



**KIRTLAND LOCAL SCHOOL DISTRICT
LAKE COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2004



**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 financial statements of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of the Kirtland Local School District, Lake County, Ohio (the District), as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of the Kirtland Local School District, Lake County, Ohio, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2004, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 2005, 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.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Betty Montgomery
Auditor of State

March 14, 2005

Kirtland Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

The discussion and analysis of Kirtland Local School District's financial performance is presented by the School District's Treasurer and provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2004 include:

- There was a significant increase in the general fund balance of \$736,733. This report will analyze various factors contributing to the increase.
- Negotiated changes in health care benefits with the School District's two unions saw medical premiums decrease mid-year from \$96,538 a month to \$79,668.
- Total revenues of \$13,265,516 were comprised of general revenues in the amount of \$10,961,709 or 82.63 percent and program specific revenues from charges for services, grants and contributions in the amount of \$2,303,807 or 17.37 percent.
- Total assets increased by \$769,117 in large part from an increase in taxes receivable of \$496,944.
- Total net assets increased by \$305,436 primarily due to total assets increasing by 4.76 percent, a decrease in long-term liabilities of 8.46 percent and half year of tax collections from a new levy.

Using this Annual Financial Report

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

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

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

The analysis of the School District as a whole begins on page 6. The view of the School District as a whole looks at all financial transactions and asks the questions, "Are we in a better financial position this

Kirtland Local School District
Management's Discussion and Analysis
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year than last?" and "Why" or "Why not". The Statement of Net Assets and the Statement of Activities provide the basis for answering these questions. The statements include *all assets and liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting recognizes all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

Reporting the School District's Most Significant Funds

The analysis of the School District's major funds begins on page 10. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, the fund financial statements focus on the School District's most significant funds.

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

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

Kirtland Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
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The School District as a Whole

You may recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a comparison of the School District's Net Assets for 2004 compared to 2003:

(Table 1)
Net Assets

	Governmental Activities		Business-Type Activity		Total	
	2004	2003	2004	2003	2004	2003
Assets						
Current and Other Assets	\$12,784,760	\$11,537,008	\$105,410	\$158,027	\$12,890,170	\$11,695,035
Capital Assets, Net	3,548,241	3,785,166	490,055	679,148	4,038,296	4,464,314
<i>Total Assets</i>	<u>16,333,001</u>	<u>15,322,174</u>	<u>595,465</u>	<u>837,175</u>	<u>16,928,466</u>	<u>16,159,349</u>
Liabilities						
Current and Other Liabilities	9,737,659	9,099,241	31,776	30,076	9,769,435	9,129,317
Long-Term Liabilities:						
Due Within One Year	382,607	399,174	3,258	0	385,865	399,174
Due in More than One Year	1,512,886	1,672,785	9,741	12,970	1,522,627	1,685,755
<i>Total Liabilities</i>	<u>11,633,152</u>	<u>11,171,200</u>	<u>44,775</u>	<u>43,046</u>	<u>11,677,927</u>	<u>11,214,246</u>
Net Assets						
Invested in Capital Assets, Net of Debt	2,286,329	2,269,024	490,055	679,148	2,776,384	2,948,172
Restricted:						
Capital Projects	123,996	219,605	0	0	123,996	219,605
Debt Service	266,862	272,055	0	0	266,862	272,055
Set Asides	55,116	55,116	0	0	55,116	55,116
Other Purposes	279,782	408,018	0	0	279,782	408,018
Unrestricted	1,687,764	927,156	60,635	114,981	1,748,399	1,042,137
<i>Total Net Assets</i>	<u>\$4,699,849</u>	<u>\$4,150,974</u>	<u>\$550,690</u>	<u>\$794,129</u>	<u>\$5,250,539</u>	<u>\$4,945,103</u>

Total assets increased \$769,117 primarily due to collection of taxes from a new property tax levy.

Current liabilities in governmental activities increased by \$640,118 from increased deferred revenue generated by the new property tax levy. Long-term liabilities decreased by \$176,437 due to the paying down of the long-term debt.

Table 2 shows the changes in net assets for fiscal year 2004. Since this is the first year of preparing these statements a comparison cannot be made to fiscal year 2003. This table reflects the reclassification of the business-type activity to special revenue funds, in order to make the appropriate comparisons. In future reports this table will provide a comparison to the previous fiscal year.

Kirtland Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

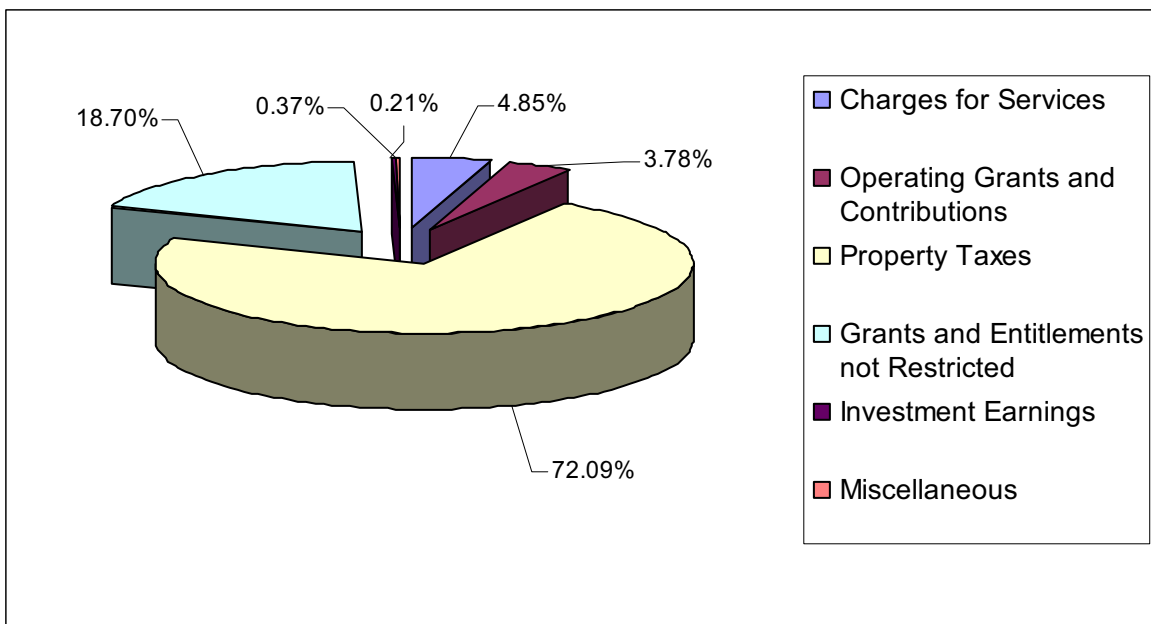
(Table 2)
Change in Net Assets - Governmental Funds

	Governmental Activities	Business-Type Activity	Total
Revenues			
<i>Program Revenues</i>			
Charges for Services and Sales	\$581,243	\$1,269,674	\$1,850,917
Operating Grants and Contributions	452,890	0	452,890
<i>Total Program Revenues</i>	<u>1,034,133</u>	<u>1,269,674</u>	<u>2,303,807</u>
<i>General Revenues</i>			
Property Taxes	8,645,611	0	8,645,611
Grants and Entitlements not Restricted to Specific Programs	2,242,521	0	2,242,521
Investment Earnings	25,746	3,365	29,111
Miscellaneous	44,466	0	44,466
<i>Total General Revenues</i>	<u>10,958,344</u>	<u>3,365</u>	<u>10,961,709</u>
<i>Total Revenues</i>	<u>11,992,477</u>	<u>1,273,039</u>	<u>13,265,516</u>
Program Expenses			
Instruction			
Regular	4,616,420	0	4,616,420
Special	867,274	0	867,274
Vocational	27,565	0	27,565
Support Services:			
Pupils	803,445	0	803,445
Instructional Staff	529,924	0	529,924
Board of Education	134,329	0	134,329
Administration	818,798	0	818,798
Fiscal	427,502	0	427,502
Business	9,780	0	9,780
Operation and Maintenance of Plant	1,095,427	0	1,095,427
Pupil Transportation	879,430	0	879,430
Central	137,557	0	137,557
Extracurricular Activities	654,800	0	654,800
Operation of Non-Instructional Services:			
Food Service Operations	241,931	0	241,931
Other Non-Instructional Services	153,538	0	153,538
Interest and Fiscal Charges	45,882	0	45,882
Transportation	0	1,516,478	1,516,478
<i>Total Program Expenses</i>	<u>11,443,602</u>	<u>1,516,478</u>	<u>12,960,080</u>
<i>Increase (Decrease) in Net Assets</i>	548,875	(243,439)	305,436
<i>Net Assets Beginning of Year</i>	<u>4,150,974</u>	<u>794,129</u>	<u>4,945,103</u>
<i>Net Assets End of Year</i>	<u>\$4,699,849</u>	<u>\$550,690</u>	<u>\$5,250,539</u>

