



**KIRTLAND LOCAL SCHOOL DISTRICT
LAKE COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2006



Mary Taylor, CPA
Auditor of State

**KIRTLAND LOCAL SCHOOL DISTRICT
LAKE COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the 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, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

As described more fully in Note 3 to the accompanying financial statements, the District restated the fund balances as of June 30, 2005 to convert to modified cash and eliminate the internal service fund.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position-modified cash basis of the governmental activities, the business-type activities, the major fund, and the aggregate remaining fund information of the Kirtland Local School District, Lake County, Ohio, as of June 30, 2006, and the respective changes in financial position thereof and the budgetary comparison for the General Fund thereof and for the year then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 18, 2007, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

The aforementioned revision to generally accepted accounting principles also requires the District to include Management's Discussion and Analysis for the year ended June 30, 2006. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Mary Taylor, CPA
Auditor of State

May 18, 2007

Kirtland Local School District
Management's Discussion and Analysis
For the Year Ended June 30, 2006
Unaudited

This discussion and analysis of the Kirtland Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2006, within the limitations of the School District's modified cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the School District's financial performance.

Highlights

Key highlights for 2006 are as follows:

Net assets of the School District activities increased \$1,356,786, or 26.3 percent, a significant change from the prior year.

The School District's general fund receipts are primarily property taxes. These receipts represent respectively \$9,210,851 and 76.07 percent of the total cash received for the general fund. With little commercial property and undeveloped residential property within the School District's territory the School District does not expect to see a downturn in tax revenues.

The School District's voters approved at the May 2006 election a \$16.6 million bond issue. This money will fund the construction of 14 new classrooms and a gymnasium at the elementary school, a new science/technology wing connecting the middle and high schools and general renovations to the campus buildings and grounds. In connection with the bond sale the School District received a rating upgrade from Moody's Investors Services to an Aa3.

Using the Basic Financial Statements

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

Report Components

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

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

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

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The School District has elected to present its financial statements on a modified cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles.

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Management's Discussion and Analysis
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Under the School District's modified cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

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

Reporting the School District as a Whole

The statement of net assets and the statement of activities reflect how the School District did financially during 2006, within the limitations of modified cash basis accounting. The statement of net assets presents the cash balances and investments of the governmental and business-type activities of the School District at fiscal year end. The statement of activities compares cash disbursements with program receipts for each governmental program and business-type activity. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function or business-type activity draws from the School District's general receipts.

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

In the statement of net assets and the statement of activities, we divide the School District into two types of activities:

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

Business-type activity. The School District has one business-type activity, acting as the fiscal agent for special education transportation consortium.

Reporting the School District's Most Significant Funds

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

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

Proprietary Funds – When the School District charges customers for the services it provides, these services are generally reported in proprietary funds. When the services are provided to the general public, the activity is reported as an enterprise fund. The School District has one enterprise fund, the transportation fund. When the services are provided to other departments of the School District, the service is reported as an internal service fund. The School District has no internal service funds.

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

The School District as a Whole

Table 1 provides a summary of the School District's net assets for 2006 compared to 2005 on a modified cash basis:

(Table 1)
Net Assets

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Assets						
Equity in Pooled Cash and Cash Equivalents	<u>\$6,327,766</u>	<u>\$5,046,409</u>	<u>\$183,783</u>	<u>\$108,354</u>	<u>\$6,511,549</u>	<u>\$5,154,763</u>
Net Assets						
Restricted for:						
Capital Outlay	\$39,928	\$178,224	\$0	\$0	\$39,928	\$178,224
Debt Service	290,828	265,392	0	0	290,828	265,392
Set Asides	86,144	55,116	0	0	86,144	55,116
Other Purposes	383,355	285,082	0	0	383,355	285,082
Unrestricted	<u>5,527,511</u>	<u>4,589,212</u>	<u>183,783</u>	<u>108,354</u>	<u>5,711,294</u>	<u>4,697,566</u>
Total Net Assets	<u>\$6,327,766</u>	<u>\$5,373,026</u>	<u>\$183,783</u>	<u>\$108,354</u>	<u>\$6,511,549</u>	<u>\$5,481,380</u>

Kirtland Local School District
Management's Discussion and Analysis
For the Year Ended June 30, 2006
Unaudited

Net assets of governmental activities increased by \$1,281,357 or 25.3 percent during 2006. The School District has received additional tax money from new homes built within the School District without having to substantially increase staff.

Table 2 reflects the changes in net assets in 2006. Since the School District did not prepare financial statements in this format for 2005, a comparative analysis of government-wide data has not been presented. In future years, when prior year information is available, a comparative analysis will be presented.

