



**KIRTLAND LOCAL SCHOOL DISTRICT  
LAKE COUNTY**

**REGULAR AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2002**



**JIM PETRO**  
**AUDITOR OF STATE**  

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**STATE OF OHIO**



**KIRTLAND LOCAL SCHOOL DISTRICT  
LAKE COUNTY**

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**REPORT OF INDEPENDENT ACCOUNTANTS**

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

We have audited the accompanying general-purpose financial statements of the Kirtland Local School District, Lake County, Ohio, (the District) as of and for the year ended June 30, 2002, as listed in the table of contents. These general-purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Kirtland Local School District, Lake County, Ohio, as of June 30, 2002, and the results of its operations and the cash flows of its proprietary fund types and its fiduciary fund type for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2002 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in black ink, appearing to read "Jim Petro".

**Jim Petro**  
Auditor of State

October 18, 2002

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**Kirtland Local School District**  
*Combined Balance Sheet*  
*All Fund Types and Account Groups*  
*June 30, 2002*

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
<b><i>Assets and Other Debits</i></b>				
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$1,536,859	\$270,813	\$135,691	\$94,502
Cash and Cash Equivalents with Fiscal Agents	97,367	0	5,798	0
Receivables:				
Taxes	7,237,980	0	293,639	217,476
Accounts	27,850	165	0	0
Interfund	10,121	0	0	0
Intergovernmental	141	25,457	0	0
Materials and Supplies Inventory	41,398	0	0	0
Inventory Held for Resale	0	0	0	0
Prepaid Items	8,846	0	0	0
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	55,116	0	0	0
Fixed Assets (Net, where applicable, of Accumulated Depreciation)	0	0	0	0
<b>Other Debits</b>				
Amount Available in Debt Service Fund for Retirement of General Obligation Bonds	0	0	0	0
Amount to be Provided from General Government Resources	0	0	0	0
<b><i>Total Assets and Other Debits</i></b>	<b><u>\$9,015,678</u></b>	<b><u>\$296,435</u></b>	<b><u>\$435,128</u></b>	<b><u>\$311,978</u></b>

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Obligations	
\$428	\$70,181	\$155,574	\$0	\$0	\$2,264,048
0	0	0	0	0	103,165
0	0	0	0	0	7,749,095
0	0	0	0	0	28,015
0	0	0	0	0	10,121
0	2,458,069	0	0	0	2,483,667
714	0	0	0	0	42,112
13,600	0	0	0	0	13,600
0	0	0	0	0	8,846
0	0	0	0	0	55,116
7,795	872,543	0	20,945,049	0	21,825,387
0	0	0	0	158,921	158,921
0	0	0	0	2,052,859	2,052,859
<u>\$22,537</u>	<u>\$3,400,793</u>	<u>\$155,574</u>	<u>\$20,945,049</u>	<u>\$2,211,780</u>	<u>\$36,794,952</u>

(continued)

**Kirtland Local School District**  
*Combined Balance Sheet*  
*All Fund Types and Account Groups (continued)*  
*June 30, 2002*

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
<b><i>Liabilities, Fund Equity and Other Credits</i></b>				
<b>Liabilities</b>				
Accounts Payable	\$17,422	\$793	\$0	\$2,762
Interfund Payable	0	8,121	0	0
Accrued Wages and Benefits	854,514	3,110	0	0
Compensated Absences Payable	27,806	0	0	0
Intergovernmental Payable	154,022	1,793	0	0
Deferred Revenue	6,657,103	0	270,409	200,592
Due to Students	0	0	0	0
Matured Bonds Payable	0	0	5,000	0
Matured Interest Payable	0	0	798	0
Claims Payable	46,414	0	0	0
Early Retirement Incentive Payable	6,956	0	0	0
Capital Leases Payable	0	0	0	0
General Obligation Bonds Payable	0	0	0	0
<b>Total Liabilities</b>	<b>7,764,237</b>	<b>13,817</b>	<b>276,207</b>	<b>203,354</b>
<b>Fund Equity and Other Credits</b>				
Investment in General Fixed Assets	0	0	0	0
Retained Earnings:				
Unreserved (Deficit)	0	0	0	0
Fund Balances:				
Reserved for Encumbrances	98,112	88,545	0	22,292
Reserved for Inventory	41,398	0	0	0
Reserved for Contributions	0	0	0	0
Reserved for Property Taxes	580,877	0	23,230	16,884
Reserved for Budget Stabilization	55,116	0	0	0
Unreserved:				
Designated:				
Claims	50,953	0	0	0
Undesignated	424,985	194,073	135,691	69,448
<b>Total Fund Equity (Deficit) and Other Credits</b>	<b>1,251,441</b>	<b>282,618</b>	<b>158,921</b>	<b>108,624</b>
<b>Total Liabilities, Fund Equity and Other Credits</b>	<b>\$9,015,678</b>	<b>\$296,435</b>	<b>\$435,128</b>	<b>\$311,978</b>

See accompanying notes to the general purpose financial statements

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Obligations	
\$0	\$2,458,139	\$0	\$0	\$0	\$2,479,116
2,000	0	0	0	0	10,121
17,356	11,465	0	0	0	886,445
8,719	10,202	0	0	473,762	520,489
9,898	17,676	0	0	55,604	238,993
0	0	0	0	0	7,128,104
0	0	30,820	0	0	30,820
0	0	0	0	0	5,000
0	0	0	0	0	798
0	0	0	0	0	46,414
0	5,667	0	0	0	12,623
0	0	0	0	12,414	12,414
0	0	0	0	1,670,000	1,670,000
<u>37,973</u>	<u>2,503,149</u>	<u>30,820</u>	<u>0</u>	<u>2,211,780</u>	<u>13,041,337</u>
0	0	0	20,945,049	0	20,945,049
(15,436)	897,644	0	0	0	882,208
0	0	0	0	0	208,949
0	0	0	0	0	41,398
0	0	70,000	0	0	70,000
0	0	0	0	0	620,991
0	0	0	0	0	55,116
0	0	0	0	0	50,953
0	0	54,754	0	0	878,951
<u>(15,436)</u>	<u>897,644</u>	<u>124,754</u>	<u>20,945,049</u>	<u>0</u>	<u>23,753,615</u>
<u>\$22,537</u>	<u>\$3,400,793</u>	<u>\$155,574</u>	<u>\$20,945,049</u>	<u>\$2,211,780</u>	<u>\$36,794,952</u>

**Kirtland Local School District**  
*Combined Statement of Revenues, Expenditures  
and Changes in Fund Balances*  
All Governmental Fund Types and Expendable Trust Fund  
For the Fiscal Year Ended June 30, 2002

