS Ohio for the DC Plan and for fiscal year 2011 were \$29,256 made by the School District and \$20,897 made by the plan members. In addition, member contributions of \$9,792 were made for fiscal year 2011 for the defined contribution portion of the Combined Plan.

***Social Security System***

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2011, two members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages.

**Note 10 - Postemployment Benefits**

***School Employees Retirement System***

Plan Description – The School District participates in two cost-sharing multiple-employer defined benefit other postemployment benefit (OPEB) plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health

**Kirtland Local School District**  
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Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligation to contribute are established by SERS based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For fiscal year 2011, 1.43 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for fiscal year 2011, this amount was \$35,800. During fiscal year 2011, the School District paid \$30,478 in surcharge.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The School District's contributions for health care for the fiscal years ended June 30, 2011, 2010, and 2009 were \$59,754, \$37,003, and \$103,582, respectively. For fiscal year 2011, 90.61 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2010 and 2009.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2011, this actuarially required allocation was 0.76 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2011, 2010, and 2009, were \$15,559, \$14,618, and \$13,598 respectively. For fiscal year 2011, 90.61 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2010 and 2009.

***State Teachers Retirement System***

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2011, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to post-employment health care. The School District's contributions for health care for the fiscal years ended June 30, 2011, 2010, and 2009 were \$65,223, \$63,059, and \$59,417 respectively. For fiscal year 2011, 83.04 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2010 and 2009.

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**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 2011, 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 (\$2,500 Deductible)	\$34,725,275
	Extra Expense Coverage	1,000,000
	EDP and Media/Software	246,643
	Audio Visual Equipment	22,075
	Musical Instruments	414,192
	Athletic Equipment	2,000
	Contractor's Equipment	51,947
	Transportation	300,000
	Flood Limit	1,000,000
	Earthquake Limit	1,000,000
	Crime	150,000
	General Liability	1,000,000
	Employee Benefits Liability	1,000,000
	Employer's Liability	1,000,000
	School Leader's Errors and Omissions Liability	1,000,000
	Sexual Misconduct and Molestation	1,000,000
	Law Enforcement Professional	1,000,000
Fleet	1,000,000	
Uninsured Motorists	250,000	
Umbrella Liability	5,000,000	
Travelers Insurance	Boiler and Machinery	30,000,000
Cincinnati Insurance	Employee Dishonesty	250,000

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.

***Employee Medical Coverage***

The School District has elected to provide medical coverage through the Lake County Council of Governments Health Care Benefits Self Insurance Program (Note 16).

***Workers' Compensation***

For fiscal year 2011, the School District participated in the Ohio School Boards' Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 18). 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

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the rate for the GRP rather than its individual rate. 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 - Contingencies**

**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, 2011.

**Litigation**

As of June 30, 2011, the School District was not party to any legal proceedings.

**Note 13 – Debt**

Changes in long-term obligations of the School District during fiscal year 2011 were as follows:

	Principal Outstanding 6/30/10	Additions	Deductions	Principal Outstanding 6/30/11	Amounts Due in One Year
<b>Governmental Activities</b>					
<b>General Obligation Bonds:</b>					
2006 School Improvement Bonds 4%-17.324%					
Current Interest Serial Bonds	\$7,190,000	\$0	\$390,000	\$6,800,000	\$390,000
Term Bonds	6,450,000	0	0	6,450,000	0
Capital Appreciation Bonds	239,994	0	0	239,994	0
Accretion on Capital Appreciation Bonds	187,567	59,137	0	246,704	0
2007 School Improvement Bonds 4%-12.994%					
Current Interest Serial Bonds	405,000	0	60,000	345,000	65,000
Term Bonds	1,160,000	0	0	1,160,000	0
Capital Appreciation Bonds	49,998	0	0	49,998	0
Accretion on Capital Appreciation Bonds	21,963	6,895	0	28,858	0
<b>Total General Long-Term Obligations</b>	<b>\$15,704,522</b>	<b>\$66,032</b>	<b>\$450,000</b>	<b>\$15,320,554</b>	<b>\$455,000</b>

On August 23, 2006, the School District issued \$14,794,994 in general obligation bonds which included serial, term and capital appreciation (deep discount) bonds in the amounts of \$8,105,000, \$6,450,000 and \$239,994, respectively, at interest rates varying from 4.00 percent to 17.324 percent. The bonds were issued for a twenty-seven year period with final maturity at December 1, 2033. The bonds will be retired from the debt service fund.

