



Mary Taylor, CPA
Auditor of State

**KIRTLAND LOCAL SHOOOL DISTRICT
LAKE COUNTY**

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LAKE COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the major funds, and the aggregate remaining fund information of the Kirtland Local School District, Lake County, Ohio, (the District) as of and for the years ended June 30, 2008 and June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, the business-type activities, the major funds, and the aggregate remaining fund information of the Kirtland Local School District, Lake County, Ohio, as of June 30, 2008 and June 30, 2007, and the respective changes in cash financial position and the budgetary comparison for the General Fund thereof and for the years then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2009, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

Mary Taylor, CPA
Auditor of State

March 25, 2009

Kirtland Local School District
Management's Discussion and Analysis
For the Year Ended June 30, 2008
Unaudited

This discussion and analysis of the Kirtland Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2008, within the limitations of the School District's cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the School District's financial performance.

Highlights

Key highlights for 2008 are as follows:

Net assets of the School District governmental activities decreased \$3,594,552, or 15.29 percent, a significant change from the prior fiscal year, mainly due to increased expenditures in capital outlay. During fiscal year 2008, contractors began the preliminary work for building additions, excavations and foundation work. The additions include twelve new elementary classrooms, an elementary gym, and four science/computer rooms shared by the middle school and high school.

The School District's general fund receipts are primarily property taxes. These receipts represent \$9,902,084 or 75.71 percent of the total cash received for the general fund. With little commercial property and still undeveloped residential property within the School District's territory, the School District does not expect to see a downturn in tax revenues.

The School District received proceeds from a \$16.6 million bond issue during fiscal year 2007 that was approved at the May 2006 election. This money will fund the construction of 12 new classrooms and a gymnasium at the elementary school, a new science/technology wing connecting the middle and high schools and general renovations to the campus buildings and grounds. In connection with the bond sale, the School District received a rating upgrade from Moody's Investors Services to an Aa3.

Using the Basic Financial Statements

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

Report Components

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

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

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

Basis of Accounting

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

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Management's Discussion and Analysis
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accounting is a basis of accounting other than generally accepted accounting principles. Under the School District's cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

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

Reporting the School District as a Whole

The statement of net assets and the statement of activities reflect how the School District did financially during 2008, within the limitations of cash basis accounting. The statement of net assets presents the cash balances and investments of the governmental and business-type activities of the School District at fiscal year end. The statement of activities compares cash disbursements with program receipts for each governmental program and business-type activity. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function or business-type activity draws from the School District's general receipts.

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

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

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

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

Reporting the School District's Most Significant Funds

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

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

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

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

The School District as a Whole

Table 1 provides a summary of the School District's net assets for 2008 compared to 2007 on a cash basis:

(Table 1)
Net Assets

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Assets						
Equity in Pooled Cash and Cash Equivalents	<u>\$19,912,014</u>	<u>\$23,506,566</u>	<u>\$869,496</u>	<u>\$1,239,611</u>	<u>\$20,781,510</u>	<u>\$24,746,177</u>
Net Assets						
Restricted for:						
Capital Outlay	\$11,156,826	\$15,804,878	\$0	\$0	\$11,156,826	\$15,804,878
Debt Service	384,292	346,008	0	0	384,292	346,008
Set Asides	278,495	163,251	0	0	278,495	163,251
Other Purposes	274,387	308,830	0	0	274,387	308,830
Unrestricted	<u>7,818,014</u>	<u>6,883,599</u>	<u>869,496</u>	<u>1,239,611</u>	<u>8,687,510</u>	<u>8,123,210</u>
Total Net Assets	<u>\$19,912,014</u>	<u>\$23,506,566</u>	<u>\$869,496</u>	<u>\$1,239,611</u>	<u>\$20,781,510</u>	<u>\$24,746,177</u>

Net assets of the governmental activities decreased by \$3,594,552 or 15.29 percent during fiscal year 2008. The decrease is due to an increase in capital outlay and other expenditures in fiscal year 2008

Kirtland Local School District
Management's Discussion and Analysis
For the Year Ended June 30, 2008
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which occurred because the School District received proceeds of \$16,599,992 from the issuance of general obligation bonds during the fiscal year 2007.

Table 2 reflects the changes in net assets in 2008 compared to 2007 on a cash basis:

(Table 2)
Changes in Net Assets

	Governmental Activities		Business-Type Activity		Total	
	2008	2007	2008	2007	2008	2007
Receipts:						
<i>Program Receipts</i>						
Charges for Services and Sales	\$760,251	\$676,172	\$656,455	\$1,361,402	\$1,416,706	\$2,037,574
Operating Grants and Contribution	687,315	534,075	0	0	687,315	534,075
Capital Grants and Contributions	3,500	6,954	0	0	3,500	6,954
<i>Total Program Receipts</i>	<u>1,451,066</u>	<u>1,217,201</u>	<u>656,455</u>	<u>1,361,402</u>	<u>2,107,521</u>	<u>2,578,603</u>
<i>General Receipts</i>						
Property Taxes	11,197,760	10,632,987	0	0	11,197,760	10,632,987
Grants and Entitlements Not Restricted to Specific Programs	2,414,419	2,557,061	0	0	2,414,419	2,557,061
General Obligation Bonds Issued	0	16,599,992	0	0	0	16,599,992
Unrestricted Contributions and Donations	6,000	19,603	0	0	6,000	19,603
Sale of Capital Assets	0	0	72,900	0	72,900	0
Interest	973,721	963,126	61,591	22,558	1,035,312	985,684
Miscellaneous	138,359	62,855	0	0	138,359	62,855
<i>Total General Receipts</i>	<u>14,730,259</u>	<u>30,835,624</u>	<u>134,491</u>	<u>22,558</u>	<u>14,864,750</u>	<u>30,858,182</u>
<i>Total Receipts</i>	<u>\$16,181,325</u>	<u>\$32,052,825</u>	<u>\$790,946</u>	<u>\$1,383,960</u>	<u>\$16,972,271</u>	<u>\$33,436,785</u>

Kirtland Local School District
Management's Discussion and Analysis
For the Year Ended June 30, 2008
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(Table 2 (continued))
Changes in Net Assets

	Governmental Activities		Business-Type Activity		Total	
	2008	2007	2008	2007	2008	2007
Disbursements:						
Instruction:						
Regular	\$5,679,406	\$5,243,309	\$0	\$0	\$5,679,406	\$5,243,309
Special	1,099,024	1,129,213	0	0	1,099,024	\$1,129,213
Vocational	38,786	39,388	0	0	38,786	\$39,388
Support Services:						
Pupil	730,747	812,910	0	0	730,747	\$812,910
Instructional Staff	510,796	528,358	0	0	510,796	\$528,358
Board of Education	144,598	162,698	0	0	144,598	\$162,698
Administration	921,844	906,722	0	0	921,844	\$906,722
Fiscal	421,537	424,196	0	0	421,537	\$424,196
Business	11,812	14,314	0	0	11,812	\$14,314
Operation and Maintenance						
of Plant	1,210,621	1,189,104	0	0	1,210,621	\$1,189,104
Pupil Transportation	973,697	820,464	0	0	973,697	\$820,464
Central	122,667	151,868	0	0	122,667	\$151,868
Operation of Non-Instructional						
Services	115,601	2,262	0	0	115,601	\$2,262
Operation of Food Services	236,392	257,412	0	0	236,392	\$257,412
Extracurricular Activities	774,486	927,444	0	0	774,486	\$927,444
Capital Outlay	5,587,824	1,531,454	0	0	5,587,824	\$1,531,454
Debt Service	1,196,039	732,909	0	0	1,196,039	\$732,909
Transportation	0	0	1,161,061	328,132	1,161,061	\$328,132
<i>Total Disbursements</i>	<u>19,775,877</u>	<u>14,874,025</u>	<u>1,161,061</u>	<u>328,132</u>	<u>20,936,938</u>	<u>15,202,157</u>
Change in Net Assets	(3,594,552)	17,107,181	(370,115)	1,055,828	(3,964,667)	18,163,009
Net Assets Beginning of Year	<u>23,506,566</u>	<u>6,327,766</u>	<u>1,239,611</u>	<u>183,783</u>	<u>24,746,177</u>	<u>6,511,549</u>
Net Assets End of Year	<u>\$19,912,014</u>	<u>\$23,434,947</u>	<u>\$869,496</u>	<u>\$1,239,611</u>	<u>\$20,781,510</u>	<u>\$24,674,558</u>

Total program receipts represent only 12.42 percent of total receipts and are primarily comprised of charges for services.

General receipts represent 87.58 percent of the School District's total governmental receipts, and of this amount, over 76.02 percent are local taxes. Grants and entitlements make up 16.39 percent of the School District's general governmental receipts. Other receipts are very insignificant and somewhat unpredictable revenue sources.

The School District was responsible for providing educational services to 1,151 students. Regular educational expenses were 28.72 percent of total governmental disbursements, special education costs were 5.56 percent of total governmental expenditures and vocational expenditures were .20 percent of the total governmental disbursements.

Kirtland Local School District
Management's Discussion and Analysis
For the Year Ended June 30, 2008
Unaudited

Total governmental disbursements are made up by two main areas: instructional and support services. Support services is made up of many subsections. Instructional costs made up 34.48 percent of all governmental disbursements. Support services were 26.11 percent of governmental disbursements and provide services such as busing, libraries, guidance, nursing services, building and ground maintenance, administration, board of education, fiscal, non-instructional services, capital outlay, debt service and other. Food services and extracurricular activities account for 5.11 percent of the disbursements. These two activities generate revenue through sales and fees.

Governmental Activities

If you look at the Statement of Activities on page 12, you will see that the first column lists the major services provided by the School District. The next column identifies the costs of providing these services. The major program disbursements for governmental activities are for instruction and maintenance of property, which account for 34.48 and 6.12 percent of all governmental disbursements, respectively. The next three columns of the Statement entitled Program Receipts identify amounts paid by people who are directly charged for the service and grants received by the School District that must be used to provide a specific service. The Net Receipt (Disbursement) column compares the program receipts to the cost of the service. This "net cost" amount represents the cost of the service which ends up being paid from money provided by local taxpayers. These net costs are paid from the general receipts which are presented at the bottom of the Statement. A comparison between the total cost of services and the net cost is presented in Table 3.