	Governmental Fund Types		
	General	Special Revenue	Debt Service
<b>Revenues</b>			
Taxes	\$6,900,156	\$0	\$266,431
Intergovernmental	1,869,567	294,640	33,510
Interest	65,763	1,617	4,371
Tuition and Fees	140,215	0	0
Extracurricular Activities	1,700	167,974	0
Contributions and Donations	215	180,432	0
Charges for Services	3,323	0	0
Rentals	19,444	0	0
Miscellaneous	14,956	3,593	0
<i>Total Revenues</i>	<u>9,015,339</u>	<u>648,256</u>	<u>304,312</u>
<b>Expenditures</b>			
Current:			
Instruction:			
Regular	4,105,632	85,378	0
Special	736,125	58,837	0
Support Services:			
Pupils	569,151	59,905	0
Instructional Staff	308,502	50,218	0
Board of Education	67,327	0	0
Administration	761,961	1,930	0
Fiscal	301,836	0	2,887
Business	40,224	0	0
Operation and Maintenance of Plant	923,067	971	0
Pupil Transportation	686,804	0	0
Central	59,056	12,671	0
Operation of Non-Instructional Services	3,955	60,898	0
Extracurricular Activities	355,819	196,268	0
Capital Outlay	17,988	0	0
Debt Service:			
Principal Retirement	12,105	0	145,000
Interest and Fiscal Charges	1,882	0	130,223
<i>Total Expenditures</i>	<u>8,951,434</u>	<u>527,076</u>	<u>278,110</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	63,905	121,180	26,202
<b>Other Financing Sources</b>			
Sale of Fixed Assets	200	0	0
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures</i>	64,105	121,180	26,202
<i>Fund Balances Beginning of Year</i>	1,276,795	161,438	132,719
<i>Decrease in Reserve for Inventory</i>	<u>(6,853)</u>	<u>0</u>	<u>0</u>
<i>Fund Balances End of Year</i>	<u>\$1,334,047</u>	<u>\$282,618</u>	<u>\$158,921</u>

See accompanying notes to the general purpose financial statements

	Fiduciary Fund Type	
Capital Projects	Expendable Trust	Totals (Memorandum Only)
\$61,664	\$0	\$7,228,251
38,463	0	2,236,180
0	160	71,911
0	0	140,215
0	0	169,674
0	50,000	230,647
0	0	3,323
0	0	19,444
0	0	18,549
100,127	50,160	10,118,194
0	0	4,191,010
0	0	794,962
0	0	629,056
0	0	358,720
0	0	67,327
0	0	763,891
0	0	304,723
0	0	40,224
0	0	924,038
0	0	686,804
0	0	71,727
0	0	64,853
0	0	552,087
215,199	0	233,187
0	0	157,105
0	0	132,105
215,199	0	9,971,819
(115,072)	50,160	146,375
0	0	200
(115,072)	50,160	146,575
223,696	0	1,794,648
0	0	(6,853)
\$108,624	\$50,160	\$1,934,370

**Kirtland Local School District**  
*Combined Statement of Revenues, Expenditures  
and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual  
All Governmental Fund Types and Expendable Trust Fund  
For the Fiscal Year Ended June 30, 2002*

	General Fund		Variance Favorable (Unfavorable)
	Revised Budget	Actual	
<b>Revenues</b>			
Taxes	\$6,857,824	\$6,790,284	(\$67,540)
Intergovernmental	1,763,716	1,870,994	107,278
Interest	97,500	65,763	(31,737)
Tuition and Fees	117,300	119,380	2,080
Extracurricular Activities	500	1,700	1,200
Contributions and Donations	500	215	(285)
Charges for Services	4,500	7,567	3,067
Rentals	26,000	15,758	(10,242)
Miscellaneous	36,290	19,825	(16,465)
<i>Total Revenues</i>	<u>8,904,130</u>	<u>8,891,486</u>	<u>(12,644)</u>
<b>Expenditures</b>			
Current:			
Instruction:			
Regular	4,289,925	4,229,428	60,497
Special	868,952	849,985	18,967
Support Services:			
Pupils	632,710	597,490	35,220
Instructional Staff	308,798	288,549	20,249
Board of Education	92,103	80,445	11,658
Administration	763,753	744,474	19,279
Fiscal	309,344	301,460	7,884
Business	45,760	42,498	3,262
Operation and Maintenance of Plant	980,003	949,924	30,079
Pupil Transportation	717,745	686,310	31,435
Central	59,963	58,651	1,312
Operation of Non-Instructional Services	4,310	3,955	355
Extracurricular Activities	365,204	356,263	8,941
Capital Outlay	28,490	28,488	2
Debt Service:			
Principal Retirement	0	0	0
Interest and Fiscal Charges	0	0	0
<i>Total Expenditures</i>	<u>9,467,060</u>	<u>9,217,920</u>	<u>249,140</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(562,930)</u>	<u>(326,434)</u>	<u>236,496</u>
<b>Other Financing Sources (Uses)</b>			
Sale of Fixed Assets	1,500	200	(1,300)
Advances In	0	0	0
Advances Out	(11,000)	(10,121)	879
Operating Transfers Out	(7,500)	0	7,500
<i>Total Other Financing Sources (Uses)</i>	<u>(17,000)</u>	<u>(9,921)</u>	<u>7,079</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	<u>(579,930)</u>	<u>(336,355)</u>	<u>243,575</u>
<i>Fund Balances Beginning of Year</i>	1,805,518	1,805,518	0
Prior Year Encumbrances Appropriated	92,669	92,669	0
<i>Fund Balances End of Year</i>	<u>\$1,318,257</u>	<u>\$1,561,832</u>	<u>\$243,575</u>

Special Revenue Funds			Debt Service Fund		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$0	\$0	\$0	\$261,715	\$266,271	\$4,556
319,959	298,502	(21,457)	32,411	33,510	1,099
1,512	1,617	105	7,000	4,371	(2,629)
0	0	0	0	0	0
188,034	167,974	(20,060)	0	0	0
105,291	180,432	75,141	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
1,858	3,429	1,571	0	0	0
<u>616,654</u>	<u>651,954</u>	<u>35,300</u>	<u>301,126</u>	<u>304,152</u>	<u>3,026</u>
92,083	84,601	7,482	0	0	0
91,945	84,074	7,871	0	0	0
61,771	59,722	2,049	0	0	0
55,729	51,798	3,931	0	0	0
0	0	0	0	0	0
2,359	2,053	306	0	0	0
0	0	0	3,000	2,887	113
0	0	0	0	0	0
971	971	0	0	0	0
0	0	0	0	0	0
17,885	13,772	4,113	0	0	0
147,926	107,038	40,888	0	0	0
252,681	222,935	29,746	0	0	0
500	500	0	0	0	0
0	0	0	145,000	145,000	0
0	0	0	130,225	130,223	2
<u>723,850</u>	<u>627,464</u>	<u>96,386</u>	<u>278,225</u>	<u>278,110</u>	<u>115</u>
<u>(107,196)</u>	<u>24,490</u>	<u>131,686</u>	<u>22,901</u>	<u>26,042</u>	<u>3,141</u>
0	0	0	0	0	0
0	8,121	8,121	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
<u>0</u>	<u>8,121</u>	<u>8,121</u>	<u>0</u>	<u>0</u>	<u>0</u>
(107,196)	32,611	139,807	22,901	26,042	3,141
91,682	91,682	0	109,649	109,649	0
<u>57,530</u>	<u>57,530</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>\$42,016</u>	<u>\$181,823</u>	<u>\$139,807</u>	<u>\$132,550</u>	<u>\$135,691</u>	<u>\$3,141</u>