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The capital appreciation, current interest serial and term bonds remained outstanding at June 30, 2011. The capital appreciation bonds were originally sold at a discount of \$630,006, which is being accreted annually until the point of maturity of the capital appreciation bonds, which is 2014.

The final maturity amount of outstanding capital appreciation bonds is \$870,000. The accretion recorded for 2011 was \$59,137, for a total outstanding bond liability of \$486,698.

On March 21, 2007, the School District issued \$1,895,000 in general obligation bonds which included serial, term and capital appreciation (deep discount) bonds in the amounts of \$595,000, \$1,160,000 and \$140,000, respectively, at interest rates varying from 4.00 percent to 12.994 percent. The bonds were issued for a twenty-two year period with final maturity at December 1, 2029. The bonds will be retired from the debt service fund.

The capital appreciation, current interest serial and term bonds remained outstanding at June 30, 2010. The capital appreciation bonds were originally sold at a discount of \$90,002, which is being accreted annually until the point of maturity of the capital appreciation bonds, which is December 31, 2015.

The final maturity amount of outstanding capital appreciation bonds is \$140,000. The accretion recorded for 2011 was \$6,895, for a total outstanding bond liability of \$78,856.

The School District's overall legal debt margin at June 30, 2011 was \$15,219,124 with an unvoted debt margin of \$335,870. Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2011, are as follows:

	General Obligation Bonds					
	Term		Serial		Capital Appreciation	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$0	\$334,925	\$470,000	\$291,606	\$0	\$0
2013	0	334,925	485,000	272,507	0	0
2014	0	334,925	70,000	261,406	129,943	305,057
2015	0	334,925	0	260,006	136,622	368,378
2016	0	334,925	435,000	248,587	23,427	46,572
2017 - 2021	240,000	1,660,625	2,635,000	920,241	0	0
2022 - 2026	470,000	1,580,924	3,050,000	338,401	0	0
2027 - 2031	4,215,000	1,076,574	0	0	0	0
2032 - 2034	2,685,000	184,387	0	0	0	0
<b>Total</b>	<b>\$7,610,000</b>	<b>\$6,177,135</b>	<b>\$7,145,000</b>	<b>\$2,592,754</b>	<b>\$289,992</b>	<b>\$720,007</b>

**Note 14 - Set Aside Requirements**

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, 2011, the unspent portion of certain workers' compensation refunds continues to be set aside as well as a reserve for textbooks and other instructional materials.



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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, 2010	\$318,081	\$0	\$55,116
Current Year Set-aside Requirement	189,706	189,706	0
Current Year Offsets	0	(236,609)	0
Qualifying Disbursements	(56,600)	(138,156)	0
Totals	\$451,187	(\$185,059)	\$55,116
Set-aside Balance Carried Forward to Future Fiscal Years	\$0	\$0	\$55,116
Set-aside Reserve Balance as of June 30, 2011	\$451,187	\$0	\$55,116

The School District has qualifying disbursements and offsets during the fiscal year that reduced the capital improvements set-aside amounts below zero. 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 two set-asides at the end of the fiscal year was \$506,303. Effective July 1, 2011, the textbook set-aside is no longer required and has been removed from existing law. This balance is therefore not presented as being carried forward to future fiscal years.

**Note 15 - 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 2011, the School District paid \$85,944 to the computer association. Financial information can be obtained by writing the Lake Geauga Computer Association, 8140 Auburn Road, Painesville, Ohio 44077.