(Table 3)
Governmental Activities

	2008		2007	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Disbursements:				
Instruction:				
Regular	\$5,679,406	\$5,218,732	\$5,243,309	\$4,974,497
Special	1,099,024	966,414	1,129,213	1,008,666
Vocational	38,786	38,786	39,388	39,388
Support Services:				
Pupil	730,747	639,784	812,910	657,993
Instructional Staff	510,796	436,405	528,358	443,046
Board of Education	144,598	144,598	162,698	162,698
Administration	921,844	921,844	906,722	906,722
Fiscal	421,537	416,866	424,196	421,040
Business	11,812	11,812	14,314	14,314
Operation and Maintenance of Plant	1,210,621	1,157,686	1,189,104	1,172,423
Pupil Transportation	973,697	925,985	820,464	814,510
Central	122,667	106,237	151,868	135,168
Operation of Non-Instructional Services	115,601	12,863	2,262	2,262
Operation of Food Services	236,392	13,392	257,412	37,119
Extracurricular Activities	774,486	533,044	927,444	603,615
Capital Outlay	5,587,824	5,584,324	1,531,454	1,530,454
Debt Service	1,196,039	1,196,039	732,909	732,909
<i>Total Disbursements</i>	<u>\$19,775,877</u>	<u>\$18,324,811</u>	<u>\$14,874,025</u>	<u>\$13,656,824</u>

Kirtland Local School District
Management's Discussion and Analysis
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The dependence upon property tax receipts is apparent as over 56.62 percent of governmental activities are supported through these general receipts.

Business-type Activities

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

The School District's Funds

Total governmental funds had receipts of \$16,181,325 and disbursements of \$19,775,877. The greatest increase in fund balance occurred within the general fund. The fund balance of the general fund increased mainly due to increased real estate taxes, additional State funding for special education students from other school districts attending Kirtland Local School District, additional interest income and kindergarten tuition.

General fund receipts were \$1,074,659 more than disbursements indicating that the general fund is in a sound financial position. Building capital projects fund receipts were \$671,160 and disbursements were \$5,370,037 with receipts \$4,698,877 less than disbursements. However, the building capital projects fund had a beginning balance of \$15,666,514 so that the ending balance of the fund was \$10,967,637.

General Fund Budgeting Highlights

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

During 2008, the School District amended its General Fund budget several times to reflect changing circumstances, such as the hiring of intervention tutors and new rates for health insurance and workers' compensation. Final budgeted receipts were above original budgeted receipts due to additional tax receipts. The difference between final budgeted receipts and actual receipts was less than 2 percent and is not significant.

Final disbursements were budgeted at \$12,808,261 while actual disbursements were \$12,270,473.

Capital Assets and Debt Administration

Capital Assets

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

Debt

At June 30, 2008, the School District's outstanding debt included \$16,886,803 in general obligation bonds issued for improvements to buildings and structures. For further information regarding the School District's debt, refer to Note 13 to the basic financial statements.

Kirtland Local School District
Management's Discussion and Analysis
For the Year Ended June 30, 2008
Unaudited

Current Issues

The School District is always presented with challenges and opportunities. Economic conditions as of yet have not had a material impact on the School District's tax revenue, as residential property comprises 95.4 percent of total taxable value. The most recent five year forecast adopted by the Board of Education predicts a new operating levy will need to approve in 2010 for collection in the 2011 school year. The last new operating levy was approved in 2003.

Contacting the School District's Financial Management

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

Kirtland Local School District
Statement of Net Assets - Cash Basis
June 30, 2008

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$19,912,014	\$869,496	\$20,781,510
Net Assets			
Restricted for:			
Capital Projects	\$11,156,826	\$0	\$11,156,826
Debt Service	384,292	0	384,292
Set Asides	278,495	0	278,495
Other Purposes	274,387	0	274,387
Unrestricted	7,818,014	869,496	8,687,510
<i>Total Net Assets</i>	\$19,912,014	\$869,496	\$20,781,510

See accompanying notes to the basic financial statements

Kirtland Local School District
Statement of Activities - Cash Basis
For the Fiscal Year Ended June 30, 2008

	Program Cash Receipts			
	Cash Disbursements	Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants and Contributions
Governmental Activities				
Current:				
Instruction:				
Regular	\$5,679,406	\$246,966	\$213,708	\$0
Special	1,099,024	43,788	88,822	0
Vocational	38,786	0	0	0
Support Services:				
Pupil	730,747	0	90,963	0
Instructional Staff	510,796	52,328	22,063	0
Board of Education	144,598	0	0	0
Administration	921,844	0	0	0
Fiscal	421,537	0	4,671	0
Business	11,812	0	0	0
Operation and Maintenance of Plant	1,210,621	52,935	0	0
Pupil Transportation	973,697	0	47,712	0
Central	122,667	0	16,430	0
Operation of Non-Instructional Services	115,601	0	102,738	0
Operation of Food Services	236,392	194,660	28,340	0
Extracurricular Activities	774,486	169,574	71,868	0
Capital Outlay	5,587,824	0	0	3,500
Debt Service	1,196,039	0	0	0
<i>Total Governmental Activities</i>	19,775,877	760,251	687,315	3,500
Business-Type Activity				
Transportation	1,161,061	656,455	0	0
<i>Totals</i>	<u>\$20,936,938</u>	<u>\$1,416,706</u>	<u>\$687,315</u>	<u>\$3,500</u>

General Receipts

Property Taxes Levied for:

General Purposes

Debt Service

Capital Outlay

Grants and Entitlements not Restricted

to Specific Programs

Sale of Capital Assets

Unrestricted Contributions and Donations

Interest

Miscellaneous

Total General Receipts

Change in Net Assets

Net Assets Beginning of Year

Net Assets End of Year

See accompanying notes to the basic financial statements

Net Receipts (Disbursements) and Changes in Net Assets		
Governmental Activities	Business-Type Activity	Total
(\$5,218,732)	\$0	(\$5,218,732)
(966,414)	0	(966,414)
(38,786)	0	(38,786)
(639,784)	0	(639,784)
(436,405)	0	(436,405)
(144,598)	0	(144,598)
(921,844)	0	(921,844)
(416,866)	0	(416,866)
(11,812)	0	(11,812)
(1,157,686)	0	(1,157,686)
(925,985)	0	(925,985)
(106,237)	0	(106,237)
(12,863)	0	(12,863)
(13,392)	0	(13,392)
(533,044)	0	(533,044)
(5,584,324)	0	(5,584,324)
(1,196,039)	0	(1,196,039)
(18,324,811)	0	(18,324,811)
0	(504,606)	(504,606)
(18,324,811)	(504,606)	(18,829,417)
9,902,084	0	9,902,084
1,083,471	0	1,083,471
212,205	0	212,205
2,414,419	0	2,414,419
0	72,900	72,900
6,000	0	6,000
973,721	61,591	1,035,312
138,359	0	138,359
14,730,259	134,491	14,864,750
(3,594,552)	(370,115)	(3,964,667)
23,506,566	1,239,611	24,746,177
\$19,912,014	\$869,496	\$20,781,510

Kirtland Local School District
Statement of Assets and Fund Balances - Cash Basis
Governmental Funds
June 30, 2008

	General	Building	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$7,818,014	\$10,967,637	\$847,868	\$19,633,519
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	278,495	0	0	278,495
<i>Total Assets</i>	<u>\$8,096,509</u>	<u>\$10,967,637</u>	<u>\$847,868</u>	<u>\$19,912,014</u>
Fund Balances				
Reserved for Encumbrances	\$266,888	\$8,142,262	\$107,580	\$8,516,730
Reserved for Textbooks	223,379	0	0	223,379
Reserved for Budget Stabilization	55,116	0	0	55,116
Unreserved:				
Undesignated, Reported in:				
General Fund	7,551,126	0	0	7,551,126
Special Revenue Funds	0	0	234,432	234,432
Debt Service Fund	0	0	384,292	384,292
Capital Projects Funds	0	2,825,375	121,564	2,946,939
<i>Total Fund Balances</i>	<u>\$8,096,509</u>	<u>\$10,967,637</u>	<u>\$847,868</u>	<u>\$19,912,014</u>

See accompanying notes to the basic financial statements

Kirtland Local School District
Statement of Cash Receipts, Disbursements and Changes in Fund Balances - Cash Basis
 Governmental Funds
 For the Fiscal Year Ended June 30, 2008

	General	Building	Other Governmental Funds	Total Governmental Funds
Receipts				
Property Taxes	\$9,902,084	\$0	\$1,295,676	\$11,197,760
Intergovernmental	2,414,419	0	602,505	3,016,924
Interest	285,258	664,710	24,080	974,048
Tuition and Fees	309,215	0	0	309,215
Extracurricular Activities	0	0	171,591	171,591
Contributions and Donations	11,006	3,500	79,477	93,983
Charges for Services	30	0	244,972	245,002
Rentals	34,443	0	0	34,443
Miscellaneous	121,789	2,950	13,620	138,359
<i>Total Receipts</i>	<u>13,078,244</u>	<u>671,160</u>	<u>2,431,921</u>	<u>16,181,325</u>
Disbursements				
Current:				
Instruction:				
Regular	5,648,141	0	31,265	5,679,406
Special	1,001,432	0	97,592	1,099,024
Vocational	38,786	0	0	38,786
Support Services:				
Pupil	622,696	0	108,051	730,747
Instructional Staff	433,414	0	77,382	510,796
Board of Education	144,598	0	0	144,598
Administration	921,844	0	0	921,844
Fiscal	406,020	0	15,517	421,537
Business	11,812	0	0	11,812
Operation and Maintenance of Plant	1,210,621	0	0	1,210,621
Pupil Transportation	916,432	0	57,265	973,697
Central	107,815	0	14,852	122,667
Operation of Non-Instructional Services	25,299	0	90,302	115,601
Operation of Food Services	0	0	236,392	236,392
Extracurricular Activities	514,675	0	259,811	774,486
Capital Outlay	0	5,370,037	217,787	5,587,824
Debt Service:				
Principal Retirement	0	0	480,000	480,000
Interest and Fiscal Charges	0	0	716,039	716,039
<i>Total Disbursements</i>	<u>12,003,585</u>	<u>5,370,037</u>	<u>2,402,255</u>	<u>19,775,877</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>1,074,659</u>	<u>(4,698,877)</u>	<u>29,666</u>	<u>(3,594,552)</u>
Other Financing Sources (Uses)				
Transfers In	0	0	25,000	25,000
Transfers Out	(25,000)	0	0	(25,000)
<i>Total Other Financing Sources (Uses)</i>	<u>(25,000)</u>	<u>0</u>	<u>25,000</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	1,049,659	(4,698,877)	54,666	(3,594,552)
<i>Fund Balances Beginning of Year</i>	<u>7,046,850</u>	<u>15,666,514</u>	<u>793,202</u>	<u>23,506,566</u>
<i>Fund Balances End of Year</i>	<u>\$8,096,509</u>	<u>\$10,967,637</u>	<u>\$847,868</u>	<u>\$19,912,014</u>

