



**Auditor of State
Betty Montgomery**

**KIRTLAND LOCAL SCHOOL DISTRICT
LAKE COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

We have audited the accompanying general-purpose financial statements of the Kirtland Local School District, Lake County, Ohio, (the District) as of and for the year ended June 30, 2003, as listed in the table of contents. These general-purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general-purpose 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 that our audit provides a reasonable basis for our opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Kirtland Local School District, Lake County, Ohio, as of June 30, 2003, and the results of its operations and the cash flows of its proprietary fund types and its fiduciary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3 to the accompanying financial statements the District restated the General and Special Revenue Fund balance and Internal Service Fund retained earnings as of June 30, 2002.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2003 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in black ink that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

December 29, 2003

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Kirtland Local School District
Combined Balance Sheet
All Fund Types and Account Groups
June 30, 2003

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
<i>Assets and Other Debits</i>				
Assets				
Equity in Pooled Cash and Cash Equivalents	\$1,466,689	\$307,557	\$224,943	\$195,947
Cash and Cash Equivalents with Fiscal Agents	0	0	0	0
Receivables:				
Taxes	8,424,088	0	317,477	226,265
Accounts	999	0	0	0
Interfund	2,000	0	0	0
Intergovernmental	0	0	0	0
Materials and Supplies Inventory	44,825	0	0	0
Inventory Held for Resale	0	0	0	0
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	55,116	0	0	0
Fixed Assets (Net, where applicable, of Accumulated Depreciation)	0	0	0	0
Other Debits				
Amount Available in Debt Service Fund for Retirement of General Obligation Bonds	0	0	0	0
Amount to be Provided from General Government Resources	0	0	0	0
<i>Total Assets and Other Debits</i>	<u>\$9,993,717</u>	<u>\$307,557</u>	<u>\$542,420</u>	<u>\$422,212</u>

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Obligations	
\$27,769	\$83,323	\$169,615	\$0	\$0	\$2,475,843
0	100,560	0	0	0	100,560
0	0	0	0	0	8,967,830
946	0	0	0	0	1,945
0	0	0	0	0	2,000
0	74,704	0	0	0	74,704
586	0	0	0	0	45,411
17,117	0	0	0	0	17,117
0	0	0	0	0	55,116
6,815	998,173	0	21,188,782	0	22,193,770
0	0	0	0	266,166	266,166
0	0	0	0	1,863,449	1,863,449
<u>\$53,233</u>	<u>\$1,256,760</u>	<u>\$169,615</u>	<u>\$21,188,782</u>	<u>\$2,129,615</u>	<u>\$36,063,911</u>

(continued)

Kirtland Local School District
Combined Balance Sheet
All Fund Types and Account Groups (continued)
June 30, 2003

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
<i>Liabilities, Fund Equity and Other Credits</i>				
Liabilities				
Accounts Payable	\$2,827	\$13,598	\$0	\$7,486
Interfund Payable	0	0	0	0
Accrued Wages and Benefits	874,628	5,312	0	0
Compensated Absences Payable	23,631	0	0	0
Intergovernmental Payable	165,800	2,566	0	0
Deferred Revenue	7,455,297	0	276,254	198,357
Due to Students	0	0	0	0
Claims Payable	0	0	0	0
Capital Leases Payable	0	0	0	0
General Obligation Bonds Payable	0	0	0	0
<i>Total Liabilities</i>	8,522,183	21,476	276,254	205,843
Fund Equity and Other Credits				
Investment in General Fixed Assets	0	0	0	0
Retained Earnings:				
Unreserved	0	0	0	0
Fund Balances:				
Reserved for Encumbrances	532,933	109,528	0	46,757
Reserved for Inventory	44,825	0	0	0
Reserved for Contributions	0	0	0	0
Reserved for Property Taxes	968,791	0	41,223	27,908
Reserved for Budget Stabilization	55,116	0	0	0
Unreserved:				
Undesignated (Deficit)	(130,131)	176,553	224,943	141,704
<i>Total Fund Equity and Other Credits</i>	1,471,534	286,081	266,166	216,369
<i>Total Liabilities, Fund Equity and Other Credits</i>	\$9,993,717	\$307,557	\$542,420	\$422,212

See accompanying notes to the general purpose financial statements

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Obligations	
\$0	\$46	\$0	\$0	\$0	\$23,957
2,000	0	0	0	0	2,000
25,284	18,433	0	0	0	923,657
9,821	12,970	0	0	545,996	592,418
11,850	11,597	0	0	67,477	259,290
0	0	0	0	0	7,929,908
0	0	43,491	0	0	43,491
0	46,534	0	0	0	46,534
0	0	0	0	6,142	6,142
0	0	0	0	1,510,000	1,510,000
48,955	89,580	43,491	0	2,129,615	11,337,397
0	0	0	21,188,782	0	21,188,782
4,278	1,167,180	0	0	0	1,171,458
0	0	0	0	0	689,218
0	0	0	0	0	44,825
0	0	70,000	0	0	70,000
0	0	0	0	0	1,037,922
0	0	0	0	0	55,116
0	0	56,124	0	0	469,193
4,278	1,167,180	126,124	21,188,782	0	24,726,514
\$53,233	\$1,256,760	\$169,615	\$21,188,782	\$2,129,615	\$36,063,911

Kirtland Local School District
*Combined Statement of Revenues, Expenditures
and Changes in Fund Balances*
All Governmental Fund Types and Expendable Trust Fund
For the Fiscal Year Ended June 30, 2003

	Governmental Fund Types		
	General	Special Revenue	Debt Service
Revenues			
Taxes	\$7,364,540	\$0	\$297,451
Intergovernmental	1,901,635	337,121	34,948
Interest	38,416	1,183	2,170
Tuition and Fees	138,114	0	0
Extracurricular Activities	7,294	168,317	0
Contributions and Donations	675	100,759	0
Charges for Services	4,227	0	0
Rentals	21,197	0	0
Miscellaneous	47,517	8,436	8,028
<i>Total Revenues</i>	<u>9,523,615</u>	<u>615,816</u>	<u>342,597</u>
Expenditures			
Current:			
Instruction:			
Regular	4,075,453	39,241	0
Special	727,890	106,922	0
Vocational	15,000	0	0
Support Services:			
Pupil	611,980	55,962	0
Instructional Staff	341,147	71,451	0
Board of Education	117,409	0	0
Administration	686,817	2,291	0
Fiscal	333,052	0	44,436
Business	43,204	0	0
Operation and Maintenance of Plant	977,359	3,404	0
Pupil Transportation	835,233	0	0
Central	55,924	17,288	0
Operation of Non-Instructional Services	3,098	129,896	0
Extracurricular Activities	408,329	187,736	0
Capital Outlay	38,219	500	0
Debt Service:			
Principal Retirement	6,272	0	160,000
Interest and Fiscal Charges	987	0	72,454
<i>Total Expenditures</i>	<u>9,277,373</u>	<u>614,691</u>	<u>276,890</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>246,242</u>	<u>1,125</u>	<u>65,707</u>
Other Financing Sources (Uses)			
Proceeds of Bonds	0	0	1,580,050
Bond Refunding Escrow	0	0	(1,538,512)
Sale of Fixed Assets	245	0	0
Operating Transfers In	3,930	27,348	0
Operating Transfers Out	(65,404)	(19,958)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(61,229)</u>	<u>7,390</u>	<u>41,538</u>
<i>Excess of Revenues and Other Financing Sources Over Expenditures and Other Financial Uses</i>	185,013	8,515	107,245
<i>Fund Balances Beginning of Year - Restated (See Note 3)</i>	1,283,094	277,566	158,921
<i>Increase in Reserve for Inventory</i>	<u>3,427</u>	<u>0</u>	<u>0</u>
<i>Fund Balances End of Year</i>	<u>\$1,471,534</u>	<u>\$286,081</u>	<u>\$266,166</u>