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Management's Discussion and Analysis
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Property taxes made up 72.09 percent of total revenues for governmental activities for Kirtland Local School District in fiscal year 2004. Program Revenues comprised of *charges for services and sales and operating grants and contributions* provided 8.62 percent of total revenues. 91.38 percent of all governmental activities are supported through property taxes, grants and entitlements, and other general revenues. The 18.70 percent provided by the grants and entitlements portion of general revenues includes monies received from the Ohio Department of Education, State Foundation Program and property tax relief such as the homestead exemptions and rollbacks provided by HB 920. The community, through its willingness to provide property tax revenues, is by far the primary support for Kirtland Local School District students.

(Graph 1)
Revenue Distribution - Governmental Activities

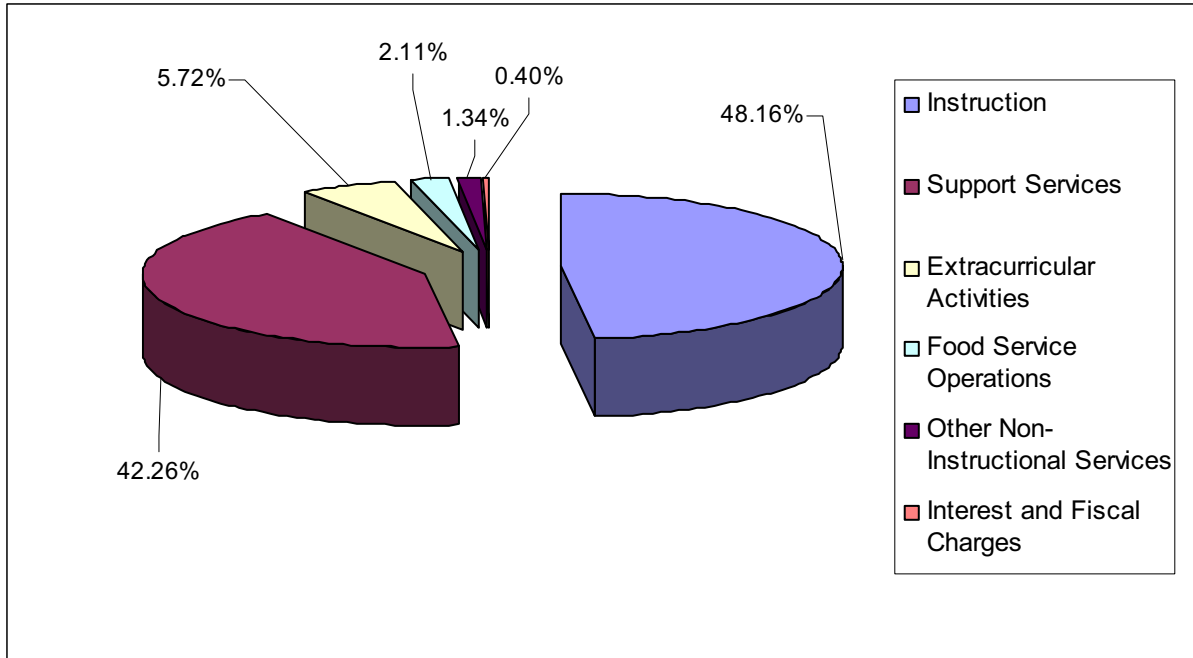


The School District was responsible for providing educational services for 1,104 eligible community members. Regular education expenses encompassed 83.76 percent of all instructional expenses. Special instruction costs equaled 15.74 percent of total instructional expenses. Vocational education programs such as living skills and occupational work programs made up .50 percent of the instructional expenses and are offered to the entire student population.

Total expenses are made up by two main areas that are instructional and support services. Support Services is then broken down into many subsections. Instructional costs made up 48.16 percent of all expenses. Support services were 42.26 percent of expenses and provide services such as busing, building and grounds maintenance, administration, board of education, fiscal and other. Food services and extracurricular accounted for 7.84 percent of the expenses. These two activities generate revenue through sales and fees.

Kirtland Local School District
Management's Discussion and Analysis
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Unaudited

(Graph 2)
Governmental Expenses



Governmental Activities

The unique property tax structure of Ohio factors in protection for property owners against inflation through millage rollbacks that offset value increases. Ohio mandates the use of a five-year forecast that includes three years of history and five years of projected operating revenues and expenditures. The School District's long-range financial plans show the School District able to finish fiscal year 2008 with a positive unencumbered cash balance.

While the food service and uniform school supply funds will continue to be segregated in fund accounting, the combined presentation of governmental activities will show those costs in program expenses related to regular instruction and food service operations.

Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows for government activities, the total cost of services and the net cost of services. Since this is the first year of preparing these statements a comparison cannot be made to fiscal year 2003. The (\$10,656,273) *Net Cost of Services* for 2004 tells the reader that these services are not self-supporting, but are supported by tax revenues and unrestricted State entitlements.

Business-Type Activity

The business-type activity consists of the transportation service that the School District provides to other School Districts. Overall net assets decreased \$243,439 in 2004. Capital assets decreased \$189,093 which makes up the largest portion of the overall decrease.

Kirtland Local School District
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(Table 3)
Governmental Activities

	Governmental Activities		Business-Type Activity		Total	
	Total Cost of Services 2004	Net Cost of Services 2004	Total Cost of Services 2004	Net Cost of Services 2004	Total Cost of Services 2004	Net Cost of Services 2004
	Instruction	\$5,511,259	(\$5,284,811)	\$0	\$0	\$5,511,259
Support Services:						
Pupils and Instructional Staff	1,333,369	(1,135,793)	0	0	1,333,369	(1,135,793)
Board of Education, Administration, Fiscal and Business	1,390,409	(1,367,290)	0	0	1,390,409	(1,367,290)
Operation and Maintenance of Plant	1,095,427	(1,077,629)	0	0	1,095,427	(1,077,629)
Pupil Transportation	879,430	(865,390)	0	0	879,430	(865,390)
Central	137,557	(119,268)	0	0	137,557	(119,268)
Extracurricular Activities	654,800	(487,147)	0	0	654,800	(487,147)
Operation of Non-Instructional Services:						
Food Service Operations	241,931	(2,115)	0	0	241,931	(2,115)
Other Non-Instructional Services	153,538	(24,144)	0	0	153,538	(24,144)
Interest and Fiscal Charges	45,882	(45,882)	0	0	45,882	(45,882)
Transportation	0	0	1,516,478	(246,804)	1,516,478	(246,804)
<i>Total Expenses</i>	<u>\$11,443,602</u>	<u>(\$10,409,469)</u>	<u>\$1,516,478</u>	<u>(\$246,804)</u>	<u>\$12,960,080</u>	<u>(\$10,656,273)</u>

The School District's Funds

The School District's governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$11,826,112 and expenditures of \$11,404,826.