See accompanying notes to the basic financial statements

Kirtland Local School District
Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual -Budget Basis
General Fund
For the Fiscal Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts				
Property Taxes	\$9,815,331	\$9,991,076	\$9,902,084	(\$88,992)
Intergovernmental	2,393,266	2,436,118	2,414,419	(21,699)
Interest	282,759	287,822	285,258	(2,564)
Tuition and Fees	306,506	311,994	309,215	(2,779)
Contributions and Donations	10,910	11,105	11,006	(99)
Charges for Services	30	30	30	0
Rentals	34,141	34,753	34,443	(310)
Miscellaneous	123,410	124,805	121,789	(3,016)
<i>Total Receipts</i>	12,966,353	13,197,703	13,078,244	(119,459)
Disbursements				
Current:				
Instruction:				
Regular	5,928,368	6,153,440	5,872,277	281,163
Special	1,074,385	1,114,291	1,001,715	112,576
Vocational	38,465	40,010	38,786	1,224
Support Services:				
Pupil	617,626	642,440	623,465	18,975
Instructional Staff	434,447	451,677	441,221	10,456
Board of Education	143,587	149,390	149,390	0
Administration	914,670	951,405	923,166	28,239
Fiscal	402,656	418,835	413,812	5,023
Business	13,314	14,703	14,703	0
Operation and Maintenance of Plant	1,208,824	1,256,148	1,216,549	39,599
Pupil Transportation	911,170	942,604	918,737	23,867
Central	106,922	116,303	116,303	0
Operation of Non-Instructional Services	25,088	26,097	25,374	723
Extracurricular Activities	510,409	530,918	514,975	15,943
<i>Total Disbursements</i>	12,329,931	12,808,261	12,270,473	537,788
<i>Excess of Receipts Over Disbursements</i>	636,422	389,442	807,771	418,329
Other Financing Uses				
Transfers Out	(38,738)	(36,353)	(25,000)	11,353
<i>Net Change in Fund Balance</i>	597,684	353,089	782,771	429,682
<i>Fund Balance Beginning of Year</i>	6,621,036	6,621,036	6,621,036	0
Prior Year Encumbrances Appropriated	425,814	425,814	425,814	0
<i>Fund Balance End of Year</i>	\$7,644,534	\$7,399,939	\$7,829,621	\$429,682

See accompanying notes to the basic financial statements

Kirtland Local School District
Statement of Fund Net Assets - Cash Basis
Proprietary Fund
June 30, 2008

	Business-Type Activity
	Transportation
Assets	
Equity in Pooled Cash and Cash Equivalents	\$869,496
Net Assets	
Unrestricted	\$869,496

See accompanying notes to the basic financial statements

Kirtland Local School District
*Statement of Receipts, Disbursements
and Changes in Fund Net Assets - Cash Basis
Proprietary Fund
For the Fiscal Year Ended June 30, 2008*

	Business-Type Activity
	Transportation
Operating Receipts	
Charges for Services	\$656,455
Operating Disbursements	
Salaries	31,657
Fringe Benefits	8,046
Purchased Services	1,053,261
Capital Outlay	68,097
<i>Total Operating Disbursements</i>	1,161,061
<i>Operating Loss</i>	(504,606)
Non-Operating Receipts	
Interest	61,591
Sale of Capital Assets	72,900
<i>Total Non-Operating Receipts</i>	134,491
<i>Change in Net Assets</i>	(370,115)
<i>Net Assets Beginning of Year</i>	1,239,611
<i>Net Assets End of Year</i>	\$869,496

See accompanying notes to the basic financial statements

Kirtland Local School District
Statement of Fiduciary Assets and Liabilities - Cash Basis
Agency Fund
June 30, 2008

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$48,035</u>
Liabilities	
Due to Students	<u>\$48,035</u>

See accompanying notes to the basic financial statements

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Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Note 1 - Reporting Entity

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

The School District was established in 1944 and 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, 86 certified full-time teaching personnel, and 7 administrative employees who provide services to 1,151 students and other community members. The School District currently operates three school buildings, an administrative building, and a bus garage.

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

A. Primary Government

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

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

B. Component Units

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

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

C. Other Organizations

The School District is associated with three jointly governed organizations, a claims servicing pool, a related organization and an insurance purchasing pool. These organizations are the Lake Geauga Computer Association, the Auburn Career Center, the Ohio Schools Council Association, the Lake County Council of Governments Health Care Benefits Self-Insurance Program, the Kirtland Public Library and the Ohio School Boards' Association Workers' Compensation Group Rating Program which are presented in Notes 15, 16, 17 and 18 to the basic financial statements.

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

Note 2 - Summary of Significant Accounting Policies

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

A. Basis of Presentation

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

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

The statement of net assets presents the cash balance of the governmental and business-type activities of the School District at fiscal year end. The statement of activities compares disbursements with program receipts for each function or program of the School District's governmental and business-type activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the government is responsible. Program receipts include charges paid by the recipient of the program's goods or services, grants and contributions restricted to meeting the operational or capital requirements of a particular program, and receipts of interest earned on grants that are required to be used to support a particular program. General receipts are

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a cash basis or draws from the School District's general receipts.

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

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

B. Fund Accounting

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

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

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

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

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

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

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

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

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

C. Basis of Accounting

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

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

D. Budgetary Process

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

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

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

E. Cash and Investments

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

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

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

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

During fiscal year 2008, investments were limited to federal national mortgage association notes, federal home loan bank bonds, federal home loan mortgage corporation bonds and STAROhio, the State Treasurer's Investment Pool.

Investments are reported at cost, except for STAROhio. STAROhio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for at June 30, 2008.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts credited to the general fund during fiscal year 2008 were \$285,258, of which \$5,243 was assigned from other School District funds.

F. Restricted Assets

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

G. Inventory and Prepaid Items

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

H. Capital Assets

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

I. Accumulated Leave

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

J. Employer Contributions to Cost-Sharing Pension Plans

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

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

K. Long-Term Obligations

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

L. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The government-wide statement of net assets reports restricted net assets of \$12,094,000, none of which is restricted by enabling legislation. Net assets restricted for other purposes include resources restricted for food service operations and federal and state grants restricted to cash disbursement for specified purposes. The School District's policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

M. Fund Balance Reserves

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

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

N. Interfund Transactions

Transfers between governmental and business-type activities on the government-wide financial statements are reported in the same manner as general receipts. Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the Statement of Activities.

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

Note 3 – Change in Accounting Principles

For fiscal year 2008, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 50, "Pension Disclosures". GASB Statement No. 50 requires employers contributing to defined benefit pension plans to include the legal or contractual maximum contribution rates in the notes to the financial statements. The implementation of this statement did not result in any change to the financial statements.

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Note 4 – Accountability and Compliance

A. Accountability

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

B. Compliance

The regional transportation enterprise fund had total original appropriations in excess of estimated resources plus carryover balances of \$29,860, contrary to Section 5705.39, Revised Code.

The food service, latchkey and title VI-B special revenue funds had total final appropriations in excess of estimated resources plus carryover balances of \$10,037, \$1,479 and \$3,714, respectively, contrary to Section 5705.39, Revised Code.

Note 5 - Budgetary Basis of Accounting

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budgetary Basis presented for the general fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the cash basis is outstanding year end encumbrances which are treated as cash disbursements (budgetary basis) rather than as a reservation of fund balance (cash basis). The encumbrances outstanding at year end (budgetary basis) amounted to \$266,888.

Note 6 – Deposits and Investments

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

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

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

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

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

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

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

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

Deposits

Custodial Credit Risk Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in possession of an outside party. At fiscal year end, \$2,349,585 of the School District's bank balance of \$2,649,585 was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the School District to a successful claim by the FDIC.

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

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Investments

Investments are reported at fair value. As of June 30, 2008, the School District had the following investments:

	<u>Fair Value</u>	<u>Maturity</u>
Federal National Mortgage Association Notes	\$570,615	July 15, 2008
Federal Home Loan Bank Bonds	1,999,838	August 20, 2008
Federal Home Loan Bank Bonds	999,595	September 12, 2008
Federal Home Loan Mortgage Corporation Bonds	1,000,000	October 3, 2011
StarOhio	<u>14,274,975</u>	53.80 Days
Total	<u><u>\$18,845,023</u></u>	

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

Custodial Credit Risk For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Federal National Mortgage Association Notes are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent but not in the School District's name. The School District has no investment policy dealing with investment custodial credit risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

Credit Risk The Federal National Mortgage Association Notes, Federal Home Loan Bank Bonds and Federal Home Loan Mortgage Corporation Bonds carry a rating of AAA by Standard & Poor's. STAROhio carries a rating of AAAM by Standard & Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The School District has no investment policy that addresses credit risk.

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Concentration of Credit Risk The School District places no limit on the amount it may invest in any one issuer. The following is the School District's allocation as of June 30, 2008:

Investment	Percentage of Investments
Federal National Mortgage Association Notes	3.03 %
Federal Home Loan Bank Bonds	15.91
Federal Home Loan Mortgage Corporation Bonds	5.31
Star-Ohio	75.75
	100.00 %

Note 7 - Property Taxes

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar 2008 represents collections of calendar year 2007 taxes. Real property taxes received in calendar year 2008 were levied after April 1, 2007, on the assessed value listed as of January 1, 2007, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2008 represents collections of calendar year 2007 taxes. Public utility real and tangible personal property taxes received in calendar year 2008 became a lien December 31, 2006, were levied after April 1, 2007 and are collected in 2008 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2008 (other than public utility property tax) represents the collection of 2008 taxes. Tangible personal property taxes received in calendar year 2008 were levied after April 1, 2007, on the value listed as of December 31, 2007. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2008 is 6.25 percent. This will be reduced to zero percent for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Lake and Geauga Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the Counties by June 30, 2008, are available to finance fiscal year 2008 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

The amount available as an advance at June 30, 2008 was \$350,432 in the general fund, \$57,718 in the bond retirement debt service fund and \$10,744 in the permanent improvement capital projects fund. The amount available as an advance at June 30, 2007, was \$444,202 in the general fund, \$72,291 in the bond retirement debt service fund and \$14,198 in the permanent improvement capital projects fund.