(Table 2)
Changes in Net Assets

	Governmental Activities	Business-Type Activity	Total
	2006	2006	2006
Receipts:			
<i>Program Receipts</i>			
Charges for Services and Sales	\$730,300	\$1,526,385	\$2,256,685
Operating Grants and Contributions	674,881	0	674,881
Capital Grants and Contributions	3,053	0	3,053
<i>Total Program Receipts</i>	<u>1,408,234</u>	<u>1,526,385</u>	<u>2,934,619</u>
<i>General Receipts</i>			
Property Taxes	9,650,347	0	9,650,347
Grants and Entitlements Not Restricted to Specific Programs	2,326,465	0	2,326,465
Unrestricted Contributions and Donations	502	0	502
Interest	247,412	12,333	259,745
Miscellaneous	59,226	3,100	62,326
<i>Total General Receipts</i>	<u>12,283,952</u>	<u>15,433</u>	<u>12,299,385</u>
<i>Total Receipts</i>	<u>\$13,692,186</u>	<u>\$1,541,818</u>	<u>\$15,234,004</u>

Kirtland Local School District
Management's Discussion and Analysis
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(Table 2)
Changes in Net Assets

	Governmental Activities	Business-Type Activity	Total
	2006	2006	2006
Disbursements:			
Instruction:			
Regular	\$5,023,844	\$0	\$5,023,844
Special	830,929	0	830,929
Vocational	23,512	0	23,512
Support Services:			
Pupil	684,576	0	684,576
Instructional Staff	471,696	0	471,696
Board of Education	168,215	0	168,215
Administration	903,856	0	903,856
Fiscal	380,029	0	380,029
Business	13,436	0	13,436
Operation and Maintenance of Plant	1,204,963	0	1,204,963
Pupil Transportation	1,145,884	0	1,145,884
Central	159,707	0	159,707
Operation of Non-Instructional Services	148,910	0	148,910
Operation of Food Services	262,768	0	262,768
Extracurricular Activities	653,015	0	653,015
Capital Outlay	90,935	0	90,935
Debt Service	243,675	0	243,675
Transportation	0	1,467,268	1,467,268
<i>Total Disbursements</i>	<u>12,409,950</u>	<u>1,467,268</u>	<u>13,877,218</u>
Excess Before Transfers	1,282,236	74,550	1,356,786
Transfers	(879)	879	0
Increase in Net Assets	1,281,357	75,429	1,356,786
Net Assets Beginning of Year	<u>5,046,409</u>	<u>108,354</u>	<u>5,154,763</u>
Net Assets End of Year	<u>\$6,327,766</u>	<u>\$183,783</u>	<u>\$6,511,549</u>

Total program receipts represent only 19.26 percent of total receipts and are primarily comprised charges for services as the School District is the fiscal agent for a county-wide special education transportation consortium.

General receipts represent 80.74 percent of the School District's total receipts, and of this amount, over 63.35 percent are local taxes. Grants and entitlements make up the balance of the School District's general receipts (15.27 percent). Other receipts are very insignificant and somewhat unpredictable revenue sources.

The School District was responsible for providing educational services for 1,125 students. Regular educational expenses were 40.40 percent of total governmental disbursements, special education costs were 6.6 percent of total educational expenditures and vocational expenditures were .1 percent of the total governmental disbursements.

Kirtland Local School District
Management's Discussion and Analysis
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Total disbursements are made up by two main areas: instructional and support services. Support services is then broken down into many subsections. Instructional costs made up 47.37 percent of all governmental disbursements. Support services were 41.36 percent of governmental disbursements and provide services such as busing, building and ground maintenance, administration, board of education fiscal and other. Food services and extracurricular activities account for 7.38 percent of the disbursements. These two activities generate revenue through sales and fees.

Governmental Activities

If you look at the Statement of Activities on page 12, you will see that the first column lists the major services provided by the School District. The next column identifies the costs of providing these services. The major program disbursements for governmental activities are for instruction and maintenance property, which account for 47.37 and 9.7 percent of all governmental disbursements, respectively. The next three columns of the Statement entitled Program Receipts identify amounts paid by people who are directly charged for the service and grants received by the School District that must be used to provide a specific service. The Net Receipt (Disbursement) column compares the program receipts to the cost of the service. This "net cost" amount represents the cost of the service which ends up being paid from money provided by local taxpayers. These net costs are paid from the general receipts which are presented at the bottom of the Statement. A comparison between the total cost of services and the net cost is presented in Table 3.

(Table 3)

Governmental Activities

	<u>Total Cost of Services 2006</u>	<u>Net Cost of Services 2006</u>
Disbursements:		
Instruction:		
Regular	\$5,023,844	\$4,803,703
Special	830,929	507,207
Vocational	23,512	23,512
Support Services:		
Pupil	684,576	562,841
Instructional Staff	471,696	395,729
Board of Education	168,215	168,215
Administration	903,856	903,856
Fiscal	380,029	380,029
Business	13,436	13,436
Operation and Maintenance of Plant	1,204,963	1,183,744
Pupil Transportation	1,145,884	1,141,421
Central	159,707	144,592
Operation of Non-Instructional Services	148,910	18,414
Operation of Food Services	262,768	21,182
Extracurricular Activities	653,015	399,225
Capital Outlay	90,935	90,935
Debt Service	243,675	243,675
	<u>\$12,409,950</u>	<u>\$11,001,716</u>
<i>Total Disbursements</i>	<u>\$12,409,950</u>	<u>\$11,001,716</u>

Kirtland Local School District
Management's Discussion and Analysis
For the Year Ended June 30, 2006
Unaudited

The dependence upon property tax receipts is apparent as over 70.48 percent of governmental activities are supported through these general receipts.

Business-type Activities

The School District is the fiscal agent for a special education transportation consortium operation that is relatively small and routinely reports receipts and cash disbursements that are relatively equal.

The School District's Funds

Total governmental funds had receipts of \$13,692,186 and disbursements of \$12,409,950. The greatest change within governmental funds occurred within the General Fund. The fund balance of the General Fund increased mainly due to tuition payments for special education students from other school districts attending Kirtland Local School District and additional interest income.