See accompanying notes to the general purpose financial statements

Capital Projects	Fiduciary Fund Type	Totals (Memorandum Only)
	Expendable Trust	
\$213,728	\$0	\$7,875,719
45,748	0	2,319,452
0	872	42,641
0	0	138,114
0	0	175,611
1,826	0	103,260
0	0	4,227
0	0	21,197
0	0	63,981
<u>261,302</u>	<u>872</u>	<u>10,744,202</u>
0	0	4,114,694
0	0	834,812
0	0	15,000
0	0	667,942
0	0	412,598
0	0	117,409
0	0	689,108
0	0	377,488
0	0	43,204
0	0	980,763
0	0	835,233
0	0	73,212
0	0	132,994
0	0	596,065
153,557	0	192,276
0	0	166,272
0	0	73,441
<u>153,557</u>	<u>0</u>	<u>10,322,511</u>
<u>107,745</u>	<u>872</u>	<u>421,691</u>
0	0	1,580,050
0	0	(1,538,512)
0	0	245
0	0	31,278
0	0	(85,362)
<u>0</u>	<u>0</u>	<u>(12,301)</u>
107,745	872	409,390
108,624	50,160	1,878,365
<u>0</u>	<u>0</u>	<u>3,427</u>
<u>\$216,369</u>	<u>\$51,032</u>	<u>\$2,291,182</u>

Kirtland Local School District
*Combined Statement of Revenues, Expenditures
and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual
All Governmental Fund Types and Expendable Trust Fund
For the Fiscal Year Ended June 30, 2003*

	General Fund		Variance Favorable (Unfavorable)
	Revised Budget	Actual	
Revenues			
Taxes	\$6,626,994	\$6,976,626	\$349,632
Intergovernmental	1,988,901	1,999,143	10,242
Interest	50,000	38,416	(11,584)
Tuition and Fees	125,615	158,102	32,487
Extracurricular Activities	1,500	7,294	5,794
Contributions and Donations	500	675	175
Charges for Services	7,500	4,227	(3,273)
Rentals	20,000	27,595	7,595
Miscellaneous	49,710	47,982	(1,728)
<i>Total Revenues</i>	<u>8,870,720</u>	<u>9,260,060</u>	<u>389,340</u>
Expenditures			
Current:			
Instruction:			
Regular	4,308,007	4,285,251	22,756
Special	1,045,655	987,894	57,761
Vocational	15,000	15,000	0
Support Services:			
Pupil	682,342	634,930	47,412
Instructional Staff	367,302	346,303	20,999
Board of Education	125,397	110,934	14,463
Administration	739,632	699,132	40,500
Fiscal	367,239	336,752	30,487
Business	49,803	44,741	5,062
Operation and Maintenance of Plant	1,024,347	992,225	32,122
Pupil Transportation	935,021	935,021	0
Central	63,786	58,019	5,767
Operation of Non-Instructional Services	5,125	3,250	1,875
Extracurricular Activities	418,190	406,092	12,098
Capital Outlay	48,700	39,719	8,981
Debt Service:			
Principal Retirement	0	0	0
Interest and Fiscal Charges	0	0	0
<i>Total Expenditures</i>	<u>10,195,546</u>	<u>9,895,263</u>	<u>300,283</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(1,324,826)</u>	<u>(635,203)</u>	<u>689,623</u>
Other Financing Sources (Uses)			
Proceeds of Bonds	0	0	0
Bond Refunding Escrow	0	0	0
Sale of Fixed Assets	200	245	45
Advances In	10,121	8,121	(2,000)
Advances Out	(10,000)	0	10,000
Operating Transfers In	0	3,930	3,930
Operating Transfers Out	(67,429)	(65,404)	2,025
<i>Total Other Financing Sources (Uses)</i>	<u>(67,108)</u>	<u>(53,108)</u>	<u>14,000</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	<u>(1,391,934)</u>	<u>(688,311)</u>	<u>703,623</u>
<i>Fund Balances Beginning of Year</i>	1,561,832	1,561,832	0
Prior Year Encumbrances Appropriated	112,750	112,750	0
<i>Fund Balances (Deficit) End of Year</i>	<u>\$282,648</u>	<u>\$986,271</u>	<u>\$703,623</u>

See accompanying notes to the general purpose financial statements

Special Revenue Funds			Debt Service Fund		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$0	\$0	\$0	\$263,951	\$279,458	\$15,507
339,330	357,526	18,196	31,119	34,948	3,829
434	1,183	749	2,250	2,170	(80)
0	0	0	0	0	0
180,602	168,482	(12,120)	0	0	0
6,900	100,759	93,859	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
6,356	8,436	2,080	0	8,028	8,028
533,622	636,386	102,764	297,320	324,604	27,284
42,348	40,080	2,268	0	0	0
129,760	116,235	13,525	0	0	0
0	0	0	0	0	0
60,001	59,796	205	0	0	0
85,156	76,625	8,531	0	0	0
0	0	0	0	0	0
2,416	2,416	0	0	0	0
0	0	0	44,436	44,436	0
0	0	0	0	0	0
3,485	3,404	81	0	0	0
0	0	0	0	0	0
22,442	17,442	5,000	0	0	0
192,270	190,505	1,765	0	0	0
341,087	215,034	126,053	0	0	0
500	500	0	0	0	0
0	0	0	160,000	160,000	0
0	0	0	78,064	72,454	5,610
879,465	722,037	157,428	282,500	276,890	5,610
(345,843)	(85,651)	260,192	14,820	47,714	32,894
0	0	0	0	1,580,050	1,580,050
0	0	0	0	(1,538,512)	(1,538,512)
0	0	0	0	0	0
0	0	0	0	0	0
0	(8,121)	(8,121)	0	0	0
12,315	27,348	15,033	0	0	0
(22,388)	(19,958)	2,430	0	0	0
(10,073)	(731)	9,342	0	41,538	41,538
(355,916)	(86,382)	269,534	14,820	89,252	74,432
181,823	181,823	0	135,691	135,691	0
88,987	88,987	0	0	0	0
(85,106)	\$184,428	\$269,534	\$150,511	\$224,943	\$74,432

(continued)

Kirtland Local School District
*Combined Statement of Revenues, Expenditures
and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual
All Governmental Fund Types and Expendable Trust Fund (continued)
For the Fiscal Year Ended June 30, 2003*