(continued)

**Kirtland Local School District**  
*Combined Statement of Revenues, Expenditures  
and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual  
All Governmental Fund Types and Expendable Trust Fund (continued)  
For the Fiscal Year Ended June 30, 2002*

	Capital Projects Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues</b>			
Taxes	\$190,518	\$194,067	\$3,549
Intergovernmental	36,381	38,463	2,082
Interest	0	0	0
Tuition and Fees	0	0	0
Extracurricular Activities	0	0	0
Contributions and Donations	0	0	0
Charges for Services	0	0	0
Rentals	0	0	0
Miscellaneous	0	0	0
<i>Total Revenues</i>	<u>226,899</u>	<u>232,530</u>	<u>5,631</u>
<b>Expenditures</b>			
Current:			
Instruction:			
Regular	69,681	68,553	1,128
Special	200	195	5
Support Services:			
Pupils	1,712	1,712	0
Instructional Staff	18,553	15,310	3,243
Board of Education	0	0	0
Administration	5,226	5,176	50
Fiscal	6,783	5,924	859
Business	780	780	0
Operation and Maintenance of Plant	106,474	91,269	15,205
Pupil Transportation	11,359	11,359	0
Central	14,353	14,353	0
Operation of Non-Instructional Services	1,600	1,598	2
Extracurricular Activities	7,965	7,881	84
Capital Outlay	15,484	13,380	2,104
Debt Service:			
Principal Retirement	0	0	0
Interest and Fiscal Charges	0	0	0
<i>Total Expenditures</i>	<u>260,170</u>	<u>237,490</u>	<u>22,680</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(33,271)</u>	<u>(4,960)</u>	<u>28,311</u>
<b>Other Financing Sources (Uses)</b>			
Sale of Fixed Assets	0	0	0
Advances In	0	0	0
Advances Out	0	0	0
Operating Transfers Out	0	0	0
<i>Total Other Financing Sources (Uses)</i>	<u>0</u>	<u>0</u>	<u>0</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	<u>(33,271)</u>	<u>(4,960)</u>	<u>28,311</u>
<i>Fund Balances Beginning of Year</i>	52,999	52,999	0
Prior Year Encumbrances Appropriated	21,410	21,410	0
<i>Fund Balances End of Year</i>	<u>\$41,138</u>	<u>\$69,449</u>	<u>\$28,311</u>

See accompanying notes to the general purpose financial statements

Expendable Trust Fund			Totals (Memorandum Only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$0	\$0	\$0	\$7,310,057	\$7,250,622	(\$59,435)
0	0	0	2,152,467	2,241,469	89,002
0	160	160	106,012	71,911	(34,101)
0	0	0	117,300	119,380	2,080
0	0	0	188,534	169,674	(18,860)
0	50,000	50,000	105,791	230,647	124,856
0	0	0	4,500	7,567	3,067
0	0	0	26,000	15,758	(10,242)
0	0	0	38,148	23,254	(14,894)
0	50,160	50,160	10,048,809	10,130,282	81,473
0	0	0	4,451,689	4,382,582	69,107
0	0	0	961,097	934,254	26,843
0	0	0	696,193	658,924	37,269
0	0	0	383,080	355,657	27,423
0	0	0	92,103	80,445	11,658
0	0	0	771,338	751,703	19,635
0	0	0	319,127	310,271	8,856
0	0	0	46,540	43,278	3,262
0	0	0	1,087,448	1,042,164	45,284
0	0	0	729,104	697,669	31,435
0	0	0	92,201	86,776	5,425
0	0	0	153,836	112,591	41,245
0	0	0	625,850	587,079	38,771
0	0	0	44,474	42,368	2,106
0	0	0	145,000	145,000	0
0	0	0	130,225	130,223	2
0	0	0	10,729,305	10,360,984	368,321
0	50,160	50,160	(680,496)	(230,702)	449,794
0	0	0	1,500	200	(1,300)
0	0	0	0	8,121	8,121
0	0	0	(11,000)	(10,121)	879
0	0	0	(7,500)	0	7,500
0	0	0	(17,000)	(1,800)	15,200
0	50,160	50,160	(697,496)	(232,502)	464,994
0	0	0	2,059,848	2,059,848	0
0	0	0	171,609	171,609	0
\$0	\$50,160	\$50,160	\$1,533,961	\$1,998,955	\$464,994

**Kirtland Local School District**  
*Combined Statement of Revenues,  
Expenses and Changes in Fund Equity  
All Proprietary Fund Types and Nonexpendable Trust Fund  
For the Fiscal Year Ended June 30, 2002*

	Proprietary Fund Types		Fiduciary Fund Type	Totals (Memorandum Only)
	Enterprise	Internal Service	Nonexpendable Trust	
<b>Operating Revenues</b>				
Sales	\$198,789	\$0	\$0	\$198,789
Charges for Services	0	1,660,411	0	1,660,411
Interest	0	0	1,873	1,873
<i>Total Operating Revenues</i>	<u>198,789</u>	<u>1,660,411</u>	<u>1,873</u>	<u>1,861,073</u>
<b>Operating Expenses</b>				
Salaries	91,117	147,646	0	238,763
Fringe Benefits	47,901	60,136	0	108,037
Purchased Services	2,882	2,281,163	2,135	2,286,180
Materials and Supplies	0	16,024	1,014	17,038
Cost of Sales	121,931	0	0	121,931
Depreciation	2,251	173,040	0	175,291
Other	0	0	593	593
<i>Total Operating Expenses</i>	<u>266,082</u>	<u>2,678,009</u>	<u>3,742</u>	<u>2,947,833</u>
<i>Operating Loss</i>	<u>(67,293)</u>	<u>(1,017,598)</u>	<u>(1,869)</u>	<u>(1,086,760)</u>
<b>Non-Operating Revenues</b>				
Federal Donated Commodities	12,862	0	0	12,862
Interest	413	8,092	0	8,505
Operating Grants	27,483	755,607	0	783,090
Contributions and Donations	3,000	0	0	3,000
<i>Total Non-Operating Revenues</i>	<u>43,758</u>	<u>763,699</u>	<u>0</u>	<u>807,457</u>
<i>Net Loss</i>	<u>(23,535)</u>	<u>(253,899)</u>	<u>(1,869)</u>	<u>(279,303)</u>
<i>Retained Earnings/Fund Balance Beginning of Year</i>	<u>8,099</u>	<u>1,151,543</u>	<u>76,463</u>	<u>1,236,105</u>
<i>Retained Earnings/ Fund Balance (Deficit) End of Year</i>	<u><u>(\$15,436)</u></u>	<u><u>\$897,644</u></u>	<u><u>\$74,594</u></u>	<u><u>\$956,802</u></u>