General fund receipts were \$1,295,944 more than disbursements indicating that the general fund is in a sound financial position.

General Fund Budgeting Highlights

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

During 2006, the School District amended its General Fund budget several times to reflect changing circumstances. Final budgeted receipts were above original budgeted receipts due to additional tax receipts. The difference between final budgeted receipts and actual receipts was less than 10 percent and is not significant.

Final disbursements were budgeted at \$11,847,060 while actual disbursements were \$11,409,849.

Capital Assets and Debt Administration

Capital Assets

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

Debt

At June 30, 2006, the School District's outstanding debt included \$858,865 in general obligation bonds issued for improvements to buildings and structures. For further information regarding the School District's debt, refer to Note 13 to the basic financial statements.

Kirtland Local School District
Management's Discussion and Analysis
For the Year Ended June 30, 2006
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Current Issues

The School District is always presented with challenges and opportunities. Economic conditions do not have a material impact on the School District's tax revenue, as residential property comprises 95.4 percent of total taxable value. The most recent five year forecast adopted by the Board of Education predicts a new operating levy will need to approve in 2009 for collection in the 2010 school year.

Contacting the School District's Financial Management

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

Kirtland Local School District
Statement of Net Assets - Modified Cash Basis
June 30, 2006

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$6,327,766	\$183,783	\$6,511,549
Net Assets			
Restricted for:			
Capital Projects	\$39,928	\$0	\$39,928
Debt Service	290,828	0	290,828
Set Asides	86,144	0	86,144
Other Purposes	383,355	0	383,355
Unrestricted	5,527,511	183,783	5,711,294
<i>Total Net Assets</i>	\$6,327,766	\$183,783	\$6,511,549

See accompanying notes to the basic financial statements

Kirtland Local School District
Statement of Activities - Modified Cash Basis
For the Fiscal Year Ended June 30, 2006

	Program Cash Receipts			
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
Current:				
Instruction:				
Regular	\$5,023,844	\$171,791	\$48,350	\$0
Special	830,929	156,715	167,007	0
Vocational	23,512	0	0	0
Support Services:				
Pupil	684,576	0	121,735	0
Instructional Staff	471,696	50,803	25,164	0
Board of Education	168,215	0	0	0
Administration	903,856	0	0	0
Fiscal	380,029	0	0	0
Business	13,436	0	0	0
Operation and Maintenance of Plant	1,204,963	21,219	0	0
Pupil Transportation	1,145,884	1,410	0	3,053
Central	159,707	0	15,115	0
Operation of Non-Instructional Services	148,910	0	130,496	0
Operation of Food Services	262,768	209,817	31,769	0
Extracurricular Activities	653,015	118,545	135,245	0
Capital Outlay	90,935	0	0	0
Debt Service	243,675	0	0	0
<i>Total Governmental Activities</i>	12,409,950	730,300	674,881	3,053
Business-Type Activity				
Transportation	1,467,268	1,526,385	0	0
<i>Totals</i>	<u>\$13,877,218</u>	<u>\$2,256,685</u>	<u>\$674,881</u>	<u>\$3,053</u>

General Receipts

Property Taxes Levied for:

General Purposes

Debt Service

Capital Outlay

Grants and Entitlements not Restricted
to Specific Programs

Unrestricted Contributions and Donations

Interest

Miscellaneous

Total General Receipts

Transfers

Total General Receipts and Transfers

Change in Net Assets

*Net Assets Beginning of
Year - Restated (See Note 3)*

Net Assets End of Year

Net Receipts (Disbursements) and Changes in Net Assets		
Governmental Activities	Business-Type Activity	Total
(\$4,803,703)	\$0	(\$4,803,703)
(507,207)	0	(507,207)
(23,512)	0	(23,512)
(562,841)	0	(562,841)
(395,729)	0	(395,729)
(168,215)	0	(168,215)
(903,856)	0	(903,856)
(380,029)	0	(380,029)
(13,436)	0	(13,436)
(1,183,744)	0	(1,183,744)
(1,141,421)	0	(1,141,421)
(144,592)	0	(144,592)
(18,414)	0	(18,414)
(21,182)	0	(21,182)
(399,225)	0	(399,225)
(90,935)	0	(90,935)
(243,675)	0	(243,675)
(11,001,716)	0	(11,001,716)
0	59,117	59,117
(11,001,716)	59,117	(10,942,599)
9,210,851	0	9,210,851
230,245	0	230,245
209,251	0	209,251
2,326,465	0	2,326,465
502	0	502
247,412	12,333	259,745
59,226	3,100	62,326
12,283,952	15,433	12,299,385
(879)	879	0
12,283,073	16,312	12,299,385
1,281,357	75,429	1,356,786
5,046,409	108,354	5,154,763
\$6,327,766	\$183,783	\$6,511,549

Kirtland Local School District
Statement of Assets and Fund Balances - Modified Cash Basis
Governmental Funds
June 30, 2006