	Capital Projects Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Taxes	\$193,724	\$202,705	\$8,981
Intergovernmental	44,660	45,748	1,088
Interest	0	0	0
Tuition and Fees	0	0	0
Extracurricular Activities	0	0	0
Contributions and Donations	1,826	1,826	0
Charges for Services	0	0	0
Rentals	0	0	0
Miscellaneous	0	0	0
<i>Total Revenues</i>	<u>240,210</u>	<u>250,279</u>	<u>10,069</u>
Expenditures			
Current:			
Instruction:			
Regular	126,215	85,651	40,564
Special	4,840	4,765	75
Vocational	0	0	0
Support Services:			
Pupil	985	985	0
Instructional Staff	9,780	7,817	1,963
Board of Education	0	0	0
Administration	9,628	9,628	0
Fiscal	21,106	8,953	12,153
Business	1,500	561	939
Operation and Maintenance of Plant	41,695	41,981	(286)
Pupil Transportation	61,067	3,495	57,572
Central	9,870	9,870	0
Operation of Non-Instructional Services	0	0	0
Extracurricular Activities	875	875	0
Capital Outlay	47,140	28,495	18,645
Debt Service:			
Principal Retirement	0	0	0
Interest and Fiscal Charges	0	0	0
<i>Total Expenditures</i>	<u>334,701</u>	<u>203,076</u>	<u>131,625</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(94,491)</u>	<u>47,203</u>	<u>141,694</u>
Other Financing Sources (Uses)			
Proceeds of Bonds	0	0	0
Bond Refunding Escrow	0	0	0
Sale of Fixed Assets	0	0	0
Advances In	0	0	0
Advances Out	0	0	0
Operating Transfers In	0	0	0
Operating Transfers Out	0	0	0
<i>Total Other Financing Sources (Uses)</i>	<u>0</u>	<u>0</u>	<u>0</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	<u>(94,491)</u>	<u>47,203</u>	<u>141,694</u>
<i>Fund Balances Beginning of Year</i>	69,449	69,449	0
Prior Year Encumbrances Appropriated	<u>25,053</u>	<u>25,053</u>	<u>0</u>
<i>Fund Balances (Deficit) End of Year</i>	<u>\$11</u>	<u>\$141,705</u>	<u>\$141,694</u>

See accompanying notes to the general purpose financial statements

Expendable Trust Fund			Totals (Memorandum Only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$0	\$0	\$0	\$7,084,669	\$7,458,789	\$374,120
0	0	0	2,404,010	2,437,365	33,355
0	872	872	52,684	42,641	(10,043)
0	0	0	125,615	158,102	32,487
0	0	0	182,102	175,776	(6,326)
0	0	0	9,226	103,260	94,034
0	0	0	7,500	4,227	(3,273)
0	0	0	20,000	27,595	7,595
0	0	0	56,066	64,446	8,380
0	872	872	9,941,872	10,472,201	530,329
0	0	0	4,476,570	4,410,982	65,588
0	0	0	1,180,255	1,108,894	71,361
0	0	0	15,000	15,000	0
0	0	0	743,328	695,711	47,617
0	0	0	462,238	430,745	31,493
0	0	0	125,397	110,934	14,463
0	0	0	751,676	711,176	40,500
0	0	0	432,781	390,141	42,640
0	0	0	51,303	45,302	6,001
0	0	0	1,069,527	1,037,610	31,917
0	0	0	996,088	938,516	57,572
0	0	0	96,098	85,331	10,767
0	0	0	197,395	193,755	3,640
0	0	0	760,152	622,001	138,151
0	0	0	96,340	68,714	27,626
0	0	0	160,000	160,000	0
0	0	0	78,064	72,454	5,610
0	0	0	11,692,212	11,097,266	594,946
0	872	872	(1,750,340)	(625,065)	1,125,275
0	0	0	0	1,580,050	1,580,050
0	0	0	0	(1,538,512)	(1,538,512)
0	0	0	200	245	45
0	0	0	10,121	8,121	(2,000)
0	0	0	(10,000)	(8,121)	1,879
0	0	0	12,315	31,278	18,963
0	0	0	(89,817)	(85,362)	4,455
0	0	0	(77,181)	(12,301)	64,880
0	872	872	(1,827,521)	(637,366)	1,190,155
50,160	50,160	0	1,998,955	1,998,955	0
0	0	0	226,790	226,790	0
\$50,160	\$51,032	\$872	\$398,224	\$1,588,379	\$1,190,155

Kirtland Local School District
*Combined Statement of Revenues,
Expenses and Changes in Retained Earnings/Fund Balance
All Proprietary Fund Types and Nonexpendable Trust Fund
For the Fiscal Year Ended June 30, 2003*

	Proprietary Fund Types		Fiduciary Fund Type	Totals (Memorandum Only)
	Enterprise	Internal Service	Nonexpendable Trust	
Operating Revenues				
Sales	\$211,500	\$0	\$0	\$211,500
Charges for Services	0	1,528,837	0	1,528,837
Interest	0	0	1,276	1,276
Contributions and Donations	0	0	1,045	1,045
<i>Total Operating Revenues</i>	<u>211,500</u>	<u>1,528,837</u>	<u>2,321</u>	<u>1,742,658</u>
Operating Expenses				
Salaries	100,654	153,184	0	253,838
Fringe Benefits	55,869	35,233	0	91,102
Purchased Services	343	1,640,533	1,000	1,641,876
Materials and Supplies	45,829	3,222	493	49,544
Cost of Sales	78,928	0	0	78,928
Depreciation	2,462	194,949	0	197,411
Claims	0	267,853	0	267,853
Other	0	436	330	766
<i>Total Operating Expenses</i>	<u>284,085</u>	<u>2,295,410</u>	<u>1,823</u>	<u>2,581,318</u>
<i>Operating Income (Loss)</i>	<u>(72,585)</u>	<u>(766,573)</u>	<u>498</u>	<u>(838,660)</u>
Non-Operating Revenues				
Federal Donated Commodities	11,945	0	0	11,945
Interest	7	4,598	0	4,605
Operating Grants	26,347	1,083,643	0	1,109,990
<i>Total Non-Operating Revenues</i>	<u>38,299</u>	<u>1,088,241</u>	<u>0</u>	<u>1,126,540</u>
<i>Income (Loss) Before Operating Transfers</i>	<u>(34,286)</u>	<u>321,668</u>	<u>498</u>	<u>287,880</u>
Operating Transfers In	<u>54,000</u>	<u>84</u>	<u>0</u>	<u>54,084</u>
<i>Net Income</i>	<u>19,714</u>	<u>321,752</u>	<u>498</u>	<u>341,964</u>
<i>Retained Earnings/Fund Balance (Deficit)</i>				
<i>Beginning of Year - Restated (See Note 3)</i>	<u>(15,436)</u>	<u>845,428</u>	<u>74,594</u>	<u>904,586</u>
<i>Retained Earnings/Fund Balance</i> <i>End of Year</i>	<u>\$4,278</u>	<u>\$1,167,180</u>	<u>\$75,092</u>	<u>\$1,246,550</u>

See accompanying notes to the general purpose financial statements

Kirtland Local School District
*Combined Statement of Revenues, Expenses
and Changes in Fund Equity - Budget (Non-GAAP Basis) and Actual
All Proprietary Fund Types and Nonexpendable Trust Fund
For the Fiscal Year Ended June 30, 2003*

	Enterprise Fund		Variance Favorable (Unfavorable)
	Revised Budget	Actual	
Revenues			
Charges for Services	\$0	\$0	\$0
Sales	201,500	210,554	9,054
Interest	203	7	(196)
Contributions and Donations	0	0	0
Operating Grants	26,950	26,347	(603)
<i>Total Revenues</i>	<u>228,653</u>	<u>236,908</u>	<u>8,255</u>
Expenses			
Salaries	93,620	92,726	894
Fringe Benefits	55,550	52,815	2,735
Purchased Services	617	343	274
Materials and Supplies	116,201	116,201	0
Capital Outlay	1,622	1,482	140
Other	0	0	0
<i>Total Expenses</i>	<u>267,610</u>	<u>263,567</u>	<u>4,043</u>
<i>Excess of Revenues Over (Under) Expenses</i>	(38,957)	(26,659)	12,298
Advances In	38,820	0	(38,820)
Operating Transfers In	0	54,000	54,000
<i>Excess of Revenues Over (Under) Expenses, Operating Transfers and Advances</i>	(137)	27,341	27,478
<i>Fund Equity Beginning of Year</i>	428	428	0
<i>Prior Year Encumbrances Appropriated</i>	<u>0</u>	<u>0</u>	<u>0</u>
<i>Fund Equity End of Year</i>	<u>\$291</u>	<u>\$27,769</u>	<u>\$27,478</u>