**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.

**Ohio Schools Council Association** - The Ohio Schools Council (Council) is a jointly governed organization among 126 school districts. The jointly governed organization was created by school districts for the

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purpose of saving money through volume purchases. Each district supports the Council by paying an annual participation fee. Each school district member's superintendent serves as a representative of the Assembly. The Assembly elects five of the Council's Board members and the remaining four are representatives of the Greater Cleveland School Superintendents' Association. The Council operates under a nine-member Board of Directors (the Board). The Board is the policy making authority of the Council. The Board meets monthly September to June. The Board appoints an Executive Director who is responsible for receiving and disbursing funds, investing available funds, preparing financial reports for the Board and Assembly and carrying out such other responsibilities as designated by the Board. In fiscal year 2011, the School District paid \$51,200 to the Council. Financial information can be obtained by contacting Dr. David A. Cottrell, the Executive Director of the Ohio Schools Council at 6133 Rockside Road, Suite 10, Independence, Ohio 44131.

The School District participates in the natural gas purchase program. This program allows the School District to purchase natural gas at reduced rates. Energy USA served as the the natural gas supplier and program manager from October 1, 2008 to September 30, 2010. Compass Energy has been selected as the new supplier and program manager for the period from October 1, 2010 through March 31, 2013. There are currently 143 participants in the program including the Kirtland Local School District. The participants make monthly payments based on estimated usage. Each September, these estimated payments are compared to their actual usage for the year (July to June). Districts that paid more in estimated billings than their actual billings are issued credits on future billings beginning in September until the credits are exhausted and districts that did not pay enough on estimated billings are invoiced for the difference on the September monthly estimated billing.

**Note 16 – 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 nine 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. The HCBP acts solely as the claims servicing agent. Financial information can be obtained from the Lake County Educational Service Center at 382 Black Brook Road, Painesville, Ohio 44077.

**Note 17 - Related Organization**

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.

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**Note 18 - 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.

**Note 19 – Subsequent Event**

The 4.5 mill, 5-year operating levy placed on the November 8, 2011 ballot failed.

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**KIRTLAND LOCAL SCHOOL DISTRICT  
LAKE COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2011**

Federal Grantor Pass Through Grantor Program Title	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<b><u>U.S. Department of Agriculture</u></b>					
<i>Passed Through Ohio Department of Education:</i>					
<i>Nutrition Cluster:</i>					
National School Lunch Program	10.555	\$ 46,050	\$ 3,295	\$ 46,050	\$ 3,295
<b>Total Nutrition Cluster</b>		<u>46,050</u>	<u>3,295</u>	<u>46,050</u>	<u>3,295</u>
<b>Total U.S. Department of Agriculture</b>		<u>46,050</u>	<u>3,295</u>	<u>46,050</u>	<u>3,295</u>
<b><u>U.S. Department of Education</u></b>					
<i>Passed Through Ohio Department of Education:</i>					
<i>Special Education Cluster:</i>					
Special Education--Preschool Grants	84.173	6,705	-	6,705	-
Special Education Grants to States - ARRA	84.391	77,498	-	98,911	-
Special Education Grants to States	84.027	165,081	-	252,594	-
<b>Total Special Education Cluster</b>		<u>249,284</u>	<u>-</u>	<u>358,210</u>	<u>-</u>
Title I Grants to Local Educational Agencies	84.010	54,700	-	51,587	-
State Fiscal Stabilization Fund - ARRA	84.394	77,128	-	58,569	-
Safe and Drug Free Schools	84.186	1,673	-	1,503	-
Innovative Education Program Strategies	84.298	-	-	61	-
Education Jobs	84.410	38,184	-	43,322	-
Education Technology State Grants	84.318	24	-	268	-
Improving Teacher Quality State Grants	84.367	28,924	-	32,583	-
<b>Total U.S. Department of Education</b>		<u>449,917</u>	<u>-</u>	<u>546,103</u>	<u>-</u>
<b>Total Federal Assistance</b>		<u><u>\$495,967</u></u>	<u><u>\$3,295</u></u>	<u><u>\$ 592,153</u></u>	<u><u>\$3,295</u></u>

*The accompanying notes to this schedule are an integral part of this schedule.*

**KIRTLAND LOCAL SCHOOL DISTRICT  
LAKE COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2011**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying schedule of federal awards receipts and expenditures is a summary of the activity of the District's federal awards programs. The schedule has been prepared on the cash basis of accounting.