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Equity in Pooled Cash and Cash Equivalents	\$5,527,511	\$714,111	\$6,241,622
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	86,144	0	86,144
<i>Total Assets</i>	<u>\$5,613,655</u>	<u>\$714,111</u>	<u>\$6,327,766</u>
Fund Balances			
Reserved for Encumbrances	\$615,109	\$61,985	\$677,094
Reserved for Textbooks	31,028	0	31,028
Reserved for Budget Stabilization	55,116	0	55,116
Unreserved:			
Undesignated (Deficit), Reported in:			
General Fund	4,912,402	0	4,912,402
Special Revenue Funds	0	331,066	331,066
Debt Service Fund	0	290,828	290,828
Capital Projects Fund	0	30,232	30,232
<i>Total Fund Balances</i>	<u>\$5,613,655</u>	<u>\$714,111</u>	<u>\$6,327,766</u>

See accompanying notes to the basic financial statements

Kirtland Local School District
Statement of Cash Receipts, Disbursements and Changes in Fund Balances - Modified Cash Basis
Governmental Funds
For the Fiscal Year Ended June 30, 2006

	General	Other Governmental Funds	Total Governmental Funds
Receipts			
Property Taxes	\$9,210,851	\$439,496	\$9,650,347
Intergovernmental	2,270,238	589,381	2,859,619
Interest	230,077	18,976	249,053
Tuition and Fees	329,831	0	329,831
Extracurricular Activities	0	169,348	169,348
Contributions and Donations	0	143,641	143,641
Charges for Services	85	209,817	209,902
Rentals	21,219	0	21,219
Miscellaneous	46,383	12,843	59,226
<i>Total Receipts</i>	<u>12,108,684</u>	<u>1,583,502</u>	<u>13,692,186</u>
Disbursements			
Current:			
Instruction:			
Regular	4,917,147	106,697	5,023,844
Special	679,482	151,447	830,929
Vocational	23,512	0	23,512
Support Services:			
Pupil	576,271	108,305	684,576
Instructional Staff	402,923	68,773	471,696
Board of Education	168,215	0	168,215
Administration	837,901	65,955	903,856
Fiscal	371,035	8,994	380,029
Business	13,436	0	13,436
Operation and Maintenance of Plant	1,101,336	103,627	1,204,963
Pupil Transportation	1,027,184	118,700	1,145,884
Central	121,375	38,332	159,707
Operation of Non-Instructional Services	15,852	133,058	148,910
Operation of Food Services		262,768	262,768
Extracurricular Activities	448,136	204,879	653,015
Capital Outlay	90,935		90,935
Debt Service:			
Principal Retirement	0	225,000	225,000
Interest and Fiscal Charges	0	18,675	18,675
<i>Total Disbursements</i>	<u>10,794,740</u>	<u>1,615,210</u>	<u>12,409,950</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>1,313,944</u>	<u>(31,708)</u>	<u>1,282,236</u>
Other Financing Sources (Uses)			
Transfers In	0	18,000	18,000
Transfers Out	(18,000)	(879)	(18,879)
<i>Total Other Financing Sources (Uses)</i>	<u>(18,000)</u>	<u>17,121</u>	<u>(879)</u>
<i>Net Change in Fund Balances</i>	1,295,944	(14,587)	1,281,357
<i>Fund Balances Beginning of Year - Restated (See Note 3)</i>	<u>4,317,711</u>	<u>728,698</u>	<u>5,046,409</u>
<i>Fund Balances End of Year</i>	<u><u>\$5,613,655</u></u>	<u><u>\$714,111</u></u>	<u><u>\$6,327,766</u></u>

See accompanying notes to the basic financial statements

Kirtland Local School District
Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual -Budget Basis
General Fund
For the Fiscal Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts				
Property Taxes	\$8,462,528	\$9,202,143	\$9,210,851	\$8,708
Intergovernmental	2,085,796	2,268,092	2,270,238	2,146
Interest	211,385	229,859	230,077	218
Tuition and Fees	303,034	329,519	329,831	312
Charges for Services	78	85	85	0
Rentals	19,495	21,199	21,219	20
Miscellaneous	42,612	46,336	46,383	47
<i>Total Receipts</i>	11,124,928	12,097,233	12,108,684	11,451
Disbursements				
Current:				
Instruction:				
Regular	4,793,095	5,162,536	5,042,091	120,445
Special	870,491	854,399	799,502	54,897
Vocational	64,000	30,000	23,512	6,488
Support Services:				
Pupil	672,567	693,919	613,119	80,800
Instructional Staff	388,198	422,453	403,520	18,933
Board of Education	155,222	168,604	168,604	0
Administration	837,818	890,989	840,933	50,056
Fiscal	438,336	429,137	371,292	57,845
Business	14,000	14,500	13,436	1,064
Operation and Maintenance of Plant	1,052,728	1,138,436	1,138,436	0
Pupil Transportation	859,872	1,128,896	1,128,896	0
Central	83,889	142,019	123,658	18,361
Operation of Non-Instructional Services	6,262	16,125	15,852	273
Extracurricular Activities	454,360	476,185	448,136	28,049
Capital Outlay	93,500	278,862	278,862	0
<i>Total Disbursements</i>	10,784,338	11,847,060	11,409,849	437,211
<i>Excess of Receipts Over Disbursements</i>	340,590	250,173	698,835	448,662
Other Financing Sources (Uses)				
Transfers In	411,291	0	0	0
Transfers Out	0	(18,449)	(18,000)	449
<i>Total Other Financing Sources (Uses)</i>	411,291	(18,449)	(18,000)	449
<i>Net Change in Fund Balance</i>	751,881	231,724	680,835	449,111
<i>Fund Balance Beginning of Year</i>	3,981,752	3,981,752	3,981,752	0
<i>Prior Year Encumbrances Appropriated</i>	335,959	335,959	335,959	0
<i>Fund Balance End of Year</i>	\$5,069,592	\$4,549,435	\$4,998,546	\$449,111