See accompanying notes to the general purpose financial statements

**Kirtland Local School District**  
*Combined Statement of Revenues, Expenses  
and Changes in Fund Equity - Budget (Non-GAAP Basis) and Actual  
All Proprietary Fund Types and Nonexpendable Trust Fund  
For the Fiscal Year Ended June 30, 2002*

	Enterprise Fund		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues</b>			
Charges for Services	\$0	\$0	\$0
Sales	197,687	199,027	1,340
Interest	1,320	413	(907)
Contributions and Donations	0	0	0
Operating Grants	27,400	27,483	83
<i>Total Revenues</i>	<u>226,407</u>	<u>226,923</u>	<u>516</u>
<b>Expenses</b>			
Salaries	86,960	86,960	0
Fringe Benefits	46,436	46,436	0
Purchased Services	2,882	2,882	0
Materials and Supplies	114,808	114,808	0
Capital Outlay	2,000	1,938	62
Other	0	0	0
<i>Total Expenses</i>	<u>253,086</u>	<u>253,024</u>	<u>62</u>
<i>Excess of Revenues Under Expenses</i>	(26,679)	(26,101)	578
Advances In	0	2,000	2,000
Operating Transfers In	1,500	0	(1,500)
<i>Excess of Revenues Under Expenses, Operating Transfers and Advances</i>	(25,179)	(24,101)	1,078
<i>Fund Equity Beginning of Year</i>	24,529	24,529	0
<i>Prior Year Encumbrances Appropriated</i>	<u>0</u>	<u>0</u>	<u>0</u>
<i>Fund Equity (Deficit) End of Year</i>	<u>(\$650)</u>	<u>\$428</u>	<u>\$1,078</u>

(continued)

**Kirtland Local School District**  
*Combined Statement of Revenues, Expenses  
and Changes in Fund Equity - Budget (Non-GAAP Basis) and Actual  
All Proprietary Fund Types and Nonexpendable Trust Fund (continued)  
For the Fiscal Year Ended June 30, 2002*

	Internal Service Fund		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues</b>			
Charges for Services	\$1,664,428	\$1,660,411	(\$4,017)
Sales	0	0	0
Interest	7,000	8,092	1,092
Contributions and Donations	0	0	0
Operating Grants	729,840	729,840	0
<i>Total Revenues</i>	<u>2,401,268</u>	<u>2,398,343</u>	<u>(2,925)</u>
<b>Expenses</b>			
Salaries	158,720	158,498	222
Fringe Benefits	38,225	37,890	335
Purchased Services	2,244,037	2,220,994	23,043
Materials and Supplies	15,680	11,229	4,451
Capital Outlay	81,830	41,550	40,280
Other	1,000	0	1,000
<i>Total Expenses</i>	<u>2,539,492</u>	<u>2,470,161</u>	<u>69,331</u>
<i>Excess of Revenues Under Expenses</i>	(138,224)	(71,818)	66,406
Advances In	0	0	0
Operating Transfers In	0	0	0
<i>Excess of Revenues Under Expenses, Operating Transfers and Advances</i>	(138,224)	(71,818)	66,406
<i>Fund Equity Beginning of Year</i>	99,069	99,069	0
<i>Prior Year Encumbrances Appropriated</i>	<u>42,382</u>	<u>42,382</u>	<u>0</u>
<i>Fund Equity (Deficit) End of Year</i>	<u><u>\$3,227</u></u>	<u><u>\$69,633</u></u>	<u><u>\$66,406</u></u>

See accompanying notes to the general purpose financial statements

Nonexpendable Trust Fund			Totals (Memorandum Only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$0	\$0	\$0	\$1,664,428	\$1,660,411	(\$4,017)
0	0	0	197,687	199,027	1,340
3,680	1,873	(1,807)	12,000	10,378	(1,622)
600	0	(600)	600	0	(600)
0	0	0	757,240	757,323	83
<u>4,280</u>	<u>1,873</u>	<u>(2,407)</u>	<u>2,631,955</u>	<u>2,627,139</u>	<u>(4,816)</u>
0	0	0	245,680	245,458	222
0	0	0	84,661	84,326	335
2,135	2,135	0	2,249,054	2,226,011	23,043
515	493	22	131,003	126,530	4,473
1,014	1,014	0	84,844	44,502	40,342
695	593	102	1,695	593	1,102
<u>4,359</u>	<u>4,235</u>	<u>124</u>	<u>2,796,937</u>	<u>2,727,420</u>	<u>69,517</u>
(79)	(2,362)	(2,283)	(164,982)	(100,281)	64,701
0	0	0	0	2,000	2,000
0	0	0	1,500	0	(1,500)
(79)	(2,362)	(2,283)	(163,482)	(98,281)	65,201
75,828	75,828	0	199,426	199,426	0
635	635	0	43,017	43,017	0
<u>\$76,384</u>	<u>\$74,101</u>	<u>(\$2,283)</u>	<u>\$78,961</u>	<u>\$144,162</u>	<u>\$65,201</u>

**Kirtland Local School District**  
*Combined Statement of Cash Flows*  
*All Proprietary Fund Types and Nonexpendable Trust Fund*  
*For the Fiscal Year Ended June 30, 2002*