(continued)

Kirtland Local School District
*Combined Statement of Revenues, Expenses
and Changes in Fund Equity - Budget (Non-GAAP Basis) and Actual
All Proprietary Fund Types and Nonexpendable Trust Fund (continued)
For the Fiscal Year Ended June 30, 2003*

	Internal Service Fund		Variance Favorable (Unfavorable)
	Revised Budget	Actual	
Revenues			
Charges for Services	\$1,777,150	\$396,166	(\$1,380,984)
Sales	0	0	0
Interest	7,500	4,598	(2,902)
Contributions and Donations	0	0	0
Operating Grants	1,051,400	1,083,643	32,243
<i>Total Revenues</i>	<u>2,836,050</u>	<u>1,484,407</u>	<u>(1,351,643)</u>
Expenses			
Salaries	156,900	146,216	10,684
Fringe Benefits	46,825	44,211	2,614
Purchased Services	996,649	957,282	39,367
Materials and Supplies	7,768	3,201	4,567
Capital Outlay	324,318	320,579	3,739
Other	450	436	14
<i>Total Expenses</i>	<u>1,532,910</u>	<u>1,471,925</u>	<u>60,985</u>
<i>Excess of Revenues Over (Under) Expenses</i>	1,303,140	12,482	(1,290,658)
Advances In	0	0	0
Operating Transfers In	0	84	84
<i>Excess of Revenues Over (Under) Expenses, Operating Transfers and Advances</i>	1,303,140	12,566	(1,290,574)
<i>Fund Equity Beginning of Year</i>	69,633	69,633	0
<i>Prior Year Encumbrances Appropriated</i>	548	548	0
<i>Fund Equity End of Year</i>	<u>\$1,373,321</u>	<u>\$82,747</u>	<u>(\$1,290,574)</u>

See accompanying notes to the general purpose financial statements

Nonexpendable Trust Fund			Totals (Memorandum Only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$0	\$0	\$0	\$1,777,150	\$396,166	(\$1,380,984)
0	0	0	201,500	210,554	9,054
1,830	1,276	(554)	9,533	5,881	(3,652)
50	1,045	995	50	1,045	995
0	0	0	1,078,350	1,109,990	31,640
1,880	2,321	441	3,066,583	1,723,636	(1,342,947)
0	0	0	250,520	238,942	11,578
0	0	0	102,375	97,026	5,349
1,955	1,000	955	999,221	958,625	40,596
1,560	493	1,067	125,529	119,895	5,634
0	0	0	325,940	322,061	3,879
450	330	120	900	766	134
3,965	1,823	2,142	1,804,485	1,737,315	67,170
(2,085)	498	2,583	1,262,098	(13,679)	(1,275,777)
0	0	0	38,820	0	(38,820)
0	0	0	0	54,084	54,084
(2,085)	498	2,583	1,300,918	40,405	(1,260,513)
74,101	74,101	0	144,162	144,162	0
493	493	0	1,041	1,041	0
\$72,509	\$75,092	\$2,583	\$1,446,121	\$185,608	(\$1,260,513)

Kirtland Local School District
Combined Statement of Cash Flows
All Proprietary Fund Types and Nonexpendable Trust Fund
For the Fiscal Year Ended June 30, 2003

	Proprietary Fund Types		Fiduciary Fund Type	Totals (Memorandum Only)
	Enterprise	Internal Service	Nonexpendable Trust	
<i>Increase (Decrease) in Cash and Cash Equivalents</i>				
Cash Flows from Operating Activities				
Cash Received from Customers	\$210,554	\$0	\$0	\$210,554
Cash Received from Quasi-External Transactions with Other Funds	0	1,454,133	0	1,454,133
Cash Received from Contributions and Donations	0	0	1,045	1,045
Cash Payments to Suppliers for Goods and Services	(116,544)	(1,746,948)	(1,000)	(1,864,492)
Cash Payments to Employees for Services	(92,726)	(146,216)	(493)	(239,435)
Cash Payments for Employee Benefits	(52,815)	(44,211)	0	(97,026)
Cash Payments for Claims	0	(267,733)	0	(267,733)
Cash Payments for Other Operating Expenses	0	(436)	(330)	(766)
<i>Net Cash Used for Operating Activities</i>	<u>(51,531)</u>	<u>(751,411)</u>	<u>(778)</u>	<u>(803,720)</u>
Cash Flows from Noncapital Financing Activities				
Operating Grants Received	26,347	1,083,643	0	1,109,990
Transfer In	54,000	84	0	54,084
<i>Net Cash Provided by Noncapital Financing Activities</i>	<u>80,347</u>	<u>1,083,727</u>	<u>0</u>	<u>1,164,074</u>
Cash Flows from Capital and Related Financing Activities				
Payments for Capital Acquisitions	(1,482)	(320,579)	0	(322,061)
Cash Flows from Investing Activities				
Interest on Investments	7	4,598	1,276	5,881
<i>Net Increase in Cash and Cash Equivalents</i>	27,341	16,335	498	44,174
Cash and Cash Equivalents Beginning of Year	428	167,548	74,594	242,570
<i>Cash and Cash Equivalents End of Year</i>	<u>\$27,769</u>	<u>\$183,883</u>	<u>\$75,092</u>	<u>\$286,744</u>

(continued)

Kirtland Local School District
Combined Statement of Cash Flows
All Proprietary Fund Types and Nonexpendable Trust Fund (continued)
For the Fiscal Year Ended June 30, 2003

	Proprietary Fund Types		Fiduciary Fund Type	Totals (Memorandum Only)
	Enterprise	Internal Service	Nonexpendable Trust	
Reconciliation of Operating Income (Loss) to Net Cash Used for Operating Activities:				
<i>Operating Income (Loss)</i>	(\$72,585)	(\$766,573)	\$498	(\$838,660)
Adjustments:				
Depreciation	2,462	194,949	0	197,411
Donated Commodities Used During Year	11,945	0	0	11,945
Interest	0	0	(1,276)	(1,276)
<i>(Increase)/Decrease in Assets:</i>				
Accounts Receivable	(946)	0	0	(946)
Intergovernmental Receivable	0	(74,704)	0	(74,704)
Inventory Held for Resale	(3,517)	0	0	(3,517)
Materials and Supplies Inventory	128	0	0	128
<i>Increase/(Decrease) in Liabilities:</i>				
Accounts Payable	0	(103,193)	0	(103,193)
Accrued Wages and Benefits	7,928	6,968	0	14,896
Compensated Absences Payable	1,102	2,768	0	3,870
Claims Payable	0	120	0	120
Intergovernmental Payable	1,952	(6,079)	0	(4,127)
Early Retirement Incentive Payable	0	(5,667)	0	(5,667)
<i>Total Adjustments</i>	21,054	15,162	(1,276)	34,940
<i>Net Cash Used for Operating Activities</i>	(\$51,531)	(\$751,411)	(\$778)	(\$803,720)

Reconciliation of Cash and Cash Equivalents of Nonexpendable Trust Fund to Balance Sheet:

Cash and Cash Equivalents - All Fiduciary Funds	\$169,615
Cash and Cash Equivalents - Agency Funds	(43,491)
Cash and Cash Equivalents - Expendable Trust Fund	(51,032)
Cash and Cash Equivalents - Nonexpendable Trust Fund	\$75,092

Federal Donated Commodities in the amount of \$11,945 were recorded as revenue when received in the food service enterprise fund.