Kirtland Local School District
Statement of Fund Net Assets - Modified Cash Basis
Proprietary Fund
June 30, 2006

	Business-Type Activity
	Transportation
Assets	
Equity in Pooled Cash and Cash Equivalents	\$183,783
Cash and Cash Equivalents with Fiscal Agents	0
<i>Total Assets</i>	183,783
Net Assets	
Unrestricted	\$183,783

See accompanying notes to the basic financial statements

Kirtland Local School District
Statement of Receipts, Disbursements
and Changes in Fund Net Assets - Modified Cash Basis
Proprietary Fund
For the Fiscal Year Ended June 30, 2006

	Business-Type Activity
	Transportation
Operating Receipts	
Charges for Services	\$1,526,385
Other	3,100
	<u>1,529,485</u>
Operating Disbursements	
Salaries	168,379
Fringe Benefits	30,284
Purchased Services	1,148,568
Materials and Supplies	7,616
Capital Outlay	112,421
Claims	0
	<u>1,467,268</u>
<i>Total Operating Receipts</i>	<u>1,529,485</u>
<i>Total Operating Disbursements</i>	<u>1,467,268</u>
<i>Operating Income (Loss)</i>	<u>62,217</u>
Non-Operating Receipts	
Interest	12,333
Operating Grants	0
	<u>12,333</u>
<i>Total Non-Operating Receipts</i>	<u>12,333</u>
<i>Income (Loss) Before Transfers</i>	74,550
Transfers In	879
	<u>75,429</u>
<i>Change in Net Assets</i>	<u>75,429</u>
<i>Net Assets Beginning of Year - Restated (See Note 3)</i>	<u>108,354</u>
<i>Net Assets End of Year</i>	<u><u>\$183,783</u></u>

See accompanying notes to the basic financial statements

Kirtland Local School District
Statement of Fiduciary Assets and Liabilities - Modified Cash Basis
Agency Fund
June 30, 2006

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$37,097</u>
Liabilities	
Due to Students	<u>\$37,097</u>

See accompanying notes to the basic financial statements

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Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Note 1 - Reporting Entity

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

The School District was established in 1944 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 25 square miles. It is located mostly in Lake County, partially in Geauga County, and includes all of the territory of the City of Kirtland, and portions of Waite Hill Village, Kirtland Hills Village, Chardon Township, and the City of Willoughby. It is staffed by 55 non-certified employees and 86 certified full-time teaching personnel who provide services to 1,125 students and other community members. The School District currently operates three instructional buildings, one administrative building, a maintenance garage and a bus garage.

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

A. Primary Government

The primary government of the School District consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For Kirtland Local School District, this includes the agencies and departments that provide the following services: general operations, food service and student related activities of the School District.

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

B. Component Units

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

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

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Health Care Benefits Self-Insurance Program, the Kirtland Public Library and the Ohio School Boards' Association Workers' Compensation Group Rating Program which are presented in Notes 15, 16, 17 and 18 to the basic financial statements.

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

Note 2 - Summary of Significant Accounting Policies

As discussed further in Note 2.C, these financial statements are presented on a modified cash basis of accounting. This modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the modified cash basis of accounting. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The School District does not apply FASB statements issued after November 30, 1989, to its business-type activity and to its enterprise fund. Following are the more significant of the School District's accounting policies.

A. Basis of Presentation

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

Government-Wide Financial Statements The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the School District that are governmental in nature and those that are considered business-type activities. Governmental activities generally are financed through taxes, intergovernmental receipts or other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

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

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

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

Proprietary fund statements distinguish operating transactions from nonoperating transactions. Operating receipts generally result from exchange transactions such as charges for services directly relating to the fund's principal services. Operating disbursements include costs of sales and services and administrative costs. The fund statements report all other receipts and disbursements as nonoperating.

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. The funds of the School District are divided into three categories, governmental, proprietary and fiduciary.

Governmental Funds The School District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange transactions as governmental funds. The School District's only major fund is the General Fund.

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

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

Proprietary Funds The School District classifies funds financed primarily from user charges for goods or services as proprietary. The School District only has an enterprise fund.

Enterprise Fund - The enterprise fund 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.

Fiduciary Funds The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are not available to support the School District's own programs. The School District has no trust funds. Agency funds are custodial in nature. The School District's agency fund accounts for various student-managed activities.

C. Basis of Accounting

The School District's financial statements are prepared using the modified cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the School District's

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred. Any such modifications made by the School District are described in the appropriate section in this note.

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

D. Budgetary Process

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

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

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

E. Cash and Investments

To improve cash management, cash received by the School District is pooled and invested. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through School District records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

Investments of the School District's cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

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

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

During fiscal year 2006, investments were limited to STAROhio. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for at June 30, 2006.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts credited to the general fund during fiscal year 2006 was \$230,077, which included \$9,131 assigned from other School District funds.

F. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. Restricted assets in the general fund represent money required by State statute to be set aside for the purchase of textbooks and other instructional materials and to create a reserve for budget stabilization. See Note 14 for additional information regarding set asides.