The net change in fund balance in the General Fund was \$736,733. General fund revenues experienced an increase of \$1,008,072 with a large portion, \$769,884, coming from taxes and \$283,175 from intergovernmental revenue.

Other governmental funds show a net change in fund balance of (\$313,447). In fiscal year 2004, the net change in fund balance for the bond retirement debt service fund was (\$556). This change was the result of reducing the School District's overall debt liability. Special revenue funds as a whole showed a net change in fund balance of (\$217,713) from an overall increase in food service operations and extracurricular activities.

General Fund Budgeting Highlights

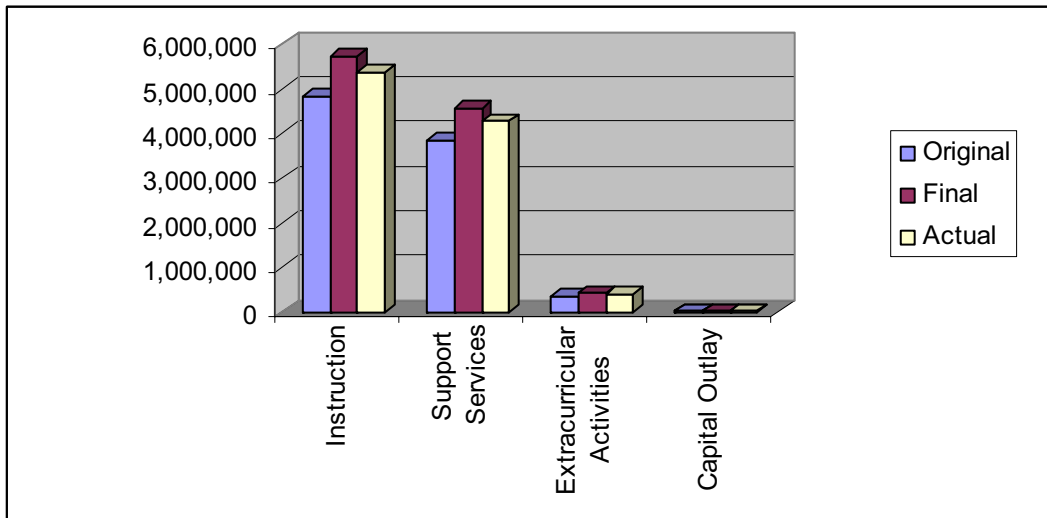
The School District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund.

Kirtland Local School District
Management's Discussion and Analysis
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During the course of fiscal 2004, the School District amended its general fund budget numerous times. Many of the amendments are due to changes in expenditure priorities at the building levels. For the general fund, the final budget basis revenue estimate was \$10,534,644 representing an \$811,106 increase from the original budget estimates of \$9,723,538. Most of this difference was due to conservative tax estimates in the area of real estate and tangible personal property taxes. The School District's general fund balance at end of year was \$1,896,528.

The School District revises its budget throughout the fiscal year. During fiscal year 2004, the significant increases were made to salary allocations due to the fact union contracts were not settled for the 2004 school year prior to the adoption of the original budget.

(Graph 3)
General Fund
Original Budget- Final Budgets and Actual Expenditures



Senate Bill 345 requires the School District to set aside certain general fund revenues in each of two areas. One for the purchase of textbooks and materials related to instruction and the other for capital outlay. For fiscal year 2004, this amounted to \$153,312 for each set aside for Kirtland Local School District. Two new school buses were purchased during the year along with the adoption of several new textbooks.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2004 the School District had \$4,038,296 invested in land, buildings and improvements, furniture and equipment, vehicles and textbooks. Table 4 shows fiscal 2004 balances compared to fiscal year 2003. More detailed information is presented in Note 9 of the notes to the basic financial statements.

Kirtland Local School District
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(Table 4)
Capital Assets at June 30
(Net of Depreciation)

	Governmental Activities		Business-Type Activity		Total	
	2004	2003	2004	2003	2004	2003
Land	\$1,503,831	\$1,503,831	\$0	\$0	\$1,503,831	\$1,503,831
Buildings and Improvements	1,472,239	1,621,096	0	0	1,472,239	1,621,096
Furniture and Equipment	188,749	219,822	0	0	188,749	219,822
Vehicles	342,524	317,723	490,055	679,148	832,579	996,871
Textbooks	40,898	122,694	0	0	40,898	122,694
Totals	\$3,548,241	\$3,785,166	\$490,055	\$679,148	\$4,038,296	\$4,464,314

Debt

At June 30, 2004 the School District had \$1,277,653 in bonds outstanding, \$225,000 due within one year. Table 5 summarizes bonds and other long-term obligations. More detailed information is presented in Note 15 of the notes to the basic financial statements.

(Table 5)
Outstanding Long-Term Obligations

	Governmental Activities		Business-Type Activity		Total	
	2004	2003	2004	2003	2004	2003
2003 School Improvement Bonds - 1.75 - 3.56%						
Current Interest Serial Bonds	\$1,125,000	\$1,375,000	\$0	\$0	\$1,125,000	\$1,375,000
Capital Appreciation Bonds	135,000	135,000	0	0	135,000	135,000
Accretion on Capital Appreciation Bonds	17,653	0	0	0	17,653	0
Total General Obligation Bonds	1,277,653	1,510,000	0	0	1,277,653	1,510,000
Compensated Absences	590,928	555,817	12,999	12,970	603,927	568,787
Special Termination Benefits	25,000	0	0	0	25,000	0
Capital Leases	1,912	6,142	0	0	1,912	6,142
Totals	\$1,895,493	\$2,071,959	\$12,999	\$12,970	\$1,908,492	\$2,084,929

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

The School District's overall legal debt margin at June 30, 2004 was \$25,943,091 with an unvoted debt margin of \$299,305 at June 30, 2004.

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Unaudited

Challenges and Opportunities for the Future

The School District is always presented with challenges and opportunities. The economic recession has not had a material impact on our tax revenue, as residential property comprises 88.5 percent to total taxable value.

In May 2003, a 5.9 mill Emergency Levy passed with collections beginning in January 2004. Losses in interest earnings and the pending one percent additional reduction in business inventory tax have effected the School District somewhat, but with the addition of the 2003 levy the School District does not anticipate the need for an additional tax levy request until 2007.

Tax base growth has also continued over the past year. The total tax duplicate assessed value went from \$261,329,288 in 2003 tax year to \$299,305,345 in 2004 tax year. As this report was being prepared the County Auditor certified tax values for 2005 at \$305,860,090. Residential property contributes 92.8 percent of the School District's real estate valuation.

In November 2001, the Ohio Supreme Court granted a motion for reconsideration on its latest opinion regarding the State's school funding plan. The School District does not anticipate any material changes in the State funded portion of its budget. This ruling is further discussed in Note 23.