	Proprietary Fund Types		Fiduciary Fund Type	Totals
	Enterprise	Internal Service	Nonexpendable Trust	(Memorandum Only)
<b><i>Increase (Decrease) in Cash and Cash Equivalents</i></b>				
<b>Cash Flows from Operating Activities</b>				
Cash Received from Customers	\$199,027	\$1,660,411	\$0	\$1,859,438
Cash Received from Interest	0	0	0	0
Cash Payments to Suppliers for Goods and Services	(117,690)	(2,231,675)	(1,014)	(2,350,379)
Cash Payments to Employees for Services	(86,960)	(158,498)	(2,135)	(247,593)
Cash Payments for Employee Benefits	(46,436)	(37,890)	0	(84,326)
Cash Payments for Other Operating Expenses	0	0	(593)	(593)
<i>Net Cash Used for Operating Activities</i>	<u>(52,059)</u>	<u>(767,652)</u>	<u>(3,742)</u>	<u>(823,453)</u>
<b>Cash Flows from Noncapital Financing Activities</b>				
Contributions and Donations	3,000	0	0	3,000
Operating Grants Received	27,483	729,840	0	757,323
Payments for Capital Acquisitions	(4,938)	(41,550)	0	(46,488)
Advances In	2,000	0	0	2,000
<i>Net Cash Provided by Noncapital Financing Activities</i>	<u>27,545</u>	<u>688,290</u>	<u>0</u>	<u>715,835</u>
<b>Cash Flows from Investing Activities</b>				
Interest on Investments	413	8,092	1,873	10,378
<i>Net Decrease in Cash and Cash Equivalents</i>	<u>(24,101)</u>	<u>(71,270)</u>	<u>(1,869)</u>	<u>(97,240)</u>
Cash and Cash Equivalents Beginning of Year	<u>24,529</u>	<u>141,451</u>	<u>76,463</u>	<u>242,443</u>
<i>Cash and Cash Equivalents End of Year</i>	<u>\$428</u>	<u>\$70,181</u>	<u>\$74,594</u>	<u>\$145,203</u>

(continued)

**Kirtland Local School District**  
*Combined Statement of Cash Flows*  
*All Proprietary Fund Types and Nonexpendable Trust Fund (continued)*  
*For the Fiscal Year Ended June 30, 2002*

	Proprietary Fund Types		Fiduciary Fund Type	Totals
	Enterprise	Internal Service	Nonexpendable Trust	(Memorandum Only)
<b>Reconciliation of Operating Loss to Net Cash Used for Operating Activities:</b>				
<i>Operating Loss</i>	(\$67,293)	(\$1,017,598)	(\$1,869)	(\$1,086,760)
<i>Adjustments:</i>				
Depreciation	2,251	173,040	0	175,291
Donated Commodities Used During Year	10,118	0	0	10,118
Interest	0	0	(1,873)	(1,873)
<i>(Increase)/Decrease in Assets:</i>				
Accounts Receivable	238	0	0	238
Inventory Held for Resale	(2,740)	0	0	(2,740)
Materials and Supplies Inventory	(255)	0	0	(255)
<i>Increase/(Decrease) in Liabilities:</i>				
Accounts Payable	0	68,765	0	68,765
Accrued Wages and Benefits	4,157	5,648	0	9,805
Compensated Absences Payable	1,043	(1,097)	0	(54)
Intergovernmental Payable	422	3,147	0	3,569
Early Retirement Incentive Payable	0	443	0	443
<i>Total Adjustments</i>	15,234	249,946	(1,873)	263,307
<i>Net Cash Used for Operating Activities</i>	(\$52,059)	(\$767,652)	(\$3,742)	(\$823,453)

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

Cash and Cash Equivalents - All Fiduciary Funds	\$155,574
Cash and Cash Equivalents - Agency Funds	(30,820)
Cash and Cash Equivalents - Expendable Trust Fund	(50,160)
	<u>                    </u>
Cash and Cash Equivalents - Nonexpendable Trust Fund	<u>\$74,594</u>

**Noncash Operating Activities**

Federal Donated Commodities were recorded as revenue when received and as an expense when used.

See accompanying notes to the general purpose financial statements

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**Kirtland Local School District**  
*Notes to the General Purpose Financial Statements*  
*For the Fiscal Year Ended June 30, 2002*

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**Note 1 - Description of the School District and Reporting Entity**

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

The School District was established in 1944 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 25 square miles. It is located mostly in Lake County, partially in Geauga County, and includes all of the territory of the City of Kirtland, and portions of Waite Hill Village, Kirtland Hills Village, Chardon Township, and the City of Willoughby. It is staffed by 56 non-certified employees and 87 certified full-time teaching personnel who provide services to 1,034 students and other community members. The School District currently operates three instructional buildings, one administrative building, a maintenance garage and a bus garage.

***Reporting Entity***

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

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

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

The School District is associated with five jointly governed organizations, a claims servicing pool, a related organization and an insurance purchasing pool. These organizations are the Lake Geauga Computer Association, Auburn Career Center, the East Shore Regional Transportation System, the East Shore Center, the Ohio Schools Council, the Lake County Council of Governments Health Care Benefits Program, the Kirtland Public Library and the Ohio School Boards' Association Workers' Compensation Group Rating Program, which are presented in Notes 14, 15, 16 and 17 to the general purpose financial statements.

**Kirtland Local School District**  
*Notes to the General Purpose Financial Statements*  
*For the Fiscal Year Ended June 30, 2002*

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

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

***A. Basis of Presentation - Fund Accounting***

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

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

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

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

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

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

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

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

**Kirtland Local School District**  
*Notes to the General Purpose Financial Statements*  
*For the Fiscal Year Ended June 30, 2002*

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

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

**Internal Service Fund** The internal service fund is used for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost reimbursement basis.

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

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

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

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

**B. Measurement Focus and Basis of Accounting**

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

**Kirtland Local School District**  
*Notes to the General Purpose Financial Statements*  
*For the Fiscal Year Ended June 30, 2002*

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

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

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

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

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 5). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2002, but which were levied to finance fiscal year 2003 operations, have been recorded as deferred revenue. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue. On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

**Kirtland Local School District**  
*Notes to the General Purpose Financial Statements*  
*For the Fiscal Year Ended June 30, 2002*

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

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

**C. Budgetary Process**

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The Treasurer maintains budgetary information at the object level and has the authority to allocate appropriations at the function and object level without resolution by the Board of Education. The primary level of budgetary control is at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

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

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

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

**Estimated Resources** Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the Commission's certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the School District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported in the budgetary statement reflect the amounts in the final amended certificate issued during fiscal year 2002.

**Appropriations** Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution is enacted by the Board of Education at the fund level which is the legal level of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass

**Kirtland Local School District**  
*Notes to the General Purpose Financial Statements*  
*For the Fiscal Year Ended June 30, 2002*

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a temporary appropriation measure to meet the ordinary expenses of the School District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals at the level of control. Any revisions that alter the total of any fund appropriation, must be approved by the Board of Education.

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

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

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

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

***D. Cash and Cash Equivalents***

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

The School District utilizes a financial institution to service bonded debt as principal and interest come due, as well as claims, which are handled by the Mentor Exempted Village School District. The balances in these accounts are presented on the combined balance sheet as "cash and cash equivalents with fiscal agents" and represent deposits into accounts separate from the School District treasury.

During fiscal year 2002, investments were limited to STAROhio and repurchase agreements. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for at June 30, 2002.