G. Inventory and Prepaid Items

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

H. Capital Assets

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

I. Accumulated Leave

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

J. Employer Contributions to Cost-Sharing Pension Plans

The School District recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 10 and 11, the employer contributions include portions for pension benefits and for postretirement health care benefits.

K. Long-Term Obligations

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

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

L. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The government-wide statement of net assets reports restricted net assets of \$800,255, none of which is restricted by enabling legislation. Net assets restricted for other purposes include resources restricted for food service operations, music and athletic programs, and federal and state grants restricted to cash disbursement for specified purposes. The School District's policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

M. Fund Balance Reserves

The School District reserves any portion of fund balances which is not available for appropriation or which is legally segregated for a specific future use. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances, textbooks and budget stabilization.

The reserve for textbooks represents money required to be set-aside by state statute for the purchase of textbooks and instructional materials. The reserve for budget stabilization represents monies required to be set aside by State statute to protect against cyclical changes in revenues and expenditures.

N. Interfund Transactions

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

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating receipts/cash disbursements in proprietary funds. Repayments from funds responsible for particular cash disbursements to the funds that initially paid for them are not presented in the financial statements.

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

A. Change in Basis of Accounting

For fiscal year 2006, the School District has implemented GASB Statement No. 42 "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries" and GASB Statement No. 47, "Accounting for Termination Benefits".

GASB Statement No. 42 establishes accounting and financial reporting standards for impairment of capital assets and clarifies and establishes accounting requirements for insurance recoveries.

GASB Statement No. 47 establishes standards of accounting and financial reporting for termination benefits.

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

The implementation of GASB Statement No. 42 and GASB Statement No. 47 did not materially affect the presentation of the financial statements of the School District.

For fiscal year 2006, the School District ceased to report using generally accepted accounting principles and reported on the modified cash basis as described in Note 2C.

B. Restatement of Fund Balance/Net Assets

The implementation of this change had the following effects on fund equity of the major and nonmajor funds of the School District as they were previously reported. The effects on net assets of governmental activities are also presented.

	General	Other Governmental Funds	Total Governmental Funds
Fund Balance June 30, 2005	\$4,162,277	\$771,228	\$4,933,505
Eliminate Asset Accruals	(9,264,075)	(519,188)	(9,783,263)
Eliminate Liability Accruals	9,419,509	476,658	9,896,167
Adjusted Fund Balance June 30, 2005	\$4,317,711	\$728,698	\$5,046,409
Governmental Activities Net Assets June 30, 2005			\$6,927,543
Eliminate Asset Modified Accruals			(9,783,263)
Eliminate Liability Modified Accruals			9,896,167
Eliminate Internal Service Fund			(167,407)
Eliminate Government-Wide Financial Statement Adjustments:			
Capital Assets			(3,343,859)
Deferred Revenue			(191,776)
Accrued Interest Payable			1,744
Long-Term Liabilities			
General Obligation Bonds			1,067,513
Compensated Absences			639,747
Adjusted Governmental Activities Net Assets June 30, 2005			\$5,046,409

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

The restatement of the business-type activity is presented below:

	Transportation
Net Assets, June 30, 2005	\$416,054
Eliminate Asset Accruals	(351,773)
Eliminate Liability Accruals	44,073
Adjusted Net Assets, June 30, 2005	\$108,354

Due to the elimination of the internal service fund, the net assets of the internal service fund decreased from \$167,407 to \$0 at June 30, 2005.

Note 4 – Compliance

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

Ohio Revised Code Section 5705.41(B) prohibits a subdivision or taxing unit from making expenditures unless it has been properly appropriated. Budgetary expenditures (that is, disbursements and encumbrances) as enacted by the Board may not exceed appropriations at the legal level for all funds. The School District's legal level of control is fund level. The following funds had expenditures in excess of appropriations and expenditures plus encumbrances in excess of appropriations at the legal level of control at June 30, 2006.

Fund	Total Appropriations	Total Expenditures Plus Encumbrances	Excess
Special Revenue Fund			
Food Service	\$257,568	\$262,768	(\$5,200)
Debt Service Fund			
Bond Retirement	238,645	245,645	(7,000)

Note 5 - Budgetary Basis of Accounting

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

in Fund Balance – Budget and Actual – Budgetary Basis presented for the general fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the modified cash basis is outstanding year end encumbrances are treated as cash disbursements (budgetary basis) rather than as a reservation of fund balance (modified cash basis). The encumbrances outstanding at year end (budgetary basis) amounted to \$615,109.

Note 6 – Deposits and Investments

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to payment of principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in securities listed above;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAROhio);

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

8. Commercial paper and bankers acceptances if training requirements have been met.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. Investments may only be made through specified dealers and institutions.

Deposits

Custodial Credit Risk Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in possession of an outside party. At fiscal year end, \$4,861,157 of the School District's bank balance of \$5,061,157 was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the investment of money had been followed, noncompliance with Federal requirements could potentially subject the School District to a successful claim by the FDIC.

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

Investments

As of June 30, 2006, the School District had STAROhio as the only investment with an amount of \$1,672,897 and an average maturity of 34 days. The investment is in an internal investment pool.