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

Contacting the School District's Financial Management

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

Kirtland Local School District*Lake County**Statement of Net Assets**June 30, 2004*

	Governmental Activities	Business-Type Activity	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$2,911,603	\$105,410	\$3,017,013
Cash and Cash Equivalents With Fiscal Agents	238,915	0	238,915
Accounts Receivable	3,590	0	3,590
Intergovernmental Receivable	102,492	0	102,492
Inventory Held for Resale	17,891	0	17,891
Materials and Supplies Inventory	45,495	0	45,495
Taxes Receivable	9,464,774	0	9,464,774
Nondepreciable Capital Assets	1,503,831	0	1,503,831
Depreciable Capital Assets	2,044,410	490,055	2,534,465
<i>Total Assets</i>	<u>16,333,001</u>	<u>595,465</u>	<u>16,928,466</u>
Liabilities			
Accounts Payable	10,398	36	10,434
Accrued Wages	895,162	17,978	913,140
Intergovernmental Payable	270,495	10,796	281,291
Accrued Interest Payable	2,072	0	2,072
Matured Compensated Absences Payable	44,518	2,966	47,484
Claims Payable	134,461	0	134,461
Deferred Revenue	8,355,553	0	8,355,553
Matured Special Termination Benefits Payable	25,000	0	25,000
Long-Term Liabilities:			
Due Within One Year	382,607	3,258	385,865
Due in More Than One Year	1,512,886	9,741	1,522,627
<i>Total Liabilities</i>	<u>11,633,152</u>	<u>44,775</u>	<u>11,677,927</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	2,286,329	490,055	2,776,384
Restricted for:			
Capital Projects	123,996	0	123,996
Debt Service	266,862	0	266,862
Set Asides	55,116	0	55,116
Other Purposes	279,782	0	279,782
Unrestricted	1,687,764	60,635	1,748,399
<i>Total Net Assets</i>	<u>\$4,699,849</u>	<u>\$550,690</u>	<u>\$5,250,539</u>

See accompanying notes to the basic financial statements

Kirtland Local School District
Lake County
Statement of Activities
For the Fiscal Year Ended June 30, 2004

	Program Revenues		
	Expenses	Charges for Services and Sales	Operating Grants and Contributions
Governmental Activities			
Instruction:			
Regular	\$4,616,420	\$76,548	\$52,685
Special	867,274	13,514	83,220
Vocational	27,565	481	0
Support Services:			
Pupils	803,445	12,007	95,062
Instructional Staff	529,924	53,682	36,825
Board of Education	134,329	2,343	0
Administration	818,798	13,142	102
Fiscal	427,502	7,362	0
Business	9,780	170	0
Operation and Maintenance of Plant	1,095,427	17,798	0
Pupil Transportation	879,430	14,040	0
Central	137,557	1,364	16,925
Extracurricular Activities	654,800	167,653	0
Operation of Non-Instructional Services:			
Food Service Operations	241,931	201,139	38,677
Other Non-Instructional Services	153,538	0	129,394
Interest and Fiscal Charges	45,882	0	0
<i>Total Governmental Activities</i>	11,443,602	581,243	452,890
Business-Type Activity			
Transportation	1,516,478	1,269,674	0
<i>Totals</i>	\$12,960,080	\$1,850,917	\$452,890

General Revenues

Property Taxes Levied for:

General Purposes

Debt Service

Capital Outlay

Grants and Entitlements not Restricted
to Specific Programs

Investment Earnings

Miscellaneous

Total General Revenues

Change in Net Assets

Net Assets Beginning of Year - See Note 3

Net Assets End of Year

See accompanying notes to the basic financial statements

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activity	Total
(\$4,487,187)	\$0	(\$4,487,187)
(770,540)	0	(770,540)
(27,084)	0	(27,084)
(696,376)	0	(696,376)
(439,417)	0	(439,417)
(131,986)	0	(131,986)
(805,554)	0	(805,554)
(420,140)	0	(420,140)
(9,610)	0	(9,610)
(1,077,629)	0	(1,077,629)
(865,390)	0	(865,390)
(119,268)	0	(119,268)
(487,147)	0	(487,147)
(2,115)	0	(2,115)
(24,144)	0	(24,144)
(45,882)	0	(45,882)
(10,409,469)	0	(10,409,469)
0	(246,804)	(246,804)
(10,409,469)	(246,804)	(10,656,273)
8,200,356	0	8,200,356
247,684	0	247,684
197,571	0	197,571
2,242,521	0	2,242,521
25,746	3,365	29,111
44,466	0	44,466
10,958,344	3,365	10,961,709
548,875	(243,439)	305,436
4,150,974	794,129	4,945,103
\$4,699,849	\$550,690	\$5,250,539

Kirtland Local School District

Lake County

Balance Sheet

Governmental Funds

June 30, 2004

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Equity in Pooled Cash and Cash Equivalents	\$2,177,371	\$679,116	\$2,856,487
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	55,116	0	55,116
Receivables:			
Taxes	9,018,021	446,753	9,464,774
Accounts	3,442	148	3,590
Intergovernmental	2,768	99,724	102,492
Interfund Receivable	104,626	0	104,626
Inventory Held for Resale	0	17,891	17,891
Materials and Supplies Inventory	45,134	361	45,495
<i>Total Assets</i>	<u>\$11,406,478</u>	<u>\$1,243,993</u>	<u>\$12,650,471</u>
Liabilities and Fund Balances			
Liabilities			
Accounts Payable	\$3,208	\$7,190	\$10,398
Accrued Wages	866,102	29,060	895,162
Intergovernmental Payable	157,655	5,621	163,276
Interfund Payable	0	104,626	104,626
Deferred Revenue	8,078,097	500,287	8,578,384
Matured Compensated Absences Payable	44,518	0	44,518
Matured Special Termination Benefits Payable	25,000	0	25,000
<i>Total Liabilities</i>	<u>9,174,580</u>	<u>646,784</u>	<u>9,821,364</u>
Fund Balances:			
Reserved for Encumbrances	332,751	109,828	442,579
Reserved for Property Taxes	939,924	46,190	986,114
Reserved for Budget Stabilization	55,116	0	55,116
Unreserved, Undesignated, Reported in:			
General Fund	904,107	0	904,107
Special Revenue Funds	0	176,321	176,321
Debt Service Fund	0	240,485	240,485
Capital Projects Funds	0	24,385	24,385
<i>Total Fund Balances</i>	<u>2,231,898</u>	<u>597,209</u>	<u>2,829,107</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$11,406,478</u>	<u>\$1,243,993</u>	<u>\$12,650,471</u>

See accompanying notes to the basic financial statements

Kirtland Local School District
Lake County
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2004

Total Governmental Funds Balances		\$2,829,107
 <i>Amounts reported for governmental activities in the statement of net assets are different because</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		3,548,241
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Property Taxes	123,107	
Grants	99,724	
Total		222,831
The internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		104,454
In the statement of activities, interest is accrued on outstanding general obligation bonds, whereas in governmental funds, an interest expenditure is reported when due.		(2,072)
Due to other governments includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore not reported in the funds.		(107,219)
Long-term liabilities, including bonds payable and accrued interest payable, are not due and payable in the current period and therefore are not reported in the funds:		
General Obligation Bonds	(1,125,000)	
Capital Appreciation Bonds	(152,653)	
Special Termination Benefits Payable	(25,000)	
Compensated Absences	(590,928)	
Capital Leases Payable	(1,912)	
Total		(1,895,493)
<i>Net Assets of Governmental Activities</i>		\$4,699,849

See accompanying notes to the basic financial statements

Kirtland Local School District
Lake County
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2004

	General	Other Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$8,134,424	\$444,546	\$8,578,970
Intergovernmental	2,184,810	401,668	2,586,478
Interest	23,165	4,287	27,452
Charges for Services	0	244,590	244,590
Tuition and Fees	145,644	148	145,792
Extracurricular Activities	2,708	164,102	166,810
Rentals	23,451	0	23,451
Contributions and Donations	600	7,503	8,103
Miscellaneous	16,885	27,581	44,466
<i>Total Revenues</i>	<u>10,531,687</u>	<u>1,294,425</u>	<u>11,826,112</u>
Expenditures			
Current:			
Instruction:			
Regular	4,381,545	55,859	4,437,404
Special	774,306	88,458	862,764
Vocational	27,565	0	27,565
Support Services:			
Pupils	684,423	118,492	802,915
Instructional Staff	346,121	89,227	435,348
Board of Education	134,329	0	134,329
Administration	744,892	126	745,018
Fiscal	414,941	3,797	418,738
Business	9,780	0	9,780
Operation and Maintenance of Plant	1,000,008	1,141	1,001,149
Pupil Transportation	771,504	0	771,504
Central	78,240	30,958	109,198
Extracurricular Activities	415,463	219,250	634,713
Operation of Non-Instructional Services:			
Food Service Operations	0	241,498	241,498
Other Non-Instructional Services	0	150,399	150,399
Capital Outlay	21,472	318,208	339,680
Debt Service:			
Principal Retirement	4,230	250,000	254,230
Interest and Fiscal Charges	488	28,106	28,594
<i>Total Expenditures</i>	<u>9,809,307</u>	<u>1,595,519</u>	<u>11,404,826</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>722,380</u>	<u>(301,094)</u>	<u>421,286</u>
Other Financing Sources (Uses)			
Proceeds from Sale of Capital Assets	2,000	0	2,000
Transfers In	12,353	127	12,480
Transfers Out	0	(12,480)	(12,480)
<i>Total Other Financing Sources (Uses)</i>	<u>14,353</u>	<u>(12,353)</u>	<u>2,000</u>
<i>Net Change in Fund Balances</i>	736,733	(313,447)	423,286
<i>Fund Balances Beginning of Year - Restated</i> <i>(See Note 3)</i>	<u>1,495,165</u>	<u>910,656</u>	<u>2,405,821</u>
<i>Fund Balances End of Year</i>	<u>\$2,231,898</u>	<u>\$597,209</u>	<u>\$2,829,107</u>