The assessed values upon which fiscal year 2008 taxes were collected are:

	2007 Second Half Collections		2008 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$341,205,890	96.22 %	\$341,469,260	96.76 %
Public Utility Personal	10,966,140	3.09	8,861,480	2.51
Tangible Personal Property	2,489,744	0.69	2,564,993	0.73
Total	\$354,661,774	100.00 %	\$352,895,733	100.00 %
 Tax rate per \$1,000 of assessed valuation	 \$71.69		 \$71.84	

Note 8 - Interfund Transfers

During fiscal year 2008, the general fund transferred \$25,000 to the permanent improvement capital projects fund. The transfer was made to move unrestricted balances to support projects accounted for in another fund.

Note 9 - Pension Plans

A. School Employee Retirement System

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2008, 9.16 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 by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2008, 2007 and 2006 were \$165,024, \$181,521 and \$174,141 respectively; 43.92 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

B. State Teachers Retirement System

Plan Description - The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Funding Policy - For the fiscal year ended June 30, 2008, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2007, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2008, 2007, and 2006 were \$760,136, \$710,242, and \$685,048 respectively; 82.92 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006. Contributions to the DC and Combined Plans for fiscal year 2008 were \$14,164 made by the School District and \$19,565 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2008, five members of the Board of Education have elected Social Security. The contribution rate is 6.2 percent of wages.

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Note 10 - Postemployment Benefits

A. School Employee Retirement System

Plan Description – The School District participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2008, 4.18 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2008, this amount was \$27,174.

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

The School District's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$102,480, \$96,569, and \$86,937 respectively; 43.92 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2008, this actuarially required allocation was 0.66 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2008, 2007, and 2006 were \$11,890, \$12,343, and \$12,577 respectively; 43.92 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

B. State Teachers Retirement System

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

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Care Stabilization Fund. The School District's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$58,472, \$54,634, and \$52,696 respectively; 82.92 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

Note 11 - Risk Management

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2008, the School District contracted with various insurance agencies for various types of insurance. Coverage is as follows:

Company	Coverage	Amount
Travelers	Blanket Building and Contents (\$2,500 Deductible)	\$30,000,000
	Extra Expense Coverage	1,000,000
	Utility Interruption	500,000
	Ordinance or Law, Demolition or Cost of Construction	1,000,000
	Ammonia Contamination	100,000
	Hazardous Substance	100,000
	Water Damage	100,000
Cincinnati	Employee Dishonesty	250,000
Netherlands	Media Limit	25,000
	Business Auto - Liability	1,000,000
	Uninsured Motorists	100,000
	Medical	5,000
	Comprehensive and Collision (\$750 Deductible)	50,000
Indiana	Liability	1,000,000
Ohio Casualty	Umbrella Liability	4,000,000

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

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

B. Employee Medical Coverage

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

C. Workers' Compensation

For fiscal year 2008, the School District participated in the Ohio School Boards' Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 18). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. 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.

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Note 12 - Contingencies

A. Grants

The School District receives financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2008.

B. Litigation

As of June 30, 2008, the School District was not party to any legal proceedings.

Note 13 – Debt

Changes in long-term obligations of the School District during fiscal year 2008 were as follows:

	Principal Outstanding 6/30/07	Additions	Deductions	Principal Outstanding 6/30/08	Amounts Due in One Year
Governmental Activities					
General Obligation Bonds:					
2003 School Improvement Bonds 1.75% -3.56%					
Current Interest Serial Bonds	\$450,000	\$0	\$225,000	\$225,000	\$225,000
Capital Appreciation Bonds	135,000	0	0	135,000	0
Accretion on Capital Appreciation Bonds	66,814	19,625	0	86,439	0
2006 School Improvement Bonds 4%-17.324%					
Current Interest Serial Bonds	8,105,000	0	180,000	7,925,000	360,000
Term Bonds	6,450,000	0	0	6,450,000	0
Capital Appreciation Bonds	239,994	0	0	239,994	0
Accretion on Capital Appreciation Bonds	37,015	50,184	0	87,199	0
2007 School Improvement Bonds 4%-12.994%					
Current Interest Serial Bonds	595,000	0	75,000	520,000	55,000
Term Bonds	1,160,000	0	0	1,160,000	0
Capital Appreciation Bonds	49,998	0	0	49,998	0
Accretion on Capital Appreciation Bonds	1,278	6,895	0	8,173	0
Total General Long-Term Obligations	\$17,290,099	\$76,704	\$480,000	\$16,886,803	\$640,000

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

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

The capital appreciation and current interest serial bonds remained outstanding at June 30, 2008. The capital appreciation bonds were originally sold at a discount of \$120,000, which is being accreted annually until the point of maturity of the capital appreciation bonds, which is 2010.

The final maturity amount of outstanding capital appreciation bonds is \$255,000. The accretion recorded for 2008 was \$19,625, for a total outstanding bond liability of \$221,439 at June 30, 2008.

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

The capital appreciation, current interest serial and term bonds remained outstanding at June 30, 2008. The capital appreciation bonds were originally sold at a discount of \$630,006, which is being accreted annually until the point of maturity of the capital appreciation bonds, which is 2014.

The final maturity amount of outstanding capital appreciation bonds is \$870,000. The accretion recorded for 2008 was \$50,184, for a total outstanding bond liability of \$327,193.

On March 21, 2007, the School District issued \$1,895,000 in general obligation bonds which included serial, term and capital appreciation (deep discount) bonds in the amounts of \$595,000, \$1,160,000 and \$49,998, respectively, at interest rates varying from 4.00 percent to 12.994 percent. The bonds were issued for a twenty-two year period with final maturity at December 1, 2029. The bonds will be retired from the debt service fund.

The capital appreciation, current interest serial and term bonds remained outstanding at June 30, 2008. The capital appreciation bonds were originally sold at a discount of \$90,002, which is being accreted annually until the point of maturity of the capital appreciation bonds, which is 2015.

The final maturity amount of outstanding capital appreciation bonds is \$140,000. The accretion recorded for 2008 was \$6,895, for a total outstanding bond liability of \$58,171.

The School District's overall legal debt margin at June 30, 2008 was \$15,002,037 with an unvoted debt margin of \$348,030. Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2008, are as follows:

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

	General Obligation Bonds					
	Term		Serial		Capital Appreciation	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$0	\$0	\$640,000	\$682,837	\$0	\$0
2010	0	0	435,000	662,631	135,000	120,000
2011	0	0	450,000	644,932	0	0
2012	0	0	470,000	626,531	0	0
2013	0	0	485,000	607,432	0	0
2014 - 2018	0	0	1,590,000	2,876,062	289,992	720,008
2019 - 2023	415,000	196,774	2,695,000	2,139,322	0	0
2024 - 2028	1,920,000	617,124	1,905,000	988,282	0	0
2029 - 2033	4,340,000	697,775	0	0	0	0
2034 - 2038	935,000	21,037	0	0	0	0
Total	\$7,610,000	\$1,532,710	\$8,670,000	\$9,228,029	\$424,992	\$840,008

Note 14 - Set Aside Requirements

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year-end. These amounts must be carried forward to be used for the same purposes in future years. In prior years, the School District was also required to set aside money for budget stabilization. At June 30, 2008, the unspent portion of certain workers' compensation refunds continues to be set aside as well as a reserve for textbooks and other instructional materials.

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

	Textbooks Instructional Materials Reserve	Capital Improvements	Budget Stabilization
Set-aside Reserve Balance as of June 30, 2007	\$108,135	\$0	\$55,116
Current Year Set-aside Requirement	181,388	181,388	0
Qualifying Disbursements	(66,144)	(5,533,105)	0
Totals	\$223,379	(\$5,351,717)	\$55,116
Set-aside Balance Carried Forward to Future Fiscal Years	\$223,379	\$0	\$55,116
Set-aside Reserve Balance as of June 30, 2008	\$223,379	\$0	\$55,116

The School District has qualifying disbursements and offsets during the fiscal year that reduced the capital improvements set-aside amounts below zero. The negative set-aside balance for the capital improvements may not be used to reduce the set-aside requirements of future years. This negative balance is therefore not presented as being carried forward to future years. The total reserve balance for the three set-asides at the end of the fiscal year was \$278,495.

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Note 15 - Jointly Governed Organizations

Lake Geauga Computer Association - The Lake Geauga Computer Association (LGCA) is a jointly governed organization that was formed for the purpose of providing computer services for accounting, grading, scheduling, EMIS and other applications to its 18 member school districts. Each of the school districts supports LGCA based upon a per pupil charge. The executive committee (governing board) consists of the superintendents and treasurers of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the governing board. LGCA's continued existence is not dependent upon the School District's continued participation. In fiscal year 2008, the School District paid \$84,817 to the computer association. Financial information can be obtained by writing the Lake Geauga Computer Association, 8140 Auburn Road, Painesville, Ohio 44077.

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

Ohio Schools Council Association - The Ohio Schools Council Association (Council) is a jointly governed organization among 121 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 2008, the School District paid \$46,424 to the Council. Financial information can be obtained by contacting Dr. David A. Cottrell, the Executive Director of the Ohio Schools Council at 6133 Rockside Road, Suite 10, Independence, Ohio 44131.

The School District participates in the Council's natural gas purchase program. The school districts have the ability to purchase natural gas at reduced rates, if they will commit to participating for a twelve year period. There are currently 137 districts in the Program. The participants make monthly payments based on estimated usage. Each September, these estimated payments are compared to their actual usage for the year (July to June). Districts that paid more in estimated billings than their actual billings are issued credits on future billings in September until the credits are exhausted and districts that did not pay enough on estimated billings are invoiced for the difference on the September monthly estimated billing.