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

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

Note 7 - Property Taxes

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed as of January 1, 2005, the lien date. Assessed values for

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien December 31, 2004, were levied after April 1, 2005 and are collected in 2006 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 2006 (other than public utility property) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value listed as of December 31, 2005. In prior years, tangible personal property was assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2006 is 18.75 percent. This will be reduced to 12.5 percent for 2007, 6.25 percent for 2008 and zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Lake and Geauga Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2006, are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The amount available as an advance at June 30, 2006 was \$1,500,000 in the general fund, \$30,000 in the bond retirement debt service fund and \$25,000 in the permanent improvement capital projects fund. The amount available as an advance at June 30, 2005, was \$990,218 in the general fund, \$25,293 in the bond retirement debt service fund and \$22,676 in the permanent improvement capital projects fund.

The assessed values upon which fiscal year 2006 taxes were collected are:

	2005 Second		2006 First	
	Half Collections		Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$291,777,620	95.40 %	\$297,512,770	95.71 %
Public Utility Personal	11,018,730	3.60	10,854,000	3.49
Tangible Personal Property	<u>3,063,740</u>	<u>1.00</u>	<u>2,496,324</u>	<u>0.80</u>
Total	<u>\$305,860,090</u>	<u>100.00 %</u>	<u>\$310,863,094</u>	<u>100.00 %</u>
Tax rate per \$1,000 of assessed valuation	\$70.67		\$70.56	

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Note 8 - Interfund Transfers

During fiscal year 2006, the general fund transferred \$18,000 to the food service special revenue fund to subsidize food service operations.

During fiscal year 2006, the principals special revenue fund transferred \$879 to the transportation enterprise fund to subsidize transportation operations.

Note 9 - 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 2006, the School District contracted with various insurance agencies for various types of insurance. Coverage is as follows:

Company	Coverage	Amount
Midwest Indemnity	Blanket Building and Contents (\$2,500 Deductible)	\$22,096,271
	Extra Expense Coverage	1,000,000
	EDP and Media/Software	232,479/17,500
	Audio Visual Equipment	20,808
	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	362,671
	Contractor's Equipment	44,425
	Transit	306,000
Money and Securities	10,000	
Travelers	Boiler/Machinery - Blanket (\$1,000 Deductible)	30,000,000
	Spoilage Limit (\$500 Deductible)	100,000
	Media Limit	25,000
	Water Damage	100,000
Indiana	Business Auto - Liability	1,000,000
	Uninsured Motorists	50,000
	Medical	5,000
	Comprehensive and Collision (\$1,000 Deductible)	5,000
	Liability	1,000,000
	Umbrella Liability	4,000,000

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.

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

B. Employee Medical Coverage

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

C. Workers' Compensation

For fiscal year 2006, the School District participated in the Ohio School Boards' Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 18). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on 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 10 - Defined Benefit Pension Plans

A. School Employees Retirement System

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

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 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005 and 2004 were \$186,718, \$173,232, and \$142,119, respectively; 53.60 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004.

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

B. State Teachers Retirement System of Ohio

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, by calling (614) 227-4090, or by visiting the STRS Ohio web site at www.strsoh.org.

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds divided by 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 of credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member 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, 2006, 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. For fiscal year 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2006, 2005, and 2004 were \$685,048, \$656,041, and \$630,851, respectively; 83.44 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. Contributions to the DC and Combined Plans for fiscal year 2006 were \$10,436 made by the School District and \$20,245 made by the plan members.

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2006, three members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

Note 11 - Postemployment Benefits

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio, (STRS Ohio), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and partial 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 on a pay-as-you-go basis.

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$52,696 for fiscal year 2006.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, the balance in the Fund was \$3.5 billion. For the fiscal year ended June 30, 2006, net health care costs paid by STRS Ohio were \$282,743,000 and STRS Ohio had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. 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.

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, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. 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 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$86,937.

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2006 were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has 59,492 participants eligible to receive health care benefits.

Note 12 - 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, 2006.

B. Litigation

As of June 30, 2006, the School District was not party to any legal proceedings.

Note 13 – Debt

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

	Principal Outstanding 6/30/05	Additions	Deductions	Principal Outstanding 6/30/06	Amounts Due in One Year
Governmental Activities					
General Obligation Bonds:					
2003 School Improvement Bonds 1.75 - 3.56%					
Current Interest Serial Bonds	\$900,000	\$0	\$225,000	\$675,000	\$225,000
Capital Appreciation Bonds	135,000	0	0	135,000	0
Accretion on Capital Appreciation Bonds	32,513	16,352	0	48,865	0
<i>Total General Long-Term Obligations</i>	<u>\$1,067,513</u>	<u>\$16,352</u>	<u>\$225,000</u>	<u>\$858,865</u>	<u>\$225,000</u>

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

The capital appreciation and current interest serial bonds remained outstanding at June 30, 2006. The capital appreciation bonds were originally sold at a discount of \$120,000, which is being accreted annually until the point of maturity of the capital appreciation bonds, which is 2010.

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

The final maturity amount of outstanding capital appreciation bonds is \$255,000. The accretion recorded for 2005 was \$16,352, for a total outstanding bond liability of \$183,865 at June 30, 2006.

The School District's overall legal debt margin at June 30, 2006 was \$27,077,230 with an unvoted debt margin of \$305,127 at June 30, 2006. Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2006, are as follows:

	General Obligation Bonds		Capital Appreciation Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
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	<u>\$675,000</u>	<u>\$26,550</u>	<u>\$135,000</u>	<u>\$120,000</u>	<u>\$810,000</u>	<u>\$146,550</u>

Note 14 - Set Aside Requirements

The School District is required by State statute to annually set aside in the General Fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year-end. These amounts must be carried forward to be used for the same purposes in future years. In prior years, the School District was also required to set aside money for budget stabilization. At June 30, 2006, only the unspent portion of certain workers' compensation refunds continues to be set aside.