See accompanying notes to the basic financial statements

Kirtland Local School District
Lake County
Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2004

Net Change in Fund Balances -Total Governmental Funds	\$423,286
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>	
Governmental funds report capital outlays as expenditures.	
However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	
Capital Asset Additions	113,801
Current Year Depreciation	<u>(350,726)</u>
Total	(236,925)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
Property Taxes	66,641
Grants	<u>99,724</u>
Total	166,365
Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	
	254,230
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	
Accrued Interest	365
Bond Accretion	<u>(17,653)</u>
Total	(17,288)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
Compensated Absences	(35,111)
Pension Obligations	(31,110)
Special Termination Benefits Payable	<u>(25,000)</u>
Total	(91,221)
The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.	
	<u>50,428</u>
<i>Change in Net Assets of Governmental Activities</i>	<u><u>\$548,875</u></u>

See accompanying notes to the basic financial statements

Kirtland Local School District
Lake County
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2004

	Budgeted Amounts			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Taxes	\$7,534,969	\$8,163,382	\$8,163,291	(\$91)
Intergovernmental	1,986,397	2,152,062	2,182,392	30,330
Interest	27,691	30,000	23,165	(6,835)
Tuition and Fees	143,991	156,000	146,491	(9,509)
Extracurricular Activities	4,615	5,000	2,708	(2,292)
Rentals	20,306	22,000	19,811	(2,189)
Contributions and Donations	462	500	600	100
Miscellaneous	5,107	5,700	16,885	11,185
<i>Total Revenues</i>	<u>9,723,538</u>	<u>10,534,644</u>	<u>10,555,343</u>	<u>20,699</u>
Expenditures				
Current:				
Instruction:				
Regular	3,867,881	4,569,981	4,442,431	127,550
Special	954,932	1,128,272	909,403	218,869
Vocational	23,698	28,000	27,565	435
Support Services:				
Pupils	641,456	761,524	710,203	51,321
Instructional Staff	305,470	360,919	351,217	9,702
Board of Education	131,827	155,756	134,363	21,393
Administration	637,655	753,402	736,921	16,481
Fiscal	366,391	432,899	416,297	16,602
Business	10,432	12,326	9,780	2,546
Operation and Maintenance of Plant	872,166	1,030,482	991,717	38,765
Pupil Transportation	808,228	954,938	839,799	115,139
Central	86,507	102,210	87,600	14,610
Extracurricular Activities	369,282	436,314	413,579	22,735
Capital Outlay	20,313	24,000	21,472	2,528
<i>Total Expenditures</i>	<u>9,096,238</u>	<u>10,751,023</u>	<u>10,092,347</u>	<u>658,676</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>627,300</u>	<u>(216,379)</u>	<u>462,996</u>	<u>679,375</u>
Other Financing Sources (Uses)				
Proceeds from Sale of Capital Assets	2,000	2,000	2,000	0
Advances Out	(118,310)	(118,310)	(102,626)	15,684
Transfers In	0	0	12,353	12,353
<i>Total Other Financing Sources (Uses)</i>	<u>(116,310)</u>	<u>(116,310)</u>	<u>(88,273)</u>	<u>28,037</u>
<i>Net Change in Fund Balance</i>	510,990	(332,689)	374,723	707,412
<i>Fund Balance Beginning of Year</i>	986,271	986,271	986,271	0
Prior Year Encumbrances Appropriated	535,534	535,534	535,534	0
<i>Fund Balance End of Year</i>	<u>\$2,032,795</u>	<u>\$1,189,116</u>	<u>\$1,896,528</u>	<u>\$707,412</u>

See accompanying notes to the basic financial statements

Kirtland Local School District

Lake County

Statement of Fund Net Assets

Proprietary Funds

June 30, 2004

	Business-Type Activity	Governmental Activities - Internal Service Fund
	Transportation	Fund
Assets		
Equity in Pooled Cash and Cash Equivalents	\$105,410	\$0
Cash and Cash Equivalents with Fiscal Agents	0	238,915
Depreciable Capital Assets, Net	490,055	0
<i>Total Assets</i>	595,465	238,915
Liabilities		
Accounts Payable	36	0
Accrued Wages	17,978	0
Intergovernmental Payable	10,796	0
Matured Compensated Absences Payable	2,966	0
Claims Payable	0	134,461
Long-Term Liabilities:		
Due Within One Year	3,258	0
Due In More Than One Year	9,741	0
<i>Total Liabilities</i>	44,775	134,461
Net Assets		
Invested in Capital Assets	490,055	0
Unrestricted	60,635	104,454
<i>Total Net Assets</i>	\$550,690	\$104,454

See accompanying notes to the basic financial statements

Kirtland Local School District
Lake County
Statement of Revenues,
Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2004

	Business-Type Activity	Governmental Activities - Internal Service Fund
	Transportation	
Operating Revenues		
Charges for Services	\$1,269,674	\$850,284
Operating Expenses		
Salaries	157,616	0
Fringe Benefits	44,829	0
Purchased Services	1,121,130	0
Materials and Supplies	3,810	0
Depreciation	189,093	0
Claims	0	799,856
<i>Total Operating Expenses</i>	1,516,478	799,856
<i>Operating Income (Loss)</i>	(246,804)	50,428
Non-Operating Revenues		
Interest	3,365	0
<i>Change in Net Assets</i>	(243,439)	50,428
<i>Net Assets Beginning of Year - Restated (See Note 3)</i>	794,129	54,026
<i>Net Assets End of Year</i>	\$550,690	\$104,454

See accompanying notes to the basic financial statements

Kirtland Local School District
Lake County
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2004

	Business-Type Activity	Governmental Activities - Internal Service Fund
	Transportation	Fund
<i>Increase (Decrease) in Cash and Cash Equivalents</i>		
Cash Flows from Operating Activities		
Cash Received from Quasi-External Transactions with Other Funds	\$0	\$850,284
Cash Received from Other Governmental Entities	1,344,378	0
Cash Payments to Suppliers for Goods and Services	(1,124,950)	0
Cash Payments for Employees for Services	(149,459)	0
Cash Payments for Employee Benefits	(51,247)	0
Cash Payments for Claims	0	(711,929)
<i>Net Cash Provided by Operating Activities</i>	18,722	138,355
Cash Flows from Investing Activities		
Interest on Investments	3,365	0
<i>Net Increase in Cash and Cash Equivalents</i>	22,087	138,355
Cash and Cash Equivalents Beginning of Year	83,323	100,560
Cash and Cash Equivalents End of Year	\$105,410	\$238,915
Reconciliation of Operating Income (Loss) to Net Cash Used for Operating Activities		
<i>Operating Income (Loss)</i>	(\$246,804)	\$50,428
Adjustments:		
Depreciation	189,093	0
<i>Decrease in Assets:</i>		
Intergovernmental Receivable	74,704	0
<i>Increase/(Decrease) in Liabilities:</i>		
Accounts Payable	(10)	0
Accrued Wages	(455)	0
Compensated Absences Payable	2,966	0
Matured Compensated Absences Payable	29	0
Intergovernmental Payable	(801)	0
Claims Payable	0	87,927
<i>Net Cash Provided by Operating Activities</i>	\$18,722	\$138,355