See accompanying notes to the general purpose financial statements

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Kirtland Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 1 - Description of the School District and 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/or 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 52 non-certified employees and 87 certified full-time teaching personnel who provide services to 1,039 students and other community members. The School District currently operates three instructional buildings, one administrative building, one maintenance garage and one bus garage.

Reporting Entity

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

Nonpublic Schools - Within the School District boundaries, the Willo-Hill Christian School and Peaceful Children School are operated by religious organizations. Current State legislation provides funding to these non-public schools. These monies are received and disbursed by the School District on behalf of the non-public school by the Treasurer of the School District, as directed by the non-public school. The activity is reflected in a special revenue fund for reporting purposes.

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

The School District is associated with five jointly governed organizations, a claims servicing pool, a related organization and an insurance purchasing pool. These organizations are the Lake Geauga Computer Association, the Auburn Career Center, the East Shore Regional Transportation System, the East Shore Center, the Ohio Schools Council Association, the Lake County Council of Governments Health Care Benefits Program, the Kirtland Public Library and the Ohio School Boards' Association Workers' Compensation Group Rating Program, which are presented in Notes 16, 17, 18 and 19 to the general purpose financial statements.

Kirtland Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 2 - Summary of Significant Accounting Policies

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

A. Basis of Presentation - Fund Accounting

The School District uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain School District functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities not recorded in the funds because they do not directly affect net expendable available financial resources.

For financial statement presentation purposes, the various funds of the School District are grouped into the following generic fund types under the broad fund categories governmental, proprietary and fiduciary.

Governmental Fund Types Governmental funds are those through which most governmental functions of the School District are financed. The acquisition, use and balances of the School District's expendable financial resources and the related current liabilities (except those accounted for in proprietary or fiduciary funds) are accounted for through governmental funds. The following are the School District's governmental fund types:

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

Special Revenue Funds Special revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

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

Capital Projects Funds Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary or trust funds).

Kirtland Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

Proprietary Fund Types Proprietary funds are used to account for the School District's ongoing activities which are similar to those found in the private sector. The following are the School District's proprietary fund types:

Enterprise Fund The enterprise fund is used to account for School District activities that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Internal Service Funds Internal service funds are used for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost reimbursement basis.

Fiduciary Fund Types Fiduciary funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds. The School District's fiduciary funds include expendable trust, nonexpendable trust and agency funds. Expendable trust funds are accounted for in essentially the same manner as governmental funds. Nonexpendable trust funds are accounted for in essentially the same manner as proprietary funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Account Groups To make a clear distinction between fixed assets related to specific funds and those of general government and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

General Fixed Assets Account Group This account group is established to account for all fixed assets of the School District, other than those accounted for in the proprietary or trust funds.

General Long-Term Obligations Account Group This account group is established to account for all long-term obligations of the School District except those accounted for in the proprietary or trust funds.

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary funds and nonexpendable trust funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund types and nonexpendable trust fund operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Kirtland Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The modified accrual basis of accounting is followed for the governmental, expendable trust and agency funds. The full accrual basis of accounting is followed for the proprietary and nonexpendable trust funds.

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

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 7). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2003, but which were levied to finance fiscal year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue. On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

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

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

C. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources,

Kirtland Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The Treasurer maintains budgetary information at the object level and has the authority to allocate appropriations at the function and object level without resolution by the Board of Education. The primary level of budgetary control is at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

Advances in and advances out are not required to be budgeted since they represent a temporary cash flow and are intended to be repaid.

Tax Budget Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates.

By no later than January 20, the Board-adopted budget is filed with the Lake County Budget Commission for rate determination.

Estimated Resources Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the Commission's certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the School District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported in the budgetary statement reflect the amounts in the amended certificate of estimated resources in effect at the time the final appropriations were enacted by the Board.

Appropriations Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution is enacted by the Board of Education at the fund level which is the legal level of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the School District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation, must be approved by the Board of Education.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the year, several supplemental appropriations were legally enacted; however, none of these amendments were significant.

The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds, other than agency funds, consistent with statutory provisions.

Kirtland Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

Encumbrances As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. Expenditures plus encumbrances may not legally exceed appropriations. On the GAAP basis, encumbrances outstanding at fiscal year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds and reported in the notes to the financial statements for proprietary and nonexpendable trust funds.

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

D. Cash and Cash Equivalents

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

The School District utilizes a financial institution to service claims. The balances in these accounts are presented on the combined balance sheet as "cash and cash equivalents with fiscal agents" and represents deposits into an account separate from the School District treasury.

During fiscal year 2003, investments were limited to STAROhio and repurchase agreements. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for at June 30, 2003.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2003 amounted to \$38,416, which includes \$11,520 assigned from other School District funds.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents.

E. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents whose use is limited by legal requirements. Restricted assets include amounts required by statute to be set-aside by the School District for the unspent workers' compensation monies. See Note 20 for additional information regarding set-asides.

F. Inventory

Inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure

Kirtland Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

in the governmental fund types when purchased. Reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available expendable resources even though it is a component of net current assets. Inventories of proprietary funds consist of donated food and purchased food and are expensed when used.

G. Fixed Assets and Depreciation

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds and the related assets are reported in the general fixed assets account group. Fixed assets utilized in the proprietary funds are capitalized in the fund. All fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of five hundred dollars. The School District does not possess any infrastructure.

Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of general fixed assets is also not capitalized.

Assets in the general fixed assets account group are not depreciated. Depreciation of vehicles and furniture and equipment in the enterprise funds is computed using the straight-line method over an estimated useful life that ranges from five to twenty years. Improvements to fund fixed assets are depreciated over the remaining useful lives of the related fixed assets.

H. Compensated Absences

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

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

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using available expendable resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid.

The remainder is reported in the general long-term obligations account group. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

I. Accrued Liabilities and Long-term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, claims and judgments, compensated absences, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current available expendable financial resources. Payments made more than sixty

Kirtland Local School District
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For the Fiscal Year Ended June 30, 2003

days after fiscal year end are generally considered not to have been made with current available financial resources. Capital leases and bonds are recognized as a liability of the general long-term obligations account group until due or until resources have been accumulated in the fund for payment early in the following year.

Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate proprietary funds.

J. Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

Non-recurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

K. Fund Balance Reserves and Designations

The School District records reservations for portions of fund equity which are legally segregated for specific future use or which do not represent available expendable resources and, therefore, are not available for appropriations for expenditures. Designations represent tentative plans for future use of financial resources. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves are established for encumbrances, inventories of materials and supplies, contributions and property taxes and budget stabilization.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute. The reserve for budget stabilization represents monies required to be set aside by State statute to protect against cyclical changes in revenues and expenditures. The reserve for contributions represents contributions to nonexpendable trust funds that must be kept intact.

L. Estimates

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

M. Totals Columns on General Purpose Financial Statements

Total columns on the general purpose financial statements are captioned "Total - (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

Kirtland Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 3 – Restatement of Prior Year Fund Balance/Retained Earnings

At June 30, 2003, cash with fiscal agents and claims payable were overstated in the General fund. The effect of this change on fund balance is a \$50,953 decrease from \$1,334,047 to \$1,283,094.