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

	Textbooks	Capital	Budget
	Instructional Materials Reserve	Improvements	Stabilization
Set-aside Reserve Balance as of June 30, 2005	(\$49,506)	\$0	\$55,116
Current Year Set-aside Requirement	164,861	164,861	0
Qualifying Disbursements	<u>(84,327)</u>	<u>(316,814)</u>	<u>0</u>
Totals	<u>\$31,028</u>	<u>(\$151,953)</u>	<u>\$55,116</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>\$31,028</u>	<u>\$0</u>	<u>\$55,116</u>
Set-aside Reserve Balance as of June 30, 2006	<u>\$31,028</u>	<u>\$0</u>	<u>\$55,116</u>

The School District has qualifying disbursements and offsets during the fiscal year that reduced the capital improvements set-aside amounts below zero. The negative set-aside balance for the capital improvements may not be used to reduce the set-aside requirements of future years. This negative balance is therefore not presented as being carried forward to future years. The total reserve balance for the three set-asides at the end of the fiscal year was \$86,144.

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Note 15 - Jointly Governed Organizations

Lake Geauga Computer Association - The Lake Geauga Computer Association (LGCA) is a jointly governed organization that was formed for the purpose of providing computer services for accounting, grading, scheduling, EMIS and other applications to its 18 member school districts. Each of the school districts supports LGCA based upon a per pupil charge. The executive committee (governing board) consists of the superintendents and treasurers of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the governing board. LGCA's continued existence is not dependent upon the School District's continued participation. In fiscal year 2006, the School District paid \$104,455 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 2006, the School District paid \$377,027 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, Painesville, Ohio 44077.

Ohio Schools Council Association - The Ohio Schools' Council Association (Council) is a jointly governed organization among eighty-three school districts. The jointly governed organization was formed to purchase quality products and services at the lowest possible cost to the member districts. Each district supports the Council by paying an annual participation fee. The Council's Board consists of seven superintendents of the participating districts whose term rotates every year. The degree of control exercised by any school district is limited to its representation on the Board. In fiscal year 2006, the School District paid \$86,013 to the Council. Financial information can be obtained by contacting Dr. David A. Cottrell the Executive Director/Treasurer of the Ohio Schools Council at 6133 Rockside Road, Suite 10 Independence, Ohio 44101.

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

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 16 – Claims Servicing Pool

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

Note 17 - Related Organization

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

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Note 18 - Insurance Purchasing Pool

The School District participates in the Ohio School Boards' Association (OSBA) Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of directors consisting of the President, the President-Elect and the Immediate Past President of OSBA. The Director of OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

Note 19 – Subsequent Events

On August 23, 2006, the School District issued \$14,794,994 in general obligation bonds for various school improvements at interest rates varying from 4.000 percent to 4.375 percent. These mature on December 1, 2025.

In May 2007, the member districts of the East Shore Regional Transportation Consortium voted to disband the group at the end of the 2006-2007 school year. Kirtland Local School District will continue as the fiscal agent through 2008 in order to bill 2007 transportation costs since the State reimbursement for 2007 costs is received during the 2008 fiscal year. Buses owned by the consortium are being auctioned off to the member districts prior to the end of the 2007 fiscal year.

In May 2007, the member districts of the East Shore Center voted to disband the group at the end of the 2006-2007 school year. The Lake County Educational Service Center will continue as the fiscal agent through the completion of the federal grant.



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, the business-type activities, the 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, 2006, and have issued our report thereon dated May 18, 2007 in which we noted the District utilized a basis of accounting other than that prescribed by Ohio Administrative Code Section 117-2-03(B) and the District restated the fund balances as of June 30, 2005 to convert to modified cash and eliminate the internal service fund. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated May 18, 2007, we reported an other matter involving internal control over financial reporting we did not deem a reportable condition.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2006-001. In a separate letter to the District's management dated May 18, 2007, we reported other matters related to noncompliance we deemed immaterial.

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

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

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

Mary Taylor, CPA
Auditor of State

May 18, 2007

**KIRTLAND LOCAL SCHOOL DISTRICT
LAKE COUNTY
SCHEDULE OF FINDINGS
JUNE 30, 2006**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	2006-001
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Ohio Revised Code § 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code § 117-2-03 further clarifies the requirements of Ohio Revised § 117.38.

Ohio Administrative Code § 117-2-03(B) requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles. However, the School District prepares its annual financial report in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with generally accepted accounting principles. The accompanying financial statements and footnotes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code § 117.38 the School District may be fined and subject to various other administrative remedies for its failure to file the required financial report.

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

Official's Response:

Resolution #58-2006 approved by the Kirtland Board of Education on September 18, 2006 directed the treasurer to prepare cash based year end financial statements for the 2005-2006 school year, as the district does not believe the time and expense involved in preparing the annual financial report according to GAAP is a justifiable use of staff time and financial resources.



Mary Taylor, CPA
Auditor of State

KIRTLAND LOCAL SCHOOL DISTRICT
LAKE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JULY 5, 2007