The School District also participates in the Council's electric purchase program. The Council provides 238 school districts and 11 MR/DD boards in the First Energy territory (Cleveland Electric Illuminating, Ohio Edison, Toledo Edison) the ability to purchase electricity at reduced rates if the school district committed to participating in either a thirty-six month (Cleveland Electric Illuminating Company) or a forty-four month (Ohio Edison and Toledo Edison) program beginning either May 1, 2005 or January 1, 2006 and ending December 31, 2008. Each month, the Council invoices participants based on estimated usage that was determined when the program was established. Each September, these estimated payments are compared to their actual usage for the year (July to June). Refund checks are issued to districts that consumed less than their projected usage of electrical energy and districts that over-consumed are invoiced.

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Note 16 – Claims Servicing Pool

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

Note 17 - Related Organization

The Kirtland Public Library - The Kirtland Public Library (the "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 18 - Insurance Purchasing Pool

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

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Kirtland Local School District
Management's Discussion and Analysis
For the Year Ended June 30, 2007
Unaudited

This discussion and analysis of the Kirtland Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2007, within the limitations of the School District's modified cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the School District's financial performance.

Highlights

Key highlights for 2007 are as follows:

Net assets of the School District governmental activities increased \$17,178,800, or 271.5 percent, a significant change from the prior fiscal year, mainly due to the proceeds of a bond sale.

The School District's general fund receipts are primarily property taxes. These receipts represent respectively \$9,739,613 and 75.9 percent of the total cash received for the general fund. With little commercial property and still undeveloped residential property within the School District's territory the School District does not expect to see a downturn in tax revenues.

The School District received proceeds from a \$16.6 million bond issue during fiscal year 2007 that was approved at the May 2006 election. This money will fund the construction of 12 new classrooms and a gymnasium at the elementary school, a new science/technology wing connecting the middle and high schools and general renovations to the campus buildings and grounds. In connection with the bond sale the School District received a rating upgrade from Moody's Investors Services to an Aa3.

Using the Basic Financial Statements

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

Report Components

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

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

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

Basis of Accounting

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

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accounting is a basis of accounting other than generally accepted accounting principles. Under the School District's cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

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

Reporting the School District as a Whole

The statement of net assets and the statement of activities reflect how the School District did financially during 2007, within the limitations of cash basis accounting. The statement of net assets presents the cash balances and investments of the governmental and business-type activities of the School District at fiscal year end. The statement of activities compares cash disbursements with program receipts for each governmental program and business-type activity. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function or business-type activity draws from the School District's general receipts.

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

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

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

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

Reporting the School District's Most Significant Funds

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

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the intended purpose. The funds of the School District are split into three categories: governmental, proprietary and fiduciary.

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

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

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

The School District as a Whole

Table 1 provides a summary of the School District's net assets for 2007 compared to 2006 on a cash basis:

(Table 1)
Net Assets

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Assets						
Equity in Pooled Cash and Cash Equivalents	\$23,506,566	\$6,327,766	\$1,239,611	\$183,783	\$24,746,177	\$6,511,549
Net Assets						
Restricted for:						
Capital Outlay	\$15,804,878	\$39,928	\$0	\$0	\$15,804,878	\$39,928
Debt Service	346,008	290,828	0	0	346,008	290,828
Set Asides	163,251	86,144	0	0	163,251	86,144
Other Purposes	308,830	383,355	0	0	308,830	383,355
Unrestricted	6,883,599	5,527,511	1,239,611	183,783	8,123,210	5,711,294
Total Net Assets	\$23,506,566	\$6,327,766	\$1,239,611	\$183,783	\$24,746,177	\$6,511,549

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Net assets of governmental activities increased by \$17,178,800 or 271.5 percent during 2007. The School District received proceeds of \$16,599,992 from the issuance of general obligation bonds during the fiscal year.

Table 2 reflects the changes in net assets in 2007 compared to 2006 on a cash basis:

(Table 2)
Changes in Net Assets

	Governmental Activities		Business-Type Activity		Total	
	2007	2006	2007	2006	2007	2006
Receipts:						
Program Receipts						
Charges for Services and Sales	\$676,172	\$730,300	\$1,361,402	\$1,526,385	\$2,037,574	\$2,256,685
Operating Grants and Contribution	534,075	674,881	0	0	534,075	674,881
Capital Grants and Contributions	6,954	3,053	0	0	6,954	3,053
<i>Total Program Receipts</i>	<u>1,217,201</u>	<u>1,408,234</u>	<u>1,361,402</u>	<u>1,526,385</u>	<u>2,578,603</u>	<u>2,934,619</u>
General Receipts						
Property Taxes	10,632,987	9,650,347	0	0	10,632,987	9,650,347
Grants and Entitlements Not Restricted to Specific Programs	2,557,061	2,326,465	0	0	2,557,061	2,326,465
General Obligation Bonds Issued	16,599,992	0	0	0	16,599,992	0
Unrestricted Contributions and Donations	19,603	502	0	0	19,603	502
Interest	963,126	247,412	22,558	12,333	985,684	259,745
Miscellaneous	62,855	59,226	0	3,100	62,855	62,326
<i>Total General Receipts</i>	<u>30,835,624</u>	<u>12,283,952</u>	<u>22,558</u>	<u>15,433</u>	<u>30,858,182</u>	<u>12,299,385</u>
<i>Total Receipts</i>	<u>\$32,052,825</u>	<u>\$13,692,186</u>	<u>\$1,383,960</u>	<u>\$1,541,818</u>	<u>\$33,436,785</u>	<u>\$15,234,004</u>

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(Table 2 Continued)
Changes in Net Assets

	Governmental Activities		Business-Type Activity		Total	
	2007	2006	2007	2006	2007	2006
Disbursements:						
Instruction:						
Regular	\$5,243,309	\$5,023,844	\$0	\$0	\$5,243,309	\$5,023,844
Special	1,129,213	830,929	0	0	1,129,213	830,929
Vocational	39,388	23,512	0	0	39,388	23,512
Support Services:						
Pupil	812,910	684,576	0	0	812,910	684,576
Instructional Staff	528,358	471,696	0	0	528,358	471,696
Board of Education	162,698	168,215	0	0	162,698	168,215
Administration	906,722	903,856	0	0	906,722	903,856
Fiscal	424,196	380,029	0	0	424,196	380,029
Business	14,314	13,436	0	0	14,314	13,436
Operation and Maintenance						
of Plant	1,189,104	1,204,963	0	0	1,189,104	1,204,963
Pupil Transportation	820,464	1,145,884	0	0	820,464	1,145,884
Central	151,868	159,707	0	0	151,868	159,707
Operation of Non-Instructional						
Services	2,262	148,910	0	0	2,262	148,910
Operation of Food Services	257,412	262,768	0	0	257,412	262,768
Extracurricular Activities	927,444	653,015	0	0	927,444	653,015
Capital Outlay	1,531,454	90,935	0	0	1,531,454	90,935
Debt Service	732,909	243,675	0	0	732,909	243,675
Transportation	0	0	328,132	1,467,268	328,132	1,467,268
<i>Total Disbursements</i>	<u>14,874,025</u>	<u>12,409,950</u>	<u>328,132</u>	<u>1,467,268</u>	<u>15,202,157</u>	<u>13,877,218</u>
Change in Net Assets	17,178,800	1,282,236	1,055,828	74,550	18,234,628	1,356,786
Net Assets Beginning of Year	<u>6,327,766</u>	<u>5,046,409</u>	<u>183,783</u>	<u>108,354</u>	<u>6,511,549</u>	<u>5,154,763</u>
Net Assets End of Year	<u>\$23,506,566</u>	<u>\$6,328,645</u>	<u>\$1,239,611</u>	<u>\$182,904</u>	<u>\$24,746,177</u>	<u>\$6,511,549</u>

Total program receipts represent only 7.71 percent of total receipts and are primarily comprised of charges for services as the School District is the fiscal agent for a county-wide special education transportation consortium.

General receipts represent 92.29 percent of the School District's total receipts, and of this amount, over 34.46 percent are local taxes. General obligation bonds make up 53.79 percent of the School District's general receipts. Grants and entitlements make up 8.29 percent of the School District's general receipts. Other receipts are very insignificant and somewhat unpredictable revenue sources.

The School District was responsible for providing educational services to 1,193 students. Regular educational expenses were 35.25 percent of total governmental disbursements, special education costs were 7.59 percent of total governmental expenditures and vocational expenditures were .27 percent of the total governmental disbursements.

Total governmental disbursements are made up by two main areas: instructional and support services. Support services is then broken down into many subsections. Instructional costs made up 43.11 percent of

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all governmental disbursements. Support services were 33.70 percent of governmental disbursements and provide services such as busing, libraries, guidance, nursing services, building and ground maintenance, administration, board of education, fiscal and other. Food services and extracurricular activities account for 7.97 percent of the disbursements. These two activities generate revenue through sales and fees.

Governmental Activities

If you look at the Statement of Activities on page 50, you will see that the first column lists the major services provided by the School District. The next column identifies the costs of providing these services. The major program disbursements for governmental activities are for instruction and maintenance of property, which account for 43.11 and 7.99 percent of all governmental disbursements, respectively. The next three columns of the Statement entitled Program Receipts identify amounts paid by people who are directly charged for the service and grants received by the School District that must be used to provide a specific service. The Net Receipt (Disbursement) column compares the program receipts to the cost of the service. This "net cost" amount represents the cost of the service which ends up being paid from money provided by local taxpayers. These net costs are paid from the general receipts which are presented at the bottom of the Statement. A comparison between the total cost of services and the net cost is presented in Table 3.

(Table 3)
Governmental Activities

	2007		2006	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Disbursements:				
Instruction:				
Regular	\$5,243,309	\$4,974,497	\$5,023,844	\$4,803,703
Special	1,129,213	1,008,666	830,929	507,207
Vocational	39,388	39,388	23,512	23,512
Support Services:				
Pupil	812,910	657,993	684,576	562,841
Instructional Staff	528,358	443,046	471,696	395,729
Board of Education	162,698	162,698	168,215	168,215
Administration	906,722	906,722	903,856	903,856
Fiscal	424,196	421,040	380,029	380,029
Business	14,314	14,314	13,436	13,436
Operation and Maintenance of Plant	1,189,104	1,172,423	1,204,963	1,183,744
Pupil Transportation	820,464	814,510	1,145,884	1,141,421
Central	151,868	135,168	159,707	144,592
Operation of Non-Instructional Services	2,262	2,262	148,910	18,414
Operation of Food Services	257,412	37,119	262,768	21,182
Extracurricular Activities	927,444	603,615	653,015	399,225
Capital Outlay	1,531,454	1,530,454	90,935	90,935
Debt Service	732,909	732,909	243,675	243,675
<i>Total Disbursements</i>	<u>\$14,874,025</u>	<u>\$13,656,824</u>	<u>\$12,409,950</u>	<u>\$11,001,716</u>

The dependence upon property tax receipts is apparent as over 71.49 percent of governmental activities are supported through these general receipts.