At June 30, 2003, intergovernmental receivables were overstated in the Eisenhower Math and Science and the Drug Free Schools special revenue funds. The effect of this change on fund balance is a \$5,052 decrease from \$282,618 to \$277,566.

At June 30, 2003, intergovernmental receivables, accounts payable, cash with fiscal agent and claims payable were overstated in the Transportation and Self Insurance internal service funds. The effect of this change on retained earnings is a \$52,216 net decrease from \$897,644 to \$845,428.

Note 4 - Accountability and Compliance

A. Fund Deficit

The reducing class size special revenue fund had a deficit fund balance at June 30, 2003 of \$122. The deficit in the reducing class size special revenue fund resulted from the conversion to generally accepted accounting principles and adjustments for accrued liabilities. The general fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

B. Compliance

The following funds had appropriations in excess of estimated resources plus carryover balances contrary to Section 5705.39, Ohio Revised Code.

At Mid-Year

	Estimated Resources Plus Carryover Balances	Appropriations	Excess
<i>Special Revenue Funds</i>			
SchoolNet Professional Development	\$3,431	\$6,681	\$3,250
Title VI-B	92,953	97,951	4,998
Telecommunication Act Grant	0	2,611	2,611
Title VI-R	34,190	37,313	3,123
<i>Enterprise Fund</i>			
Food Service	265,900	267,610	1,710

Kirtland Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

At June 30, 2003

	Estimated Resources Plus Carryover		
	Balances	Appropriations	Excess
<i>Special Revenue Funds</i>			
Other Grants	\$3,000	\$3,300	\$300
Athletics and Music	241,866	316,217	74,351
Auxiliary Services	147,658	169,580	21,922
Education Management Information System	3,840	8,840	5,000
Drug Free Schools Grant	9,118	11,932	2,814
Virtual Middle School Grant	1,643	3,858	2,215
<i>Enterprise Fund</i>			
Food Service	265,900	267,610	1,710

At June 30, 2003 the following funds had expenditures plus encumbrances in excess of appropriations contrary to Section 5705.41, Ohio Revised Code.

	Expenditures Plus Encumbrances		
	Appropriations	Plus Encumbrances	Excess
<i>Special Revenue Funds</i>			
Auxiliary Services	\$205,181	\$206,131	\$950
Title VI-B	113,053	117,491	4,438
Title VI-R	30,990	33,572	2,582

Ohio Revised Code requires the School District to reserve (encumber) appropriations when commitments are made. The School District did not properly use the encumbrance method of accounting. For June 30, 2003, the School District was in violation of ORC 5705.41(D) for failure to certify the availability of funds for two out of sixty expenditures transactions.

In order to eliminate the budgetary violations, appropriations will be more closely monitored.

Note 5 - Budgetary Basis of Accounting

While the School District is reporting financial position, results of operations and changes in fund balance/retained earnings on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual, All Governmental Fund Types and Expendable Trust Fund and the Combined Statement of Revenues, Expenses and Changes in Fund Equity - Budget (Non-GAAP Basis) and Actual - All Proprietary Fund Types and Nonexpendable Trust Fund are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).

Kirtland Local School District
Notes to the General Purpose Financial Statements
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2. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types and as note disclosures in the proprietary fund type (GAAP basis).
4. For proprietary funds, the acquisition and construction of capital assets are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP basis).

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements by fund type:

Excess of Revenues and Other Financing Sources
Over (Under) Expenditures and Other Financing Uses
All Governmental Fund Types and Expendable Trust Fund

	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust
GAAP Basis	\$185,013	\$8,515	\$107,245	\$107,745	\$872
Net Adjustment for					
Revenue Accruals	(263,555)	20,570	(17,993)	(11,023)	0
Advances In	8,121	0	0	0	0
Net Adjustment for					
Expenditure Accruals	(82,356)	15,783	0	4,723	0
Advances Out	0	(8,121)	0	0	0
Encumbrances	(535,534)	(123,129)	0	(54,242)	0
Budget Basis	<u>(\$688,311)</u>	<u>(\$86,382)</u>	<u>\$89,252</u>	<u>\$47,203</u>	<u>\$872</u>

Net Income/Excess of Revenues Over Expenses
All Proprietary Fund Types and Nonexpendable Trust Fund

	Enterprise	Internal Service	Nonexpendable Trust
GAAP Basis	\$19,714	\$321,752	\$498
Net Adjustment for Revenue Accruals	(5,333)	(74,704)	0
Net Adjustment for Expense Accruals	11,980	(108,276)	0
Capital Outlay	(1,482)	(320,579)	0
Depreciation Expense	2,462	194,949	0
Encumbrances	0	(576)	0
Budget Basis	<u>\$27,341</u>	<u>\$12,566</u>	<u>\$498</u>

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Note 6 - Deposits and Investments

State statutes classify monies held by the School District into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the 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.

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

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

Kirtland Local School District
Notes to the General Purpose Financial Statements
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8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held until maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

At June 30, 2003, the School District's self insurance internal service fund had a balance of \$100,560 with Lake County Council of Governments Health Care Benefits Program, a claims servicing pool was determined based on the percentage of the School District's participants to total pool participants (See Note 17). The money is held by the claims servicer in a pooled account which is representative of numerous entities and therefore cannot be classified by risk under GASB No. 3. The classification of cash and cash equivalents and investments for the Lake County Council of Governments Health Care Benefits Program Self Insurance Plan as a whole may be obtained from the Plan's fiscal agent, the Mentor City School District. To obtain financial information, write to the Treasurer, Mentor City School District, 6451 Center Street, Mentor, Ohio 44060.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements."

Deposits At fiscal year end, the carrying amount of the School District's deposits was \$404,407 and the bank balance was \$631,998. Of the bank balance:

1. \$100,000 was covered by federal depository insurance; and
2. \$531,998 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department or agent in the School District's name and all State statutory requirements for the deposit of money have been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

Investments The School District's investments are required to be categorized to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counter party's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. STAROhio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

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Notes to the General Purpose Financial Statements
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	Category 3	Carrying Value	Fair Value
Repurchase Agreement	\$1,470,030	\$1,470,030	\$1,470,030
STAROhio		656,522	656,522
	<u>\$1,470,030</u>	<u>\$2,126,552</u>	<u>\$2,126,552</u>

The classification of cash and cash equivalents and investments on the fund financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the combined financial statements and the classification per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents	Investments
GASB Statement No. 9	\$2,631,519	\$0
Money held by health care program's fiscal agent	(100,560)	0
Investments which are part of the cash management pool:		
Repurchase Agreement	(1,470,030)	1,470,030
STAROhio	<u>(656,522)</u>	<u>656,522</u>
GASB Statement No. 3	<u>\$404,407</u>	<u>\$2,126,552</u>

Note 7 - Property Taxes

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the school district. Real property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Real property taxes received in calendar year 2003 were levied after April 1, 2002, on the assessed value listed as of January 1, 2002, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Public utility real and tangible personal property taxes received in calendar year 2003 became a lien December 31, 2001, were levied after April 1, 2002 and are collected in 2003 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2003 (other than public utility property) represents the collection of 2003 taxes. Tangible personal property taxes received in calendar year 2003 were levied after April 1, 2002, on the value as of December 31, 2002. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory.