**Kirtland Local School District**  
*Notes to the General Purpose Financial Statements*  
*For the Fiscal Year Ended June 30, 2002*

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Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2002 amounted to \$65,763, which includes \$7,552 assigned from other School District funds.

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

***E. Restricted Assets***

Restricted assets in the general fund represent cash and cash equivalents whose use is limited by legal requirements. Restricted assets include amounts required by statute to be set-aside by the School District for the unspent workers' compensation monies. See Note 19 for additional information regarding set-asides.

***F. Inventory***

Inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased. Reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available expendable resources even though it is a component of net current assets. Inventories of proprietary funds consist of donated food and purchased food and are expensed when used.

***G. Fixed Assets and Depreciation***

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

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

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

**Kirtland Local School District**  
*Notes to the General Purpose Financial Statements*  
*For the Fiscal Year Ended June 30, 2002*

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***H. Compensated Absences***

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

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

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

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

***I. Accrued Liabilities and Long-term Obligations***

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, claims and judgments, compensated absences, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current available expendable financial resources. Payments made more than sixty days after fiscal year end are generally considered not to have been made with current available financial resources. Capital leases and bonds are recognized as a liability of the general long-term obligations account group until due or until resources have been accumulated in the fund for payment early in the following year.

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

***J. Interfund Transactions***

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

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

**Kirtland Local School District**  
*Notes to the General Purpose Financial Statements*  
*For the Fiscal Year Ended June 30, 2002*

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***K. Fund Balance Reserves and Designations***

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

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute. The reserve for budget stabilization represents unspent workers' compensation money. The reserve for contributions represents contributions to nonexpendable trust funds that must be kept intact. Fund balance in the general fund includes a designation that represents the amount set-aside for future claims.

***L. Estimates***

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

***M. Totals Columns on General Purpose Financial Statements***

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

**Note 3 - Budgetary Basis of Accounting**

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).

**Kirtland Local School District**  
*Notes to the General Purpose Financial Statements*  
*For the Fiscal Year Ended June 30, 2002*

3. Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types and as note disclosures in the proprietary fund type (GAAP basis).
4. For proprietary funds, the acquisition and construction of capital assets are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP basis).

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

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

	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust
GAAP Basis	\$64,105	\$121,180	\$26,202	(\$115,072)	\$50,160
Net Adjustment for					
Revenue Accruals	(123,853)	3,698	(160)	132,403	0
Advances In	0	8,121	0	0	0
Net Adjustment for					
Expenditure Accruals	(153,737)	(11,398)	0	2,762	0
Advances Out	(10,121)	0	0	0	0
Encumbrances	(112,749)	(88,990)	0	(25,053)	0
Budget Basis	<u>(\$336,355)</u>	<u>\$32,611</u>	<u>\$26,042</u>	<u>(\$4,960)</u>	<u>\$50,160</u>

Net Loss/Excess of Revenues  
Under Expenses  
All Proprietary Fund Types and Nonexpendable Trust Fund

	Enterprise	Internal Service	Nonexpendable Trust
GAAP Basis	(\$23,535)	(\$253,899)	(\$1,869)
Net Adjustment for Revenue Accruals	(4,198)	(25,767)	0
Net Adjustment for Expense Accruals	4,531	76,906	0
Advances In	2,000	0	0
Capital Outlay	(4,938)	(41,550)	0
Depreciation Expense	2,039	173,040	0
Encumbrances	0	(548)	(493)
Budget Basis	<u>(\$24,101)</u>	<u>(\$71,818)</u>	<u>(\$2,362)</u>

**Kirtland Local School District**  
*Notes to the General Purpose Financial Statements*  
*For the Fiscal Year Ended June 30, 2002*

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**Note 4 - Deposits and Investments**

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

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

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

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

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

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

**Kirtland Local School District**  
*Notes to the General Purpose Financial Statements*  
*For the Fiscal Year Ended June 30, 2002*

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7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

At June 30, 2002, the School District's general fund had a balance of \$97,367 with Lake County Council of Governments Health Care Benefits Program, a claims servicing pool (See Note 15). The money is held by the claims servicer in a pooled account which is representative of numerous entities and therefore cannot be classified by risk under GASB No. 3. The classification of cash and cash equivalents and investments for the Lake County Council of Governments Health Care Benefits Program Self Insurance Plan as a whole may be obtained from the Plan's fiscal agent, the Mentor City School District. To obtain financial information, write to Mr. James Metz, Treasurer, Mentor City School District, 6451 Center Street, Mentor, Ohio 44060.

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

**Deposits** At fiscal year end, the carrying amount of the School District's deposits was (\$43,057) and the bank balance was \$210,823. Of the bank balance:

1. \$100,000 was covered by federal depository insurance; and
2. \$110,823 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department or agent in the School District's name and all State statutory requirements for the deposit of money have been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

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

**Kirtland Local School District**  
*Notes to the General Purpose Financial Statements*  
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	Category 3	Carrying Value	Fair Value
Repurchase Agreement	\$1,803,443	\$1,803,443	\$1,803,443
STAROhio		647,182	647,182
<i>Totals</i>		<u>\$2,450,625</u>	<u>\$2,450,625</u>

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

	Cash and Cash Equivalents	Investments
GASB Statement 9	\$2,504,935	\$0
Money held by health care program's fiscal agent	(97,367)	0
Investments which are part of the cash management pool:		
Repurchase Agreement	(1,803,443)	1,803,443
STAROhio	(647,182)	647,182
<i>Totals</i>	<u>(\$43,057)</u>	<u>\$2,450,625</u>

**Note 5 - 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 year.

Property taxes include amounts levied against all real, public utility and tangible personal property located in the School District. Property tax revenue received during calendar 2002 for real and public utility property taxes represents collections of calendar 2001 taxes. Property tax payments received during calendar 2002 for tangible personal property (other than public utility property) are for calendar 2002 taxes.

2002 real property taxes are levied after April 1, 2002, on the assessed value listed as of January 1, 2002, the lien date. Assessed values are established by State law at thirty-five percent of appraised market value.

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

2002 tangible personal property taxes are levied after April 1, 2001, on the value as of December 31, 2001. Collections are made in 2002. Tangible personal property assessments are twenty-five percent of true value.

**Kirtland Local School District**  
*Notes to the General Purpose Financial Statements*  
*For the Fiscal Year Ended June 30, 2002*

The assessed values upon which the fiscal year 2002 taxes were collected are:

	2001 Second Half Collections		2002 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential And Other Real Estate	\$233,404,150	93.92%	\$235,790,640	94.56%
Public Utility Personal	11,117,270	4.47	9,864,620	3.96
Tangible Personal Property	4,004,743	1.61	3,687,270	1.48
	<u>\$248,526,163</u>	<u>100.00%</u>	<u>\$249,342,530</u>	<u>100.00%</u>

Tax Rate per \$1,000 of assessed valuation	\$67.68	\$69.10
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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.