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Business-type Activities

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

The School District's Funds

Total governmental funds had receipts of \$15,452,833 and disbursements of \$14,874,025. The greatest change within governmental funds occurred within the General Fund. The fund balance of the General Fund increased mainly due to increased real estate taxes, additional State funding for special education students from other school districts attending Kirtland Local School District, additional interest income and kindergarten tuition.

General fund receipts were \$1,474,592 more than disbursements indicating that the general fund is in a sound financial position. Building capital projects fund receipts and other financing sources were \$15,666,514 more than disbursements due to the issuance of general obligation bonds in the amount of \$16,599,992.

General Fund Budgeting Highlights

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

During 2007, the School District amended its General Fund budget several times to reflect changing circumstances, such as the hiring of intervention tutors and new rates for health insurance and workers' compensation. Final budgeted receipts were above original budgeted receipts due to additional tax receipts. The difference between final budgeted receipts and actual receipts was less than half a percent and is not significant.

Final disbursements were budgeted at \$12,977,161 while actual disbursements were \$11,787,339.

Capital Assets and Debt Administration

Capital Assets

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

Debt

At June 30, 2007, the School District's outstanding debt included \$17,290,099 in general obligation bonds issued for improvements to buildings and structures. For further information regarding the School District's debt, refer to Note 12 to the basic financial statements.

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Current Issues

The School District is always presented with challenges and opportunities. Economic conditions do not have a material impact on the School District's tax revenue, as residential property comprises 95.4 percent of total taxable value. The most recent five year forecast adopted by the Board of Education predicts a new operating levy will need to approve in 2010 for collection in the 2011 school year.

Contacting the School District's Financial Management

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

Kirtland Local School District
Statement of Net Assets - Cash Basis
June 30, 2007

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$23,506,566	\$1,239,611	\$24,746,177
Net Assets			
Restricted for:			
Capital Projects	\$15,804,878	\$0	\$15,804,878
Debt Service	346,008	0	346,008
Set Asides	163,251	0	163,251
Other Purposes	308,830	0	308,830
Unrestricted	6,883,599	1,239,611	8,123,210
<i>Total Net Assets</i>	<u>\$23,506,566</u>	<u>\$1,239,611</u>	<u>\$24,746,177</u>

See accompanying notes to the basic financial statements

Kirtland Local School District
Statement of Activities - Cash Basis
For the Fiscal Year Ended June 30, 2007

	Program Cash Receipts			
	Cash Disbursements	Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants and Contributions
Governmental Activities				
Current:				
Instruction:				
Regular	\$5,243,309	\$197,751	\$71,061	\$0
Special	1,129,213	15,003	105,544	0
Vocational	39,388	0	0	0
Support Services:				
Pupil	812,910	0	154,917	0
Instructional Staff	528,358	56,046	29,266	0
Board of Education	162,698	0	0	0
Administration	906,722	0	0	0
Fiscal	424,196	0	3,156	0
Business	14,314	0	0	0
Operation and Maintenance of Plant	1,189,104	16,681	0	0
Pupil Transportation	820,464	0	0	5,954
Central	151,868	0	16,700	0
Operation of Non-Instructional Services	2,262	0	0	0
Operation of Food Services	257,412	183,219	37,074	0
Extracurricular Activities	927,444	207,472	116,357	0
Capital Outlay	1,531,454	0	0	1,000
Debt Service	732,909	0	0	0
<i>Total Governmental Activities</i>	14,874,025	676,172	534,075	6,954
Business-Type Activity				
Transportation	328,132	1,361,402	0	0
<i>Totals</i>	\$15,202,157	\$2,037,574	\$534,075	\$6,954

General Receipts

Property Taxes Levied for:

General Purposes

Debt Service

Capital Outlay

Grants and Entitlements not Restricted
to Specific Programs

General Obligation Bonds Issued

Unrestricted Contributions and Donations

Interest

Miscellaneous

Total General Receipts

Change in Net Assets

Net Assets Beginning of Year

Net Assets End of Year

See accompanying notes to the basic financial statements

Net Receipts (Disbursements)
and Changes in Net Assets

Governmental Activities	Business-Type Activity	Total
(\$4,974,497)	\$0	(\$4,974,497)
(1,008,666)	0	(1,008,666)
(39,388)	0	(39,388)
(657,993)	0	(657,993)
(443,046)	0	(443,046)
(162,698)	0	(162,698)
(906,722)	0	(906,722)
(421,040)	0	(421,040)
(14,314)	0	(14,314)
(1,172,423)	0	(1,172,423)
(814,510)	0	(814,510)
(135,168)	0	(135,168)
(2,262)	0	(2,262)
(37,119)	0	(37,119)
(603,615)	0	(603,615)
(1,530,454)	0	(1,530,454)
(732,909)	0	(732,909)
(13,656,824)	0	(13,656,824)
0	1,033,270	1,033,270
(13,656,824)	1,033,270	(12,623,554)
9,739,613	0	9,739,613
678,729	0	678,729
214,645	0	214,645
2,557,061	0	2,557,061
16,599,992	0	16,599,992
19,603	0	19,603
963,126	22,558	985,684
62,855	0	62,855
30,835,624	22,558	30,858,182
17,178,800	1,055,828	18,234,628
6,327,766	183,783	6,511,549
\$23,506,566	\$1,239,611	\$24,746,177

Kirtland Local School District
Statement of Assets and Fund Balances - Cash Basis
Governmental Funds
June 30, 2007

	General	Building	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$6,883,599	\$15,666,514	\$793,202	\$23,343,315
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	163,251	0	0	163,251
<i>Total Assets</i>	<u>\$7,046,850</u>	<u>\$15,666,514</u>	<u>\$793,202</u>	<u>\$23,506,566</u>
Fund Balances				
Reserved for Encumbrances	\$425,814	\$2,944,913	\$100,422	\$3,471,149
Reserved for Textbooks	108,135	0	0	108,135
Reserved for Budget Stabilization	55,116	0	0	55,116
Unreserved:				
Undesignated, Reported in:				
General Fund	6,457,785	0	0	6,457,785
Special Revenue Funds	0	0	226,431	226,431
Debt Service Fund	0	0	346,008	346,008
Capital Projects Funds	0	12,721,601	120,341	12,841,942
<i>Total Fund Balances</i>	<u>\$7,046,850</u>	<u>\$15,666,514</u>	<u>\$793,202</u>	<u>\$23,506,566</u>

See accompanying notes to the basic financial statements

Kirtland Local School District
Statement of Cash Receipts, Disbursements and Changes in Fund Balances - Cash Basis
Governmental Funds
For the Fiscal Year Ended June 30, 2007

	General	Building	Other Governmental Funds	Total Governmental Funds
Receipts				
Property Taxes	\$9,739,613	\$0	\$893,374	\$10,632,987
Intergovernmental	2,447,397	0	559,494	3,006,891
Interest	343,012	585,825	35,578	964,415
Tuition and Fees	212,738	0	0	212,738
Extracurricular Activities	0	0	263,518	263,518
Contributions and Donations	50,369	1,000	58,144	109,513
Charges for Services	16	0	183,219	183,235
Rentals	16,681	0	0	16,681
Miscellaneous	26,291	9,538	27,026	62,855
<i>Total Receipts</i>	<u>12,836,117</u>	<u>596,363</u>	<u>2,020,353</u>	<u>15,452,833</u>
Disbursements				
Current:				
Instruction:				
Regular	5,153,805	0	89,504	5,243,309
Special	1,027,093	0	102,120	1,129,213
Vocational	39,388	0	0	39,388
Support Services:				
Pupil	661,368	0	151,542	812,910
Instructional Staff	409,342	0	119,016	528,358
Board of Education	162,698	0	0	162,698
Administration	905,043	0	1,679	906,722
Fiscal	417,726	0	6,470	424,196
Business	14,314	0	0	14,314
Operation and Maintenance of Plant	1,155,963	0	33,141	1,189,104
Pupil Transportation	820,464	0	0	820,464
Central	91,699	0	60,169	151,868
Operation of Non-Instructional Services	2,262	0	0	2,262
Operation of Food Services	0	0	257,412	257,412
Extracurricular Activities	498,747	0	428,697	927,444
Capital Outlay	1,613	1,529,841	0	1,531,454
Debt Service:				
Principal Retirement	0	0	732,909	732,909
<i>Total Disbursements</i>	<u>11,361,525</u>	<u>1,529,841</u>	<u>1,982,659</u>	<u>14,874,025</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>1,474,592</u>	<u>(933,478)</u>	<u>37,694</u>	<u>578,808</u>
Other Financing Sources (Uses)				
General Obligation Bonds Issued	0	16,599,992	0	16,599,992
Transfers In	0	0	41,397	41,397
Transfers Out	(41,397)	0	0	(41,397)
<i>Total Other Financing Sources (Uses)</i>	<u>(41,397)</u>	<u>16,599,992</u>	<u>41,397</u>	<u>16,599,992</u>
<i>Net Change in Fund Balances</i>	1,433,195	15,666,514	79,091	17,178,800
<i>Fund Balances Beginning of Year</i>	<u>5,613,655</u>	<u>0</u>	<u>714,111</u>	<u>6,327,766</u>
<i>Fund Balances End of Year</i>	<u>\$7,046,850</u>	<u>\$15,666,514</u>	<u>\$793,202</u>	<u>\$23,506,566</u>

See accompanying notes to the basic financial statements

Kirtland Local School District
Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual -Budget Basis
General Fund
For the Fiscal Year Ended June 30, 2007