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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 Lake and Geauga 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 County by June 30, 2003, are available to finance fiscal year 2003 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, 2003 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, 2003 was \$968,791 in the general fund, \$41,223 in the bond retirement debt service fund and \$27,908 in the permanent improvement capital projects fund. The amount available as an advance at June 30, 2002, was \$580,877 in the general fund, \$23,230 in the bond retirement debt service fund, and \$16,884 in the permanent improvement capital projects fund. The increase was from additional collections of delinquent personal property tax in fiscal year 2003.

The assessed values upon which the fiscal year 2003 taxes were collected are:

	2002 Second Half Collections		2003 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$235,790,640	94.56 %	\$247,114,550	94.56 %
Public Utility Personal	9,864,620	3.96	10,298,790	3.94
Tangible Personal Property	3,687,270	1.48	3,915,948	1.50
Total	\$249,342,530	100.00 %	\$261,329,288	100.00 %
 Tax rate per \$1,000 of assessed valuation	 \$69.10		 \$68.67	

Note 8 - Receivables

Receivables at June 30, 2003 consisted of property taxes, accounts (rent, billings for user charged services, and tuition and fees), interfund, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds.

A summary of the principal item of intergovernmental receivables consist of \$74,704 regional transportation costs for the transportation internal service fund.

Kirtland Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 9 - Fixed Assets

A summary of the Proprietary Funds' fixed assets at June 30, 2003, follows:

	Enterprise	Internal Service
Vehicles	\$0	\$2,630,738
Furniture, Fixtures, and Equipment	90,315	2,067
Less: Accumulated Depreciation	(83,500)	(1,634,632)
Net Fixed Assets	\$6,815	\$998,173

A summary of the changes in general fixed assets during fiscal year 2003 follows:

	Balance 6/30/02	Additions	Deletions	Balance 6/30/03
Land and Improvements	\$652,657	\$7,259	\$0	\$659,916
Buildings	16,492,864	31,411	0	16,524,275
Furniture and Equipment	2,588,354	170,901	0	2,759,255
Vehicles	1,211,174	128,921	94,759	1,245,336
Total	\$20,945,049	\$338,492	\$94,759	\$21,188,782

Note 10 - Risk Management

A. Property and Liability

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 2003, the School District contracted with various insurance agencies for various types of insurance. Coverage is as follows:

Company	Coverage	Amount
Indiana Insurance	Blanket Building and Contents (\$1,000 Deductible)	\$18,864,061
	Extra Expense Coverage	1,000,000
	EDP and Media/Software	185,911/17,500
	Audio Visual Equipment	20,000
	Valuable Papers	100,000
	Sewer and Drain Backup	50,000
	Pollutant Clean Up and Removal	250,000
	Money and Securities (\$250 Deductible)	5,000
	Boiler/Machinery - Blanket (\$1,000 Deductible)	30,000,000
	Spoilage Limit (\$500 Deductible)	100,000

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	Media Limit	\$100,000
	Water Damage	100,000
	Off Premises Service Interruption	500,000
	Ordinance or Law	1,000,000
	Business Interruption and Extra Expense	Actual Loss
	Inland Marine	
	Instruments	57,215
	Contractor's Equipment	9,200/1,500
	Transit	300,000
Coregis	Business Auto - Liability (\$1,000 Deductible)	2,000,000
	Uninsured Motorists - Comprehensive (\$1,000 Deductible)	50,000
	Medical (\$250 Deductible)	5,000
Great American	Liability	5,000,000

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

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

B. Employee Medical Coverage

The School District has elected to provide medical coverage through a self-insurance program. The School District uses the General fund on the Budgetary Basis and the Self Insurance internal service fund on a GAAP Basis to account for and finance its uninsured risks of loss in this program. Prior to fiscal year 2003, the School District utilized the General fund to account for the self insurance program. The claims are serviced through the Lake County Council of Governments Health Care Benefits Program. The Lake County Council of Governments Health Care Benefits Program has stop loss coverage of 110 percent of expected claims. The claims liability as reported in the Self Insurance internal service fund was provided by the third party administrator and is based on the requirements of Governmental Accounting Standards Board, Statement No. 30 which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses.

The June 30, 2003 claim's liability was determined based on the percentage of the School District's participants to total pool participants. For the year ended June 30, 2003, the pools cash reserves and claims liability were \$5,990,506 and \$2,772,079 respectively. The School District's allocated pool percentage for the year ended June 30, 2003 was 1.7 percent, which represents \$100,560 and \$46,534 of pool cash reserves and claims liability, respectively.

The School District's changes in the fund's claims liability amount in 2002 and 2003 were:

	Balance at Beginning of Year	Current Year Claims	Claim Payments	Balance at End of Year
2002	\$46,592	\$216,931	\$217,109	\$46,414
2003	46,414	267,853	267,733	46,534

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Notes to the General Purpose Financial Statements
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C. Workers' Compensation

For fiscal year 2003, the School District participated in the Ohio School Board Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 19). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

Note 11 - Defined Benefit Pension Plans

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476. or by calling (614) 222-5853.

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002 and 2001 were \$60,078, \$57,918 and \$57,870 respectively; 51 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001.

B. State Teachers Retirement System

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average

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For the Fiscal Year Ended June 30, 2003

salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2003, 2002, and 2001 were \$610,844, \$418,847, and \$409,320 respectively; 84 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. Contributions to the DC and Combined Plans for fiscal year 2003 were \$4,132 made by the School District and \$11,132 made by the plan members.

Note 12 - Postemployment Benefits

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2003, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$46,988 for fiscal year 2003.

Kirtland Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2002, (the latest information available) the balance in the Fund was \$3.011 billion. For the year ended June 30, 2002, net health care costs paid by STRS were \$354,697,000 and STRS had 105,300 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll, a decrease of 2.71 percent from fiscal year 2002. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay has been established as \$14,500. For the School District, the amount to fund health care benefits, including surcharge, during the 2003 fiscal year equaled \$105,401.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2003 were \$204,930,737 and the target level was \$307.4 million. At June 30, 2003, SERS had net assets available for payment of health care benefits of \$303.6 million. SERS has approximately 50,000 participants currently receiving health care benefits.

Note 13 - Employee Benefits

A. Life Insurance

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

B. Compensated Absences

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

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. A percentage of unused sick time is paid at retirement. All employees who are eligible to retire will receive up to 30 days of accumulated sick leave at the full time daily rate, plus one fourth of the accumulated sick leave days in excess of 120 at the same rate. The maximum allowable days for certified employees is 60 and 50 days is the maximum for classified employees.

Kirtland Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 14 - Long-Term Obligations

Changes in long-term obligations of the School District during fiscal year 2003 were as follows:

	Principal Outstanding 6/30/02	Additions	Deductions	Principal Outstanding 6/30/03
General Obligation Bonds:				
1989 School Improvement Bonds 8.43%	\$1,670,000	\$0	\$1,670,000	\$0
2003 School Improvement Bonds 1.75 - 3.56%				
Current Interest Serial Bonds	0	1,375,000	0	1,375,000
Capital Appreciation Bonds	0	135,000	0	135,000
<i>Total General Obligation Bonds:</i>	<u>1,670,000</u>	<u>1,510,000</u>	<u>1,670,000</u>	<u>1,510,000</u>
Other Long-Term Obligations:				
Compensated Absences	473,762	139,863	67,629	545,996
Pension Obligation	55,604	67,477	55,604	67,477
Capital Leases	12,414	0	6,272	6,142
<i>Total General Long-Term Obligations</i>	<u><u>\$2,211,780</u></u>	<u><u>\$1,717,340</u></u>	<u><u>\$1,799,505</u></u>	<u><u>\$2,129,615</u></u>

The general obligation bonds will be paid from the debt service fund. The capital lease will be paid from the general fund. Compensated absences and the pension obligation will be paid from the fund from which the employees' salaries are paid.