Tangible personal property taxes paid 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.

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, 2002, are available to finance fiscal year 2003 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes which became measurable as of June 30, 2002 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30, 2002, was \$620,991, \$580,877 was available to the general fund, \$23,230 was available to the bond retirement debt service fund, and \$16,884 was available to the permanent improvement fund.

**Note 6 - Receivables**

Receivables at June 30, 2002 consisted of property taxes, accounts (rent, billings for user charged services, and tuition and fees), interfund, intergovernmental grants, and monies due to the School District from the Lake Geauga Regional Transportation Program for the transportation of handicapped children. All receivables are considered collectible in full.

**Kirtland Local School District**  
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*For the Fiscal Year Ended June 30, 2002*

A summary of the principal items of intergovernmental receivables follows:

	Amounts
<i>General Fund:</i>	
City of Kirtland	\$141
<i>Special Revenue Funds:</i>	
Eisenhower Grant	480
Title VI-B	6,354
Title I	2,582
Title VI	4,445
Drug Free Schools Grant	4,572
Class Size Reduction	7,024
<i>Total Special Revenue Funds</i>	<i>25,457</i>
<i>Internal Service Fund:</i>	
Regional Transportation	2,458,069
<i>Total All Funds</i>	<i>\$2,483,667</i>

**Note 7 - Fixed Assets**

A summary of the Proprietary Funds' fixed assets at June 30, 2002, follows:

	Enterprise	Internal Service
Vehicles	\$0	\$2,434,403
Furniture, Fixtures, and Equipment	88,833	1,080
Less: Accumulated Depreciation	(81,038)	(1,562,940)
Net Fixed Assets	\$7,795	\$872,543

A summary of the changes in general fixed assets during fiscal year 2002 follows:

	Balance 6/30/01	Additions	Deletions	Balance 6/30/02
Land and Improvements	\$652,657	\$0	\$0	\$652,657
Buildings	16,484,113	8,751	0	16,492,864
Furniture and Equipment	2,424,435	163,919	0	2,588,354
Vehicles	1,145,513	65,661	0	1,211,174
Total	\$20,706,718	\$238,331	\$0	\$20,945,049

**Kirtland Local School District**  
*Notes to the General Purpose Financial Statements*  
*For the Fiscal Year Ended June 30, 2002*

**Note 8 - Risk Management**

**A. Property and Liability**

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2002, the School District contracted with various insurance agencies for various types of insurance. Coverage is as follows:

Coverage	Company	Amount	Deductible
Blanket Building and Contents	Indiana Insurance	\$18,864,061	\$1,000
Extra Expense Coverage	Indiana Insurance	1,000,000	0
EDP and Media/Software	Indiana Insurance	185,911/17,500	0
Audio Visual Equipment	Indiana Insurance	20,000	0
Valuable Papers	Indiana Insurance	100,000	0
Sewer and Drain Backup	Indiana Insurance	50,000	0
Pollutant Clean Up and Removal	Indiana Insurance	250,000	0
Money and Securities	Indiana Insurance	5,000	250
Boiler/Machinery - Blanket	Indiana Insurance	30,000,000	1,000
Spoilage Limit	Indiana Insurance	100,000	500
Media Limit	Indiana Insurance	100,000	0
Water Damage	Indiana Insurance	100,000	0
Off Premises Service Interruption	Indiana Insurance	500,000	0
Ordinance or Law	Indiana Insurance	1,000,000	0
Business Interruption and Extra Expense	Indiana Insurance	Actual Loss	0
Liability	Great American	5,000,000	0
Business Auto - Liability	Coregis	2,000,000	1,000
Uninsured Motorists - Comprehensive	Coregis	50,000	1,000
Medical - Collision/Liability/Bodily			
Injury/Medical	Coregis	5,000	250
Inland Marine			
Instruments	Indiana Insurance	57,215	0
Contractor's Equipment	Indiana Insurance	9,200/1,500	0
Transit	Indiana Insurance	300,000	0

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 General Purpose Financial Statements*  
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***B. Employee Medical Coverage***

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

Changes in the fund's claims liability amount in 2001 and 2002 were:

	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claim Payments</u>	<u>Balance at End of Year</u>
2001	\$56,356	\$693,938	\$703,702	\$46,592
2002	46,592	216,931	217,109	46,414

***C. Workers' Compensation***

For fiscal year 2002, the School District participated in the Ohio School Board Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 17). 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 9 - Defined Benefit Pension Plans**

***A. School Employees Retirement System***

Kirtland Local 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 State statute per 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, 45 North Fourth Street, Columbus, Ohio 43215-3634.

**Kirtland Local School District**  
*Notes to the General Purpose Financial Statements*  
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Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2002, 4.2 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, 2002, 2001, and 2000 were \$57,918, \$57,870 and \$186,078 respectively; 54.97 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000. \$26,079 representing the unpaid contribution for fiscal year 2002, is recorded as a liability within the respective funds and the general long-term obligations account group.

***B. State Teachers Retirement System***

The School District participates in the School Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS provides basic retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

For the fiscal year ended June 30, 2002, plan members are required to contribute 9.3 percent of their annual covered salaries. The School District is required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$418,847, \$409,320 and \$527,196, respectively; 83.50 percent has been contributed for fiscal year 2002, and 100 percent for fiscal years 2001 and 2000. \$69,112 represents the unpaid contribution for fiscal year 2002, is recorded as a liability within the respective funds.

**Note 10 - Postemployment Benefits**

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2002, the STRS Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$198,401 for fiscal year 2002.

**Kirtland Local School District**  
*Notes to the General Purpose Financial Statements*  
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STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2001, (the latest information available) the balance in the Fund was \$3.256 billion. For the year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000 and STRS had 102,132 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2002, employer contributions to fund health care benefits were 9.8 percent of covered payroll. 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 2002, the minimum pay has been established at \$12,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2002 fiscal year equaled \$135,143.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2001, (the latest information available), were \$161,439,934 and the target level was \$242.2 million. At June 30, 2001, SERS had net assets available for payment of health care benefits of \$315.7 million. SERS has approximately 50,000 participants receiving health care benefits.

## **Note 11 - Employee Benefits**

### ***A. Life Insurance***

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

### ***B. Compensated Absences***

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

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

### ***C. Early Retirement Incentive***

The Kirtland Local School District Board of Education approved an Early Retirement Incentive program in fiscal year 2001 for certified employees. The Retirement Incentive is based upon first-time retirement

**Kirtland Local School District**  
*Notes to the General Purpose Financial Statements*  
*For the Fiscal Year Ended June 30, 2002*

eligibility under STRS and notification of retirement in writing by March 15. The retirement incentive is paid in two installments; July 31, 2001 and May 31, 2002. These payments are made from the general fund.