See accompanying notes to the basic financial statements

Kirtland Local School District
Lake County
Statement of Fiduciary Assets and Liabilities
Agency Fund
June 30, 2004

Assets

Equity in Pooled Cash and Cash Equivalents	<u><u>\$32,119</u></u>
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Liabilities

Due to Students	<u><u>\$32,119</u></u>
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See accompanying notes to the basic financial statements

Kirtland Local School District
Lake County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 1 - Description of the School District

Kirtland Local School District (the “School District”) is organized under Article VI, Section 2 of the Constitution of the State of Ohio. The School District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The School District provides educational services as authorized by state statute and/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 58 non-certified employees and 86 certified full-time teaching personnel who provide services to 1,104 students and other community members. The School District currently operates three instructional buildings, one administrative building, a maintenance garage and a bus garage.

Reporting Entity

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

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

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

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

Kirtland Local School District
Lake County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 2 - Summary of Significant Accounting Policies

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

A. Basis of Presentation

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

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

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

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

Kirtland Local School District
Lake County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

B. Fund Accounting

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

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

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

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

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

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

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

Fiduciary Fund Type Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The School District has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency fund accounts for student activities.

C. Measurement Focus

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

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

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

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements and the statements for the proprietary and fiduciary funds are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

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

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

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

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

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Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

E. Budgetary Data

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

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

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

F. Cash and Cash Equivalents

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

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

During fiscal year 2004, investments were limited to STAROhio.

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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, 2004.

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 2004 amounted to \$23,165, which includes \$4,526 assigned from other School District funds.

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

G. Inventory

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

H. Restricted Assets

Assets are reported as restricted when limitations on their use change in nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets in the general fund include amounts required by State statute to be set-aside to create a reserve for budget stabilization. See Note 22 for additional information regarding set asides.

I. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

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

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

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

J. Interfund Balances

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

K. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy.

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

On the governmental fund financial statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the fund from which the employee who has unpaid leave is paid.

L. Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements and all payables and accrued liabilities from the proprietary funds are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year. Bonds and capital leases are recognized as a liability on the fund financial statements when due.

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M. Net Assets

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

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

N. Fund Balance Reserves

The School District reserves those portions of fund equity which are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves are established for encumbrances, property taxes and budget stabilization.

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

O. Operating Revenues and Expenses

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

P. Interfund Activity

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

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

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Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence.

R. Estimates

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

Note 3 - Change in Accounting Principles and Restatement of Fund Equity/Balance

A. Changes in Accounting Principles

For fiscal year 2004, the School District has implemented GASB Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units", GASB Statement No. 41, "Budgetary Comparison Schedules - Perspective Differences", and GASB Interpretation No. 6 "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements."

GASB Statement No. 34 creates new basic financial statements for reporting on the School District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management's Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38 modifies, establishes and rescinds certain financial statement note disclosures.

GASB Statement No. 39 states that entities for which a primary government is not financially accountable may still be reported as component units based on the nature and significance of their relationship with the primary government. The implementation of GASB Statement No. 39 did not affect the reporting entity of the School District.

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the school district not being able to present budgetary comparisons for the general and each major special revenue fund. The implementation of Statement No. 41 did not affect the presentation of the budgetary statements of the School District.

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GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

The government-wide financial statements split the School District's programs between business-type and governmental activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2003, caused by the elimination of the internal service fund, reclassification of funds based on the guidance provided in Statement No. 34 and the conversion to the accrual basis of accounting.

B. Restatement of Fund Equity/Balance

For the School District, it was determined that enterprise funds should be reclassified as special revenue funds and that the transportation internal service fund should be reclassified as an enterprise fund. The new standards for reporting fund obligations for compensated absences in Interpretation 6 also caused changes in previously reported fund balances. The implementation of these changes had the following effects on fund equity/balance of the major and nonmajor funds of the School District as they were previously reported.

	Business-Type Activity Transportation
Fund Equity, June 30, 2003	\$127,951
Fund Reclassification	(12,970)
Capital Assets	679,148
Adjusted Net Assets June 30, 2003	\$794,129

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	General	Nonmajor	Total
Fund Balances, June 30, 2003	\$1,471,534	\$819,648	\$2,291,182
Fund Reclassification	0	81,187	81,187
Interpretation No. 6			
Compensated Absences	23,631	9,821	33,452
Adjusted Fund Balances, June 30, 2003	<u>\$1,495,165</u>	<u>\$910,656</u>	2,405,821
GASB 34 Adjustments:			
Capital Assets			3,785,166
Internal Service Fund			54,026
Pension Obligations			(76,109)
Accrued Interest			(2,437)
Long-Term Liabilities:			
Compensated Absences			(555,817)
Leases			(6,142)
General Obligation Bonds Payable			(1,510,000)
Long-Term (Deferred) Assets			<u>56,466</u>
Governmental Activities Net Assets, June 30, 2003			<u>\$4,150,974</u>

Note 4 – Accountability and Compliance

A. Accountability

The safe school helpline and the title VI-B special revenue funds had deficit fund balances at June 30, 2004 of \$40 and \$107,533, respectively. The general fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

B. Compliance

Ohio Revised Code Section 5705.41 (D) provides that no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. During fiscal year 2004, expenditures were made without the prior certification of the fiscal officer.

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

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	Estimated Resources Plus Carryover		
	Balances	Appropriations	Excess
<i>Special Revenue Funds:</i>			
Safe School Helpline	\$3,787	\$80,720	\$76,933
Title VI-B	136,595	140,445	3,850
Title I	55,254	64,515	9,261
Drug Free Schools	5,550	7,273	1,723

These oversights were identified and corrected by fiscal year end.

Note 5 - Budgetary Basis of Accounting

While the School District is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual are presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are as follows:

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

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

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Net Change in Fund Balance

GAAP Basis	\$736,733
Revenue Accruals	23,656
Expenditure Accruals	52,919
Advances Out	(102,626)
Encumbrances	(335,959)
Budget Basis	<u>\$374,723</u>

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;

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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,
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, 2004, the School District's self insurance internal service fund had a balance of \$238,915 with Lake County Council of Governments Health Care Benefits Self-Insurance Program, a claims servicing pool (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 Lake County Educational Service Center. To obtain financial information, write to the Superintendent, Lake County Educational Service Center, 30 South Park Place, Suite #302, Painesville, Ohio 44077.

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 \$2,385,977 and the bank balance was \$2,580,246. Of the bank balance:

1. \$100,000 was covered by federal depository insurance; and
2. \$2,480,246 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.

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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. STAROhio's fair value at June 30, 2004 is \$663,155.

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	\$3,288,047	\$0
Money held by health care program's fiscal agent	(238,915)	0
Investments which are part of the cash management pool:		
STAROhio	(663,155)	663,155
GASB Statement No. 3	\$2,385,977	\$663,155

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 2004 represents collections of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed value listed as of January 1, 2003, 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.

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Public utility property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 2002, were levied after April 1, 2003 and are collected in 2004 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 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2003, on the value as of December 31, 2003. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Lake and Geauga Counties. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2004, are available to finance fiscal year 2004 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, 2004 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, 2004 was \$939,924 in the general fund, \$25,125 in the bond retirement debt service fund and \$21,065 in the permanent improvement capital projects fund. 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.