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Receipts				
Property Taxes	\$8,820,176	\$9,603,092	\$9,739,613	\$136,521
Intergovernmental	2,343,778	2,551,822	2,447,397	(104,425)
Interest	310,631	338,204	343,012	4,808
Tuition and Fees	192,655	209,756	212,738	2,982
Contributions and Donations	45,614	49,663	50,369	706
Charges for Services	14	16	16	0
Rentals	15,106	16,447	16,681	234
Miscellaneous	23,810	25,923	26,291	368
<i>Total Receipts</i>	<u>11,751,784</u>	<u>12,794,923</u>	<u>12,836,117</u>	<u>41,194</u>
Disbursements				
Current:				
Instruction:				
Regular	5,065,045	5,732,471	5,480,698	251,773
Special	1,104,524	1,237,223	1,108,344	128,879
Vocational	37,755	42,857	39,388	3,469
Other	0	137	137	0
Support Services:				
Pupil	670,792	756,458	661,458	95,000
Instructional Staff	392,965	445,987	413,966	32,021
Board of Education	156,341	177,415	162,885	14,530
Administration	870,547	987,776	905,508	82,268
Fiscal	400,662	454,769	417,726	37,043
Business	13,720	15,914	15,914	0
Operation and Maintenance of Plant	1,145,130	1,294,860	1,164,198	130,662
Pupil Transportation	888,155	994,428	822,796	171,632
Central	90,180	102,057	91,699	10,358
Operation of Non-Instructional Services	27,145	30,813	28,319	2,494
Extracurricular Activities	453,090	514,316	472,690	41,626
Capital Outlay	189,472	189,680	1,613	188,067
<i>Total Disbursements</i>	<u>11,505,523</u>	<u>12,977,161</u>	<u>11,787,339</u>	<u>1,189,822</u>
<i>Excess of Receipts Over (Under)</i> <i>Disbursements</i>	246,261	(182,238)	1,048,778	1,231,016
Other Financing Uses				
Transfers Out	(52,047)	(68,889)	(41,397)	27,492
<i>Net Change in Fund Balance</i>	194,214	(251,127)	1,007,381	1,258,508
<i>Fund Balance Beginning of Year</i>	4,998,546	4,998,546	4,998,546	0
Prior Year Encumbrances Appropriated	615,109	615,109	615,109	0
<i>Fund Balance End of Year</i>	<u>\$5,807,869</u>	<u>\$5,362,528</u>	<u>\$6,621,036</u>	<u>\$1,258,508</u>

See accompanying notes to the basic financial statements

Kirtland Local School District
Statement of Fund Net Assets - Cash Basis
Proprietary Fund
June 30, 2007

	Business-Type Activity
	<u>Transportation</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$1,239,611
Net Assets	
Unrestricted	\$1,239,611

See accompanying notes to the basic financial statements

Kirtland Local School District
*Statement of Receipts, Disbursements
and Changes in Fund Net Assets - Cash Basis*
Proprietary Fund
For the Fiscal Year Ended June 30, 2007

	Business-Type Activity
	Transportation
Operating Receipts	
Charges for Services	\$1,361,402
Operating Disbursements	
Salaries	203,722
Fringe Benefits	39,072
Purchased Services	79,958
Materials and Supplies	5,380
<i>Total Operating Disbursements</i>	328,132
<i>Operating Income</i>	1,033,270
Non-Operating Receipts	
Interest	22,558
<i>Change in Net Assets</i>	1,055,828
<i>Net Assets Beginning of Year</i>	183,783
<i>Net Assets End of Year</i>	\$1,239,611

See accompanying notes to the basic financial statements

Kirtland Local School District
Statement of Fiduciary Assets and Liabilities - Cash Basis
Agency Fund
June 30, 2007

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$39,748</u>
Liabilities	
Due to Students	<u>\$39,748</u>

See accompanying notes to the basic financial statements

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Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

Note 1 - Reporting Entity

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

The School District was established in 1944 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 25 square miles. It is located mostly in Lake County, partially in Geauga County, and includes all of the territory of the City of Kirtland, and portions of Waite Hill Village, Kirtland Hills Village, Chardon Township and the City of Willoughby. It is staffed by 56 non-certified employees, 86 certified full-time teaching personnel, and 7 administrative employees who provide services to 1,193 students and other community members. The School District currently operates three school buildings, an administrative building, and a bus garage.

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

A. Primary Government

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

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

B. Component Units

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

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

C. Other Organizations

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

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

Note 2 - Summary of Significant Accounting Policies

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

A. Basis of Presentation

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

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

The statement of net assets presents the cash balance of the governmental and business-type activities of the School District at fiscal year end. The statement of activities compares disbursements with program receipts for each function or program of the School District's governmental and business-type activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the government is responsible. Program receipts include charges paid by the recipient of the program's goods or services, grants and contributions restricted to meeting the operational or capital requirements of a particular program, and receipts of

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

interest earned on grants that are required to be used to support a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a cash basis or draws from the School District's general receipts.

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

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

B. Fund Accounting

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

Governmental Funds The School District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange transactions as governmental funds. The School District's major funds are the General and Building Capital Projects Funds.

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

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

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

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

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

Fiduciary Funds The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

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

C. Basis of Accounting

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

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

D. Budgetary Process

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

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

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

E. Cash and Investments

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

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

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

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

During fiscal year 2007, investments were limited to a Fannie Mae Note, Federal Home Loan Mortgage Corporation Bonds, Federal Home Loan Bank Bonds and STAROhio, the State Treasurer's Investment Pool.

Investments are reported at cost, except for STAROhio. STAROhio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for at June 30, 2007.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts credited to the general fund during fiscal year 2007 was \$343,012, which included \$53,898 assigned from other School District funds.

F. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. Restricted assets in the general fund represent money required by State statute to be set aside for the purchase of textbooks and other instructional materials and to create a reserve for budget stabilization. See Note 13 for additional information regarding set asides.

G. Inventory and Prepaid Items

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

H. Capital Assets

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

I. Accumulated Leave

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

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

J. Employer Contributions to Cost-Sharing Pension Plans

The School District recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 8 and 9, the employer contributions include portions for pension benefits and for postretirement health care benefits.

K. Long-Term Obligations

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

L. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The government-wide statement of net assets reports restricted net assets of \$16,622,967, none of which is restricted by enabling legislation. Net assets restricted for other purposes include resources restricted for food service operations, music and athletic programs, and federal and state grants restricted to cash disbursement for specified purposes. The School District's policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

M. Fund Balance Reserves

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

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

N. Interfund Transactions

Transfers between governmental and business-type activities on the government-wide financial statements are reported in the same manner as general receipts. Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the Statement of Activities.

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

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

Note 3 – Compliance

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

Note 4 - Budgetary Basis of Accounting

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budgetary Basis presented for the general fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the cash basis is outstanding year end encumbrances are treated as cash disbursements (budgetary basis) rather than as a reservation of fund balance (cash basis). The encumbrances outstanding at year end (budgetary basis) amounted to \$425,814.

Note 5 – Deposits and Investments

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

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

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

3. Written repurchase agreements in securities listed above;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (STAROhio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

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

Deposits

Custodial Credit Risk Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in possession of an outside party. At fiscal year end, \$4,630,495 of the School District's bank balance of \$4,830,495 was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the School District to a successful claim by the FDIC.

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

Investments

Investments are reported at fair value. As of June 30, 2007, the School District had the following investments:

	Fair Value	Maturity
Fannie Mae Notes	\$8,396,426	August 31, 2007-July 15, 2008
Federal Home Loan Mortgage Corporation Bonds	1,321,702	April 15, 2008
Federal Home Loan Bank Bonds	5,054,974	June 18, 2008
StarOhio	5,517,607	Average 38.6 days
Total	\$20,290,709	

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

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

Custodial Credit Risk For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Fannie Mae Note, the Federal Home Loan Mortgage Corporation Bonds and the Federal Home Loan Bank Bonds are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent but not in the School District's name. The School District has no investment policy dealing with investment custodial credit risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

Credit Risk The Fannie Mae Note, the Federal Home Loan Mortgage Corporation Bonds and the Federal Home Loan Bank Bonds carry a rating of AAA by Standard & Poor's. STAROhio carries a rating of AAAM by Standard and Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The School District has no investment policy that addresses credit risk.

Concentration of Credit Risk The School District places no limit on the amount it may invest in any one issuer. The following is the School District's allocation as of June 30, 2007:

Investment	Percentage of Investments
Fannie Mae Note	41.38 %
Federal Home Loan Mortgage Corporation Bonds	6.52
Federal Home Loan Bank Bonds	24.91
Star-Ohio	27.19
Total	100.00 %

Note 6 - Property Taxes

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar 2007 represents collections of calendar year 2006 taxes. Real property taxes received in calendar year 2007 were levied after April 1, 2006, on the assessed value listed as of January 1, 2006, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

Public utility property tax revenue received in calendar 2007 represents collections of calendar year 2006 taxes. Public utility real and tangible personal property taxes received in calendar year 2007 became a lien December 31, 2005, were levied after April 1, 2006 and are collected in 2007 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

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

The School District receives property taxes from Lake and Geauga Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the Counties by June 30, 2007, are available to finance fiscal year 2007 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The amount available as an advance at June 30, 2007 was \$444,202 in the general fund, \$72,291 in the bond retirement debt service fund and \$14,198 in the permanent improvement capital projects fund. The amount available as an advance at June 30, 2006, was \$795,567 in the general fund, \$21,158 in the bond retirement debt service fund and \$18,885 in the permanent improvement capital projects fund.

The assessed values upon which fiscal year 2007 taxes were collected are:

	2006 Second Half Collections		2007 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$297,525,950	95.32 %	\$341,205,890	96.22 %
Public Utility Personal	10,854,000	3.48	10,966,140	3.09
Tangible Personal Property	3,732,066	1.20	2,489,744	0.69
Total	\$312,112,016	100.00 %	\$354,661,774	100.00 %
 Tax rate per \$1,000 of assessed valuation	 \$70.67		 \$71.69	

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

Note 7 - Interfund Transfers

During the year ended June 30, 2007, the general fund transferred to the permanent improvement capital projects fund \$11,397 and to the food service special revenue fund \$30,000.

During fiscal year 2007, transfers were made to move unrestricted balances to support programs and projects accounted for in other funds

Note 8 - Defined Benefit Pension Plans

A. School Employees Retirement System

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

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 10.68 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, 2007, 2006 and 2005 were \$181,521, \$174,141, and \$173,232 respectively; 47.95 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005.