**Note 12 - Capital Leases**

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

General fixed assets consisting of equipment has been capitalized in the general fixed assets account group in the amount of \$90,712. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded in the general long term obligations account group. Principal payments in fiscal year 2002 totaled \$12,105.

Year	Obligation
2003	\$7,260
2004	4,717
2005	1,967
Total Minimum Lease Payments	13,944
Less: Amount Representing Interest	(1,530)
Present Value of Minimum Lease Payments	\$12,414

**Note 13 - Long-Term Obligations**

Changes in long-term obligations of the School District during fiscal year 2002 were as follows:

	Principal Outstanding 6/30/01	Additions	Deductions	Principal Outstanding 6/30/02
<b>General Obligation Bond:</b>				
1989 School Improvement Bond 8.43%	\$1,815,000	\$0	\$145,000	\$1,670,000
<b>Other Long-Term Obligations:</b>				
Compensated Absences	352,887	153,649	32,774	473,762
Pension Obligation	59,759	55,604	59,759	55,604
Retirement Incentive	107,250	0	107,250	0
Capital Leases	24,519	0	12,105	12,414
<b>Total General Long-Term Obligations</b>	<b>\$2,359,415</b>	<b>\$209,253</b>	<b>\$356,888</b>	<b>\$2,211,780</b>

**Kirtland Local School District**  
*Notes to the General Purpose Financial Statements*  
*For the Fiscal Year Ended June 30, 2002*

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

The School District's overall legal debt margin at June 30, 2002 was \$23,951,907 with an unvoted debt margin of \$249,343 at June 30, 2002. The early retirement incentive will be paid during fiscal year 2002. Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2002, are as follows:

Fiscal Year	Principal	Interest	Total
Ending June 30,	Principal	Interest	Total
2003	\$160,000	\$119,090	\$279,090
2004	170,000	106,875	276,875
2005	185,000	93,563	278,563
2006	200,000	79,125	279,125
2007	215,000	63,562	278,562
2008-2010	740,000	85,875	825,875
Total	\$1,670,000	\$548,090	\$2,218,090

**Note 14 - 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 2002, the School District paid \$64,120 to the computer association. Financial information can be obtained by writing the Lake Geauga Computer Association, 8140 Auburn Road, Painesville, Ohio 44077.

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

**East Shore Regional Transportation System** - The East Shore Regional Transportation System (ESRTA) is a jointly governed organization that was formed for the purpose of providing a transportation system for the handicapped children in the sixteen member school districts. The transportation committee (governing board) consists of the superintendents of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the governing board. ESRTA is not accumulating significant financial resources or experiencing fiscal stress which would

**Kirtland Local School District**  
*Notes to the General Purpose Financial Statements*  
*For the Fiscal Year Ended June 30, 2002*

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cause additional financial benefit or burden on the School District. In fiscal year 2002, the School District paid \$56,262 to the transportation system. Financial information can be obtained by writing the fiscal agent, Kirtland Board of Education, 9152 Chillicothe Road, Kirtland, Ohio 44094.

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

***Ohio Schools Council*** - The Ohio Schools' Council Association (Council) is a jointly governed organization among eighty-three school districts. The jointly governed organization was formed to purchase quality products and services at the lowest possible cost to the member districts. Each district supports the Council by paying an annual participation fee. The Council's Board consists of seven superintendents of the participating districts whose term rotates every year. The degree of control exercised by any school district is limited to its representation on the Board. In fiscal year 2002, the School District paid \$193,163 to the Council. Financial information can be obtained by contacting Albert G. Vasek, the Executive Secretary/Treasurer of the Ohio Schools Council at 6133 Rockside Road, Suite 10 Independence, Ohio 44101.

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

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

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

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

**Kirtland Local School District**  
*Notes to the General Purpose Financial Statements*  
*For the Fiscal Year Ended June 30, 2002*

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**Note 15 – Claims Servicing Pool**

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

**Note 16 - Related Organization**

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

**Note 17 - 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 18 - 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, 2002.

**Kirtland Local School District**  
*Notes to the General Purpose Financial Statements*  
*For the Fiscal Year Ended June 30, 2002*

**B. Litigation**

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

**Note 19 - Set-Aside Calculations**

The Kirtland Local 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, 2002, only the unspent portion of certain workers' compensation refunds continues to be set aside.

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

	Textbooks	Capital Improvements	Budget Stabilization
Set-aside Reserve Balance as of June 30, 2001	(\$92,892)	\$0	\$55,116
Current Year Set-aside Requirement	126,141	126,141	0
Qualifying Disbursements	(189,752)	(143,530)	0
Totals	<u>(\$156,503)</u>	<u>(\$17,389)</u>	<u>\$55,116</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>(\$156,503)</u>	<u>\$0</u>	<u>\$0</u>
Set-aside Reserve Balance as of June 30, 2002	<u>\$0</u>	<u>\$0</u>	<u>\$55,116</u>

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

**Note 20 - Accountability and Compliance**

**A. Fund Deficit**

The food service enterprise fund had a deficit fund balance at June 30, 2002 of \$18,224. The deficit in the food service enterprise fund resulted from the conversion to generally accepted accounting principles and adjustments for accrued liabilities. The general fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

**Kirtland Local School District**  
*Notes to the General Purpose Financial Statements*  
*For the Fiscal Year Ended June 30, 2002*

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***B. Compliance***

The food service enterprise fund had appropriations in excess of estimated resources and carryover balances of \$650 at June 30, 2002, contrary to Section 5705.39, Ohio Revised Code.

**Note 21 – State School Funding Decision**

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- ▶ A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
- ▶ Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

The State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001. In November, 2001, the Court granted request for reconsideration, but also ordered the parties to participate in a settlement conference with a court appointed mediator. On March 21, 2002, the mediator issued his final report indicating that the conference was unable to produce a settlement. The case is now under reconsideration by the Court.

As of the date of these financial statements, the School District is unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

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STATE OF OHIO  
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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

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

We have audited the accompanying financial statements of the Kirtland Local School District, Lake County, Ohio, (the District) as of and for the year ended June 30, 2002, and have issued our report thereon dated October 18, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that is required to be reported under *Government Auditing Standard*. However, we noted an immaterial instance of noncompliance that we have reported to the management of the District in a separate letter date October 18, 2002.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated October 18, 2002.

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

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

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, looping initial "J" and a cursive "Petro".

**Jim Petro**  
Auditor of State

October 18, 2002



STATE OF OHIO  
OFFICE OF THE AUDITOR  

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JIM PETRO, AUDITOR OF STATE

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**KIRTLAND LOCAL SCHOOL DISTRICT**

**LAKE COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
DECEMBER 5, 2002**