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

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The assessed values upon which the fiscal year 2004 taxes were collected are:

	2003 Second Half Collections		2004 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$247,114,550	94.56 %	\$286,018,770	95.56 %
Public Utility Personal	10,298,790	3.94	10,151,910	3.39
Tangible Personal Property	3,915,948	1.50	3,134,665	1.05
Total	<u>\$261,329,288</u>	<u>100.00 %</u>	<u>\$299,305,345</u>	<u>100.00 %</u>
 Tax rate per \$1,000 of assessed valuation	 \$68.67		 \$70.99	

In May of 2003, the School District passed an emergency levy for 5.9 mills. The collection on this levy will begin in January of 2004 at 5.15 mills. The rate has been reduced because the levy is designed to generate a specific dollar amount each year and the assessed value of property within the School District has increased since the levy was passed.

Note 8 - Receivables

Receivables at June 30, 2004, consisted of taxes, accounts (rent, student fees and tuition), and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current fiscal year guarantee of Federal funds. All receivables are expected to be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

<u>Governmental Activities</u>	<u>Amounts</u>
Title VI-B	\$98,879
Lake County ESC	2,343
Technology II-D	823
Lake County Metroparks	350
Auburn Career Center	75
Summer Intervention	22
<i>Total</i>	<u>\$102,492</u>

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For the Fiscal Year Ended June 30, 2004

Note 9 – Capital Assets

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	Balance 06/30/03	Additions	Deductions	Balance 06/30/04
Governmental Activities				
<i>Capital Assets not being Depreciated:</i>				
Land	\$1,503,831	\$0	\$0	\$1,503,831
<i>Capital Assets being Depreciated:</i>				
Buildings and Improvements	5,288,268	0	0	5,288,268
Furniture and Equipment	505,790	12,295	0	518,085
Vehicles	1,053,668	101,506	(60,670)	1,094,504
Textbooks	490,778	0	0	490,778
<i>Total Capital Assets being Depreciated</i>	<u>7,338,504</u>	<u>113,801</u>	<u>(60,670)</u>	<u>7,391,635</u>
Less Accumulated Depreciation:				
Buildings and Improvements	(3,667,172)	(148,857)	0	(3,816,029)
Furniture and Equipment	(285,968)	(43,368)	0	(329,336)
Vehicles	(735,945)	(76,705)	60,670	(751,980)
Textbooks	(368,084)	(81,796)	0	(449,880)
<i>Total Accumulated Depreciation</i>	<u>(5,057,169)</u>	<u>(350,726) *</u>	<u>60,670</u>	<u>(5,347,225)</u>
<i>Total Assets being Depreciated, Net</i>	<u>2,281,335</u>	<u>(236,925)</u>	<u>0</u>	<u>2,044,410</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$3,785,166</u>	<u>(\$236,925)</u>	<u>\$0</u>	<u>\$3,548,241</u>
Business-Type Activities				
<i>Capital Assets being Depreciated:</i>				
Vehicles	\$2,242,134	\$0	\$0	\$2,242,134
Less Accumulated Depreciation	(1,562,986)	(189,093)	0	(1,752,079)
<i>Business-Type Activities Capital Assets, Net</i>	<u>\$679,148</u>	<u>(\$189,093)</u>	<u>\$0</u>	<u>\$490,055</u>

* Depreciation expense was charged to governmental activities as follows:

Instruction:	
Regular	\$156,349
Support Services:	
Instructional Staff	71,772
Administration	16,020
Operation and Maintenance of Plant	5,688
Pupil Transportation	83,231
Extra-Curricular Activities	15,131
Operations of Food Services	2,535
Total Depreciation Expense	<u>\$350,726</u>

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Note 10 - Risk Management

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, the School District contracted with various insurance agencies for various types of insurance. Coverage is as follows:

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

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

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

B. Employee Medical Coverage

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

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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, 2004 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, 2004, the pool's cash reserves and claims liability were \$6,636,537 and \$3,735,014 respectively. The School District's allocated pool percentage for the year ended June 30, 2004 was 3.6 percent, which represents \$238,915 and \$134,461 of pool cash reserves and claims liability, respectively.

The School District's changes in the fund's claims liability amount in 2003 and 2004 were:

	Balance at Beginning of Year	Current Year Claims	Claim Payments	Balance at End of Year
2003	\$46,414	\$267,853	\$267,733	\$46,534
2004	46,534	799,856	711,929	134,461

C. Workers' Compensation

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

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covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003 and 2002 were \$142,119, \$60,078 and \$57,918 respectively; 51.05 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2003 and 2002.

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

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

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon 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, 2004, 2003 and 2002 were \$630,851, \$610,844, and \$418,847 respectively; 88.63 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002. Contributions to the DC and Combined Plans for fiscal year 2004 were \$5,001 made by the School District and \$15,291 made by the plan members.

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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 Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the 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, 2004, 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 \$48,527 for fiscal year 2004.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2004 the balance in the Fund was \$3.1 billion. For the year ended June 30, 2004, net health care costs paid by STRS were \$268,739,000 and STRS had 111,853 eligible benefit recipients.

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50 percent for those who apply.

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, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll, a decrease of .92 percent from fiscal year 2003. 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 2004, the minimum pay has been established as \$25,400. For the School District, the amount to fund health care benefits, including surcharge, during the 2004 fiscal year equaled \$122,875.

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. Healthcare benefits are financed on a pay-as-you-go basis. 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, 2004 were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

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Note 13 – Other Employee Benefits

A. Life Insurance

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

B. Compensated Absences

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

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

C. Retirement Incentive

The School District Board of Education offered employees participation in a Retirement Incentive program through July 1, 2003. Participation was open to teachers who were eligible for service retirement under the State Teachers Retirement System (STRS) pursuant to O.R.C. 3307.38 and any applicable STRS regulations. Each teacher who qualifies for and takes retirement receives an incentive of \$25,000. One-fifth of this retirement incentive is paid in January of their year of retirement. Three employees participated in the program and their incentives will be completely paid by June 2009.

Note 14 - Capital Leases

In prior years, the School District has entered into capitalized leases for copiers. The leases meet the criteria of a capital lease as defined by the Statement of Financial Accounting Standards No. 13, "Accounting for Leases" which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and reflected as debt service in the fund financial statements for the general fund. These expenditures are reflected as program expenditures on a budgetary basis. Capital assets acquired by lease have been capitalized in the amount of \$17,876. Accumulated depreciation as of June 30, 2004 was \$8,938, leaving a current book value of \$8,938.

As of June 30, 2004, the present value of the minimum lease payment required for fiscal year 2005 is \$1,968 of which \$1,912 represents principal and \$56 represents interest.

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Note 15 - Long-Term Obligations

Changes in long-term obligations of the School District during fiscal year 2004 were as follows:

	Principal Outstanding 6/30/03	Additions	Deductions	Principal Outstanding 6/30/04	Amounts Due in One Year
Governmental Activities					
General Obligation Bonds:					
2003 School Improvement Bonds 1.75 - 3.56%					
Current Interest Serial Bonds	\$1,375,000	\$0	\$250,000	\$1,125,000	\$225,000
Capital Appreciation Bonds	135,000	0	0	135,000	0
Accretion on Capital Appreciation Bonds	0	17,653	0	17,653	0
<i>Total General Obligation Bonds:</i>	<u>1,510,000</u>	<u>17,653</u>	<u>250,000</u>	<u>1,277,653</u>	<u>225,000</u>
Other Long-Term Obligations:					
Compensated Absences	555,817	92,628	57,517	590,928	130,695
Special Termination Benefits Payable	0	25,000	0	25,000	25,000
Capital Leases	6,142	0	4,230	1,912	1,912
<i>Total General Long-Term Obligations</i>	<u>\$2,071,959</u>	<u>\$135,281</u>	<u>\$311,747</u>	<u>\$1,895,493</u>	<u>\$382,607</u>
Business-Type Activities					
Other Long-Term Obligations:					
Compensated Absences	<u>\$12,970</u>	<u>\$325</u>	<u>\$296</u>	<u>\$12,999</u>	<u>\$3,258</u>

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

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

The maturity amount of outstanding capital appreciation bonds at June 30, 2004 is \$255,000. The accretion recorded for 2004 was \$17,653, for a total outstanding bond liability of \$152,653 at June 30, 2004.