B. State Teachers Retirement System of Ohio

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2006, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2007, 2006, and 2005 were \$710,242, \$685,048, and \$656,041 respectively; 82.65 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. Contributions to the DC and Combined Plans for fiscal year 2007 were \$11,635 made by the School District and \$16,961 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2007, five members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

Note 9 - Postemployment Benefits

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio, (STRS Ohio), and to retired non-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 Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Board allocated employer contributions equal to one percent of covered payroll to the

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

Health Care Stabilization Fund. For the School District, this amount equaled \$54,634 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, (the latest information available) the balance in the Fund was \$3.5 billion. For the year ended June 30, 2006, net health care costs paid by STRS were \$282,743,000 and STRS had 119,184 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. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, compared to 3.42 percent of covered payroll for fiscal year 2006. 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 2007, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2007 fiscal year equaled \$96,569.

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

Note 10 - Risk Management

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2007, the School District contracted with various insurance agencies for various types of insurance. Coverage is as follows:

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

Company	Coverage	Amount
Midwest Indemnity	Blanket Building and Contents (\$2,500 Deductible)	\$22,096,271
	Extra Expense Coverage	1,000,000
	EDP and Media/Software	232,479/17,500
	Audio Visual Equipment	20,808
	Valuable Papers	100,000
	Sewer and Drain Backup	50,000
	Pollutant Clean Up and Removal	250,000
	Off Premises Service Interruption	25,000
	Ordinance or Law	1,000,000
	Inland Marine	
	Instruments	362,671
	Contractor's Equipment	44,425
	Transit	306,000
	Money and Securities	10,000
Travelers	Boiler/Machinery - Blanket (\$1,000 Deductible)	30,000,000
	Spoilage Limit (\$500 Deductible)	100,000
	Media Limit	25,000
	Water Damage	100,000
Indiana	Business Auto - Liability	1,000,000
	Uninsured Motorists	50,000
	Medical	5,000
	Comprehensive and Collision (\$1,000 Deductible)	5,000
	Liability	1,000,000
	Umbrella Liability	4,000,000

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

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

B. Employee Medical Coverage

The School District has elected to provide medical coverage through the Lake County Council of Governments Health Care Benefits Self Insurance Program (Note 15).

C. Workers' Compensation

For fiscal year 2007, the School District participated in the Ohio School Boards' 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. 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.

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

Note 11 - 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, 2007.

B. Litigation

As of June 30, 2007, the School District was not party to any legal proceedings.

Note 12 – Debt

Changes in long-term obligations of the School District during fiscal year 2007 were as follows:

	Principal Outstanding 6/30/06	Additions	Deductions	Principal Outstanding 6/30/07	Amounts Due in One Year
Governmental Activities					
General Obligation Bonds:					
2003 School Improvement Bonds 1.75% -3.56%					
Current Interest Serial Bonds	\$675,000	\$0	\$225,000	\$450,000	\$225,000
Capital Appreciation Bonds	135,000	0	0	135,000	0
Accretion on Capital Appreciation Bonds	48,865	17,949	0	66,814	0
2006 School Improvement Bonds 4%-17.324%					
Current Interest Serial Bonds	0	8,105,000	0	8,105,000	180,000
Term Bonds	0	6,450,000	0	6,450,000	0
Capital Appreciation Bonds	0	239,994	0	239,994	0
Accretion on Capital Appreciation Bonds	0	37,015	0	37,015	0
2007 School Improvement Bonds 4%-12.994%					
Current Interest Serial Bonds	0	595,000	0	595,000	75,000
Term Bonds	0	1,160,000	0	1,160,000	0
Capital Appreciation Bonds	0	49,998	0	49,998	0
Accretion on Capital Appreciation Bonds	0	1,278	0	1,278	0
Total General Long-Term Obligations	\$858,865	\$16,656,234	\$225,000	\$17,290,099	\$480,000

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

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

The capital appreciation and current interest serial bonds remained outstanding at June 30, 2007. The capital appreciation bonds were originally sold at a discount of \$120,000, which is being accreted annually until the point of maturity of the capital appreciation bonds, which is 2010.

The final maturity amount of outstanding capital appreciation bonds is \$255,000. The accretion recorded for 2007 was \$17,949, for a total outstanding bond liability of \$201,814 at June 30, 2007.

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

The capital appreciation, current interest serial and term bonds remained outstanding at June 30, 2007. The capital appreciation bonds were originally sold at a discount of \$630,006, which is being accreted annually until the point of maturity of the capital appreciation bonds, which is 2014.

The final maturity amount of outstanding capital appreciation bonds is \$870,000. The accretion recorded for 2007 was \$37,015, for a total outstanding bond liability of \$277,009.

On March 21, 2007, the School District issued \$1,895,000 in general obligation bonds which included serial, term and capital appreciation (deep discount) bonds in the amounts of \$595,000, \$1,160,000 and \$49,998, respectively, at interest rates varying from 4.00 percent to 12.994 percent. The bonds were issued for a twenty-two year period with final maturity at December 1, 2029. The bonds will be retired from the debt service fund.

The capital appreciation, current interest serial and term bonds remained outstanding at June 30, 2007. The capital appreciation bonds were originally sold at a discount of \$90,002, which is being accreted annually until the point of maturity of the capital appreciation bonds, which is 2015.

The final maturity amount of outstanding capital appreciation bonds is \$140,000. The accretion recorded for 2007 was \$1,278, for a total outstanding bond liability of \$51,276.

The School District's overall legal debt margin at June 30, 2007 was \$14,353,214 with an unvoted debt margin of \$349,247. Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2007, are as follows:

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

	General Obligation Bonds					
	Term		Serial		Capital Appreciation	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$0	\$0	\$480,000	\$716,040	\$0	\$0
2009	0	0	640,000	682,837	0	0
2010	0	0	435,000	662,631	135,000	120,000
2011	0	0	450,000	644,932	0	0
2012	0	0	470,000	626,531	0	0
2013 - 2017	0	0	1,520,000	2,943,700	289,992	720,008
2018 - 2022	325,000	164,199	2,665,000	2,297,347	0	0
2023 - 2027	1,180,000	396,052	2,490,000	1,370,051	0	0
2028 - 2032	4,275,000	889,209	0	0	0	0
2033 - 2037	1,830,000	83,250	0	0	0	0
Total	\$7,610,000	\$1,532,710	\$9,150,000	\$9,944,069	\$424,992	\$840,008

Note 13 - Set Aside Requirements

The School District is required by State statute to annually set aside in the General Fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year-end. These amounts must be carried forward to be used for the same purposes in future years. In prior years, the School District was also required to set aside money for budget stabilization. At June 30, 2007, 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		
	Instructional		
	Materials Reserve	Capital Improvements	Budget Stabilization
Set-aside Reserve Balance as of June 30, 2006	\$31,028	\$0	\$55,116
Current Year Set-aside Requirement	170,337	170,337	0
Qualifying Disbursements	(93,230)	(1,622,200)	0
Totals	\$108,135	(\$1,451,863)	\$55,116
Set-aside Balance Carried Forward to Future Fiscal Years	\$108,135	\$0	\$55,116
Set-aside Reserve Balance as of June 30, 2007	\$108,135	\$0	\$55,116

The School District has qualifying disbursements and offsets during the fiscal year that reduced the capital improvements set-aside amounts below zero. The negative set-aside balance for the capital improvements may not be used to reduce the set-aside requirements of future years. This negative balance is therefore not presented as being carried forward to future years. The total reserve balance for the three set-asides at the end of the fiscal year was \$163,251.

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

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 2007, the School District paid \$73,841 to the computer association. Financial information can be obtained by writing the Lake Geauga Computer Association, 8140 Auburn Road, Painesville, Ohio 44077.

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

East Shore Regional Transportation System - The East Shore Regional Transportation System (ESRTA) is a jointly governed organization that was formed for the purpose of providing a transportation system for the handicapped children in the sixteen member school districts. The transportation committee (governing board) consists of the superintendents of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the governing board. ESRTA is not accumulating significant financial resources or experiencing fiscal stress which would cause additional financial benefit or burden on the School District. In fiscal year 2007, the School District paid \$13,275 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. In fiscal year 2007, the School District did not make any payments to the Center. Financial information can be obtained by writing the fiscal agent, Lake County Educational Service Center, 30 South Park Place, Suite 30, Painesville, Ohio 44077.

Ohio Schools Council Association - The Ohio Schools' Council Association (Council) is a jointly governed organization among eighty-three school districts. The jointly governed organization was formed to purchase quality products and services at the lowest possible cost to the member districts. Each district supports the Council by paying an annual participation fee. The Council's Board consists of seven superintendents of the participating districts whose term rotates every year. The degree of control exercised by any school district is limited to its representation on the Board. In fiscal year 2007, the School District paid \$70,930 to the Council. Financial information can be obtained by contacting Dr. David A. Cottrell the Executive Director/Treasurer of the Ohio Schools Council at 6133 Rockside Road, Suite 10 Independence, Ohio 44101.

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

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

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

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

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

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

Note 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.

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

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.



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, the business-type activities, the major funds, and the aggregate remaining fund information of the Kirtland Local School District, Lake County, Ohio, (the District) as of and for the years ended June 30, 2008 and June 30, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 25, 2009, wherein we noted the District utilized a basis of accounting other than that prescribed by Ohio Administrative Code Section 117-2-03(B). We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the District's internal control will not prevent or detect a more than inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the District's internal control will not prevent or detect a material financial statement misstatement.

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

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2008-001.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated March 25, 2009.

The District's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the District's response and, accordingly, we express no opinion on it.

We intend this report solely for the information and use of the audit committee, management, and the Board of Education. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

March 25, 2009

**KIRTLAND LOCAL SCHOOL DISTRICT
LAKE COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2008 AND JUNE 30, 2007**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
--

FINDING NUMBER 2008-001

Noncompliance Finding

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

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

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

Official's Response:

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

**KIRTLAND LOCAL SCHOOL DISTRICT
LAKE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2008 AND JUNE 30, 2007**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2006-001	Failure to report on GAAP	No	Not Corrected. Reissued as 2008-001.



Mary Taylor, CPA
Auditor of State

KIRTLAND LOCAL SCHOOL DISTRICT

LAKE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 12, 2009**