The 2003 general obligation bonds include capital appreciation bonds. The final maturity of these bonds is \$255,000.

On January 15 and January 28, 2003, the School District issued \$1,510,000 in general obligation bonds at interest rates varying from 1.75 percent to 3.56 percent. A portion of the general obligation bond proceeds were used to refund \$1,670,000 of the 1989 school improvement bonds. An analysis of the information follows:

	1989 School Improvement Bonds
Outstanding at 6/30/02	\$1,670,000
Amount Refunded	(1,510,000)
Non-Refunded Portion	160,000
Principal Payment on Non-Refunded Portion	(160,000)
Outstanding at 6/30/03	<u><u>\$0</u></u>

Proceeds of \$1,538,512 (after the underwriting fees and other issuance costs) were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunding portion of the 1989 school improvement bonds. As a result, \$1,510,000 of these bonds is considered defeased and the liability for the refunded portion of these bonds has been removed from the general long-term obligations account group.

Kirtland Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

The School District decreased its total debt service payments by \$480,820 as a result of the advance refunding. The School District also incurred an economic gain (difference between the present value of the old and new debt service payments) of \$383,921. The final maturity of these bonds are \$255,000.

The School District's overall legal debt margin at June 30, 2003 was \$22,275,802 with an unvoted debt margin of \$261,329 at June 30, 2003. Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2003, are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2004	\$250,000	\$27,050	\$277,050
2005	225,000	22,894	247,894
2006	225,000	18,675	243,675
2007	225,000	14,175	239,175
2008	225,000	9,169	234,169
2009-2010	480,000	3,206	483,206
Totals	<u>\$1,630,000</u>	<u>\$95,169</u>	<u>\$1,725,169</u>

Note 15 - Capital Leases

In prior years, the School District entered into capitalized leases for copiers. The leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases" which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the general purpose financial statements. These expenditures are reflected as program/function expenditures on a budgetary basis.

General fixed assets consisting of equipment has been capitalized in the general fixed assets account group in the amount of \$43,416. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded in the general long term obligations account group. Principal payments in fiscal year 2003 totaled \$6,272.

Year	Obligation
2004	\$4,718
2005	1,968
Total Minimum Lease Payments	<u>6,686</u>
Less: Amount Representing Interest	(544)
Present Value of Minimum Lease Payments	<u><u>\$6,142</u></u>

Note 16 - 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

Kirtland Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

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 2003, the School District paid \$60,563 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 which is a jointly governed organization among eleven school districts. Each participating school district appoints one board member to the Auburn Career Center's Board of Education. The students of each participating school district may attend classes offered at the vocational facility. Each participants control over the operation of the Auburn Career Center is limited to representation on the board. Continued existence of the Auburn Career Center is not dependent on the School District's continued participation. Financial information can be obtained from the Auburn Career Center, 8140 Auburn Road, Painesville, Ohio 44077.

East Shore Regional Transportation System - The East Shore Regional Transportation System (ESRTA) is a jointly governed organization that was formed for the purpose of providing a transportation system for the handicapped children in the sixteen member school districts. The transportation committee (governing board) consists of the superintendents of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the governing board. ESRTA is not accumulating significant financial resources or experiencing fiscal stress which would cause additional financial benefit or burden on the School District. In fiscal year 2003, the School District paid \$85,839 to the transportation system. Financial information can be obtained by writing the fiscal agent, Kirtland Board of Education, 9152 Chillicothe Road, Kirtland, Ohio 44094.

East Shore Center - The East Shore Center is a jointly governed organization that was formed for the purpose of providing special education for the handicapped children in the sixteen member school districts. The governing board consists of the superintendents of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the governing board. East Shore Center is not accumulating significant resources or experiencing fiscal distress, which would cause additional financial benefit or burden on the School District. Financial information can be obtained by writing the fiscal agent, Mentor Exempted Village School District, 6451 Center Street, Mentor, OH 44060.

Ohio Schools Council Association - The Ohio Schools' Council Association (Council) is a jointly governed organization among eighty-three school districts. The jointly governed organization was formed to purchase quality products and services at the lowest possible cost to the member districts. Each district supports the Council by paying an annual participation fee. The Council's Board consists of seven superintendents of the participating districts whose term rotates every year. The degree of control exercised by any school district is limited to its representation on the Board. In fiscal year 2002, the School District paid \$145,173 to the Council. Financial information can be obtained by contacting Kathleen T. Neal the Executive Secretary/Treasurer of the Ohio Schools Council at 6133 Rockside Road, Suite 10 Independence, Ohio 44101.

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

Kirtland Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

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

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

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

Note 17 – Claims Servicing Pool

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

Note 18 - Related Organization

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

Kirtland Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 19 - 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 20 - Set-Aside Calculations

The School District is required by State statute to annually set aside in the General Fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year-end. These amounts must be carried forward to be used for the same purposes in future years. In prior years, the School District was also required to set aside money for budget stabilization. At June 30, 2003, only the unspent portion of certain workers' compensation refunds continues to be set aside.

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

	Textbooks	Capital Improvements	Budget Stabilization
Set-aside Balance as of June 30, 2002	(\$156,503)	\$0	\$55,116
Current Year Set-aside Requirement	153,312	153,312	0
Qualifying Disbursements	(143,941)	(178,975)	0
Totals	<u>(\$147,132)</u>	<u>(\$25,663)</u>	<u>\$55,116</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>(\$147,132)</u>	<u>\$0</u>	<u>\$55,116</u>
Set-aside Reserve Balance as of June 30, 2003	<u>\$0</u>	<u>\$0</u>	<u>\$55,116</u>

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

Kirtland Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 21 - Contingencies

A. Grants

The School District receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2003.

B. Litigation

The Kirtland Local School District is not a party to legal proceedings.

Note 22 – Interfund Transactions

Interfund balances at June 30, 2003, consist of the following individual fund receivables and payables:

Fund Type/Fund	Interfund Receivable	Interfund Payable
General Fund	\$2,000	\$0
Food Service Enterprise Fund	0	2,000
<i>Total All Funds</i>	\$2,000	\$2,000

Note 23 – State School Funding Decision

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State’s school funding plan. The decision reaffirmed earlier decisions that Ohio’s current school-funding decision is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed “...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...”

The School District is currently unable to determine what effect, if any, this decision will have its future State funding and on its financial operations.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

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

We have audited the financial statements of the Kirtland Local School District, Lake County, Ohio, (the District) as of and for the year ended June 30, 2003, and have issued our report thereon dated December 29, 2003, wherein we noted the District restated the General and Special Revenue Fund balance and Internal Service Fund retained earnings. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed no instances of noncompliance that is required to be reported under *Government Auditing Standards*. However, we noted immaterial instances of noncompliance that we have reported to the management of the District in a separate letter dated December 29, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated December 29, 2003.

Kirtland Local School District
Lake County
Independent Accountants' Report on Compliance and on Internal Control
Required by *Government Auditing Standards*
Page 2

This report is intended solely for the information and use of the Audit Committee, management and the Board of Education, 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 "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

December 29, 2003



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

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
FEBRUARY 12, 2004**