The School District's overall legal debt margin at June 30, 2004 was \$25,943,091 with an unvoted debt margin of \$299,305 at June 30, 2004. Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2004, are as follows:

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	General Obligation Bonds		Capital Appreciation Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$225,000	\$22,894	\$0	\$0	\$225,000	\$22,894
2006	225,000	18,675	0	0	225,000	18,675
2007	225,000	14,175	0	0	225,000	14,175
2008	225,000	9,169	0	0	225,000	9,169
2009	225,000	3,206	0	0	225,000	3,206
2010	0	0	135,000	120,000	135,000	120,000
Total	\$1,125,000	\$68,119	\$135,000	\$120,000	\$1,260,000	\$188,119

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 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 2004, the School District paid \$69,563 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 operated by eleven school districts. Each participating school district appoints one board member to the Auburn Career Center's Board of Education. The students of each participating school district may attend classes offered at the vocational facility. Each participants control over the operation of the Auburn Career Center is limited to representation on the board. Continued existence of the Auburn Career Center is not dependent on the School District's continued participation. Financial information can be obtained from the Auburn Career Center, 8140 Auburn Road, Painesville, Ohio 44077.

East Shore Regional Transportation System - The East Shore Regional Transportation System (ESRTA) is a jointly governed organization that was formed for the purpose of providing a transportation system for the handicapped children in the sixteen member school districts. The transportation committee (governing board) consists of the superintendents of the member school districts. The degree if control exercised by any participating school district is limited to its representation on the governing board. ESRTA is not accumulating significant financial resources or experiencing fiscal stress which would cause additional financial benefit or burden on the School District. In fiscal year 2004, the School District paid \$100,011 to the transportation system. Financial information can be obtained by writing the fiscal agent, Kirtland Board of Education, 9152 Chillicothe Road, Kirtland, Ohio 44094.

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

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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 2004, the School District paid \$288,639 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.

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. Financial information can be obtained from the Lake County Educational Service Center at 30 South Park Place, Suite 30, Painsville, Ohio 44077.

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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.

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 - Interfund Transactions

A. Interfund Transfers

Transfers From	Transfers To		
	General	Athletics and Music	Total
<i>Other Governmental Funds:</i>			
Public School Support	\$0	\$127	\$127
Kirtland Education Foundation	1	0	1
Auxiliary Services	6,892	0	6,892
Title V	236	0	236
Drug Free Schools	1,308	0	1,308
Preschool Grant	3,516	0	3,516
Technology II-D	400	0	400
Total	\$12,353	\$127	\$12,480

The transfer from the public school support special revenue fund to the athletics and music special revenue fund was to take the athletics and music fund out of a deficit balance. The transfer from the Kirtland education foundation special revenue fund to the general fund was to close out the fund. The transfer from the auxiliary services special revenue fund to the general fund was for a 4 percent administrative fee the general fund is entitled to for acting as fiscal agent. The transfers from the title V, drug free schools, preschool grant and the technology II-D special revenue funds to the general fund were for repayment of monies given that were not originally intended for repayment.

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B. Interfund Balance

Interfund Payable	Interfund Receivable General
Nonmajor Special Revenue Funds:	
Food Service	\$2,000
Auxiliary Services	10
Title VI-B	102,616
<i>Total All Funds</i>	\$104,626

Interfund receivables and payables are due to the timing of the receipt of grant monies received by the various funds. The general fund provided temporary funding of the program until the grant dollars were received.

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, 2004.

B. Litigation

As of June 30, 2004, the School District was not party to any legal proceedings.

Note 22 - Set-Aside Calculations

The School District is required by State statute to annually set aside in the General Fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year-end. These amounts must be carried forward to be used for the same purposes in future years. In prior years, the School District was also required to set aside money for budget stabilization. At June 30, 2004, 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.

Kirtland Local School District
Lake County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

	Textbooks	Capital Improvements	Budget Stabilization
Set-aside Reserve Balance as of June 30, 2003	(\$147,132)	\$0	\$55,116
Current Year Set-aside Requirement	153,312	153,312	0
Qualifying Disbursements	(149,340)	(263,929)	0
Totals	<u>(\$143,160)</u>	<u>(\$110,617)</u>	<u>\$55,116</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>(\$143,160)</u>	<u>\$0</u>	<u>\$55,116</u>
Set-aside Reserve Balance as of June 30, 2004	<u>\$0</u>	<u>\$0</u>	<u>\$55,116</u>

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

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.

Note 24 – Subsequent Event

On November 2, 2004 and February 8, 2005, the School District had a \$25 million bond issue on the ballot for school construction and renovation. These were defeated by the voters.

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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 governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of the Kirtland Local School District, Lake County, Ohio (the District), as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 14, 2005, wherein we noted the District adopted Governmental Accounting Standards Board Statement No. 34. 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 District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could directly and materially affect 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 an instance of noncompliance that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2004-001. We also noted certain immaterial instances of noncompliance that we have reported to the District's management in a separate letter dated March 14, 2005.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2004-001.

**Internal Control Over Financial Reporting
(Continued)**

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the District's management in a separate letter dated March 14, 2005.

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.



Betty Montgomery
Auditor of State

March 14, 2005

**KIRTLAND LOCAL SCHOOL DISTRICT
LAKE COUNTY
JUNE 30, 2004**

SCHEDULE OF FINDINGS

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	2004-001
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CERTIFICATION OF AVAILABILITY OF APPROPRIATIONS / APPROVAL OF REQUISITIONS FOR PURCHASE ORDERS AND PURCHASE ORDERS

Ohio Revised Code § 5705.41(D)(1) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

In addition to section 5705.41(D), Board Policy #6421 states the following: "Before the supervisor and administrator places a purchase order, approval must be obtained from the Superintendent who shall check as to whether the proposed purchase is subject to bid, whether sufficient funds exist in the budget, and whether the material might be available elsewhere in the District." Also, Resolution #1-2004 (dated 1/12/04) states in part, "The Superintendent's signature must appear on all purchase orders showing his approval of the amount of purchase."

There are several exceptions to the Ohio Revised Code requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. "Then and Now" certificate – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the District can authorize the drawing of a warrant for the payment of the amount due. The District has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 (\$1,000 prior to April 7, 2003) may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the District.

2. Blanket Certificate – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. (Prior to September 26, 2003, blanket certificates were limited to \$5,000 and three months.) The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

3. Super Blanket Certificate – The District may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

**KIRTLAND LOCAL SCHOOL DISTRICT
LAKE COUNTY
JUNE 30, 2004**

**SCHEDULE OF FINDINGS
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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(Continued)

Finding Number	2004-001
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(Continued)

CERTIFICATION OF AVAILABILITY OF APPROPRIATIONS / APPROVAL OF REQUISITIONS FOR PURCHASE ORDERS AND PURCHASE ORDERS (Continued)

In violation of section 5705.41(D), fourteen percent of the transactions tested were not certified by the fiscal officer at the time the commitment was incurred and there was no evidence that the District followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances. In addition, twenty five requisitions for purchase orders and purchase orders out of fifty three tested (47%) were not signed by the Superintendent signifying his review and approval.

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the District's funds exceeding budgetary spending limitations, we recommend that the District certify that the funds are or will be available prior to obligation by the District. When prior certification is not possible, "then and now" certification should be used.

We recommend the District certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The fiscal officer should sign the certification at the time the District incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The fiscal officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation. We also recommend the Superintendent sign or initial all requisitions for purchase orders and purchase orders acknowledging his review and approval.



**Auditor of State
Betty Montgomery**

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**KIRTLAND LOCAL SCHOOL DISTRICT
LAKE COUNTY**

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 17, 2005**