**NOTE B - FOOD DISTRIBUTION**

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed.

**NOTE C - NATIONAL SCHOOL LUNCH PROGRAM**

Federal monies received by the District for these programs are commingled with State grants and local revenues. It is assumed that federal monies are expended first.

CFDA - Catalog of Federal Domestic Assistance



# Dave Yost • Auditor of State

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

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, 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, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 9, 2012, wherein we noted the District uses a comprehensive accounting basis other than generally accepted accounting principles. We also noted the District adopted the provisions of Governmental Accounting Standard Board Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions". We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

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

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

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

### **Compliance and Other Matters**

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2011-001.

We also noted certain other matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated March 9, 2012.

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



**Dave Yost**  
Auditor of State

March 9, 2012





# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Kirtland Local School District  
Lake County  
9252 Chillicothe Road  
Middlefield, Ohio 44062

To the Board of Education:

### Compliance

We have audited the compliance of the Kirtland Local School District, Lake County, Ohio, (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the Kirtland Local School District's major federal programs for the year ended June 30, 2011. The *summary of auditor's results* section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to opine on the District's compliance based on our audit.

Our compliance audit followed auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the Kirtland Local School District, Lake County, Ohio, complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2011.

### Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

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

We intend this report solely for the information and use of the audit committee, management, the Board of Education, others within the District, federal awarding agencies and pass-through entities. It is not intended for anyone other than these specified parties.



**Dave Yost**  
Auditor of State

March 9, 2012

**KIRTLAND LOCAL SCHOOL DISTRICT  
LAKE COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2011**

**1. SUMMARY OF AUDITOR'S RESULTS**

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unqualified
<b>(d)(1)(ii)</b>	<b>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(ii)</b>	<b>Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iii)</b>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weaknesses reported for major federal programs?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any significant deficiencies in internal control reported for major federal programs?</b>	No
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under § .510?</b>	No
<b>(d)(1)(vii)</b>	<b>Major Program(list):</b>	CFDA # 84.027 & 84.391 – Special Education Grants to States CFDA# 84.173 - Special Education - Preschool Grants
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 300,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	No

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

**FINDING NUMBER 2010-001**

**Noncompliance Finding**

Ohio Revised Code § 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code § 117-2-03 further clarifies the requirements of Ohio Revised Code § 117.38.

**KIRTLAND LOCAL SCHOOL DISTRICT  
LAKE COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2011**

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

**FINDING NUMBER 2011-001  
(Continued)**

**Noncompliance Finding (Continued)**

Ohio Administrative Code § 117-2-03(B) requires the School District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, the School District prepared its financial statements and notes following the cash basis of accounting. This is a comprehensive basis other than generally accepted accounting principles. The accompanying financial statements and footnotes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code § 117.38, the School District may be fined and subject to various other administrative remedies for its failure to file the required financial report within the required time limits.

We recommend the School District take the necessary steps to ensure the annual report is prepared in accordance with generally accepted accounting principles.

**Official's Response:**

The Kirtland Board of Education approved a resolution that directed the treasurer to prepare cash based year-end financial statements, as the district does not believe the time and expense involved in preparing the annual financial report according to GAAP is a justifiable use of staff time and financial resources.

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None

KIRTLAND LOCAL SCHOOL DISTRICT  
LAKE COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2011

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b>Explain</b>
2010-001	Failure to report on GAAP	No	Not Corrected. Reissued as 2011-001.

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# Dave Yost • Auditor of State

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

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

To the Board of Education:

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

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

1. We noted the District did not amend its anti-harassment policy to include violence within a dating relationship within its definition of harassment, intimidation or bullying. Ohio Rev. Code Section 3313.666 required the District to amend its definition by September 28, 2010.

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

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

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

**Dave Yost**  
Auditor of State

March 9, 2012

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# Dave Yost • Auditor of State

**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  
MARCH 29